

Differ Group Holding Company Limited

鼎豐集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8056

# PLACING

Sponsor



大有融資有限公司  
**MESSIS CAPITAL LIMITED**

Joint Bookrunners and Joint Lead Managers  
(in alphabetical order)



中國富強金融集團  
CHINA FORTUNE  
FINANCIAL GROUP



**KINGSTON SECURITIES LTD**



Sinomax Securities Ltd.  
佳富達證券

# IMPORTANT

*If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*

## Differ Group Holding Company Limited 鼎豐集團控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

**Number of Placing Shares : 250,000,000 Placing Shares**  
(subject to the Over-allotment Option)  
**Placing Price : Not more than HK\$0.78 per Placing Share**  
and expected to be not less than  
**HK\$0.60 per Placing Share**  
(payable in full on application plus  
brokerage of 1%, SFC transaction  
levy of 0.003% and Stock Exchange  
trading fee of 0.005%)  
**Nominal value : HK\$0.01 each**  
**Stock code : 8056**

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**MESSIS CAPITAL LIMITED**

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Placing Price is expected to be determined by the Price Determination Agreement between Kingston Securities (for itself and on behalf of the Underwriters) and our Company on or before Tuesday, 3 December 2013 or such later date as may be agreed between the parties. If, for any reason, Kingston Securities (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Placing Price by that date or such later date as agreed by our Company and Kingston Securities (for itself and on behalf of the Underwriters), the Placing will not become unconditional and will lapse. The Placing Price will not be more than HK\$0.78 per Placing Share and is expected to be not less than HK\$0.60 per Placing Share, unless otherwise announced. Kingston Securities (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Placing Price range below that as stated in this prospectus at any time prior to the Price Determination Date. In such a case, notice of the reduction in the indicative Placing Price range will be available on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.dingfeng-cn.com](http://www.dingfeng-cn.com).

Pursuant to the termination provisions contained in the Underwriting Agreement in respect of the Placing Shares, Kingston Securities (for itself and on behalf of the Underwriters) has the right in certain circumstances, at its absolute discretion (for itself and on behalf of the Underwriters), to terminate the obligations of the Underwriters pursuant to the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in the Shares first commence on the Stock Exchange (such first dealing date is currently expected to be on Monday, 9 December 2013). Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

3 December 2013

## CHARACTERISTICS OF GEM

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM-listed issuers.

## EXPECTED TIMETABLE

2013  
(Note 1)

Expected Price Determination Date (Note 2) . . . . .	Tuesday, 3 December 2013
Announcement of the final Placing Price, and the level of indication of interests in the Placing to be published on the Company's website ( <a href="http://www.dingfeng-cn.com">www.dingfeng-cn.com</a> ) and the website of the Stock Exchange ( <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> ) (Note 3) . . . . .	Friday, 6 December 2013
Allotment of Placing Shares to placees (or their designated person(s)) . . . . .	Friday, 6 December 2013
Despatch of share certificates for the Placing Shares into CCASS (Note 4 and 5) . . . . .	Friday, 6 December 2013
Dealings in the Shares on GEM to commence . . . . .	9:00 a.m. on Monday, 9 December 2013

*Notes:*

1. All times refer to Hong Kong local time and date. If there is any change to the above expected timetable, our Company will make a separate announcement to inform investors accordingly. Details of the structure of the Placing, including its conditions and grounds for termination, are set out in the section headed "Structure of the Placing" in this prospectus.
2. The Price Determination Date is expected to be on Tuesday, 3 December 2013 or such later date as may be agreed between the parties. If for whatever reason Kingston Securities (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Placing Price on the Price Determination Date or such other date as the Company and Kingston Securities (for itself and or behalf of the Underwriters) may agree, the Placing will not proceed and will lapse immediately.
3. None of our Company's website or any of the information contained in our Company's website forms part of this prospectus.
4. The share certificates are expected to be issued in the name of HKSCC Nominees Limited or in the name of the placee(s) or their agent(s) as designated by the Underwriters and/or the placing agents. Share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on Friday, 6 December 2013 for credit to the respective CCASS Participant's stock accounts designated by the Underwriters, the placees or their agents, as the case may be. No temporary documents or evidence of title will be issued.
5. Share certificates for the Placing Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be on Monday, 9 December 2013) provided that (i) the Placing becomes unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Grounds for termination" in this prospectus has not been exercised and has lapsed.

**Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Placing, Kingston Securities (for itself and on behalf of the Underwriters) has the right in certain circumstances, subject to its absolute opinion (for itself and on behalf of the Underwriters), to terminate the obligations of the Underwriters under the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be on Monday, 9 December 2013). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.**

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*You should rely only on the information contained in this prospectus to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by us, the Sponsor, the Joint Lead Managers, any of the Underwriters, any of their respective directors, affiliates, employees or representatives or any other person or party involved in the Placing.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares. There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.*

### **BUSINESS**

We are a service provider of short to medium-term financing and financing-related solutions in Fujian Province. We are headquartered in Xiamen and we also operate two branch offices located in Quanzhou and Shishi respectively as well as a pawn shop outlet located in Shishi. We are principally engaged in the following five business activities:

#### **(i) The provision of financing guarantee services**

We guarantee the payment of the indebtedness of our customers to a bank or other financial institution which provides financial assistance to our customers and in return, our customers pay us a guarantee fee which is calculated as a certain percentage of the indebtedness so guaranteed by us.

#### **(ii) The provision of pawn loans**

We provide short-term loan to our customers who pledge their assets to us. The loan amount is usually capped at a certain percentage of the appraised value of the asset pledged to us by our customers. In return, our customers pay us monthly interest as well as monthly comprehensive fee, both of which are calculated as a percentage of the loan amount.

#### **(iii) The provision of financial consultation services**

We offer advices to our customers regarding different methods and sources of financing suitable to and available to them, assist our customers in obtaining financing, and charge our customers a consultation fee.

#### **(iv) The provision of entrusted loans**

We entrust a bank to lend our own funds to our customers on a short-term basis, the amount of which is usually capped at a certain percentage of the appraised value of the collateral provided to us by our customers or their related party(ies) and in return, our customers pay us through the bank monthly interest which is calculated as a certain percentage of the loan amount.

#### **(v) The provision of finance lease services**

We purchase certain assets from our customers (or supplier designated by our customer) in cash at the beginning and lease them back to our customers immediately afterwards in return for a series of monthly rental payments over a pre-agreed lease period as well as an up-front handling fee.

## SUMMARY

### COMPETITIVE STRENGTHS AND BUSINESS STRATEGIES

We believe the following competitive strengths may allow us to compete effectively in the industries in which we operate: (i) we provide a range of different financing and financing-related services which suit different financing needs; (ii) we provide convenient and quick access to short and medium-term financings; (iii) we have maintained good relationships with a number of banks in Fujian Province; and (iv) we have implemented a robust risk management system.

Our business objective is to become one of the leading financing and financing solutions providers in Fujian Province. We intend to achieve our business objective by adopting the following strategies: (i) further development of our finance lease business; (ii) strengthening of our entrusted loan business; (iii) enhancement of our guarantee business; and (iv) improvement on risk management.

### KEY OPERATIONAL AND FINANCIAL DATA

During the Track Record Period, the amount of revenue contributed by each of our five business activities is as follows:

	Year ended 31 December 2011		Year ended 31 December 2012		Seven months ended 31 July 2012		Seven months ended 31 July 2013	
	Revenue RMB'000	%	Revenue RMB'000	%	Revenue RMB'000	%	Revenue RMB'000	%
Guarantee services	6,710	31.6	8,449	15.0	4,421	17.0	8,359	21.4
Pawn loans	1,642	7.7	6,016	10.7	1,827	7.0	7,014	18.0
Financial consultation services	7,647	36.0	19,094	33.8	9,105	35.1	8,396	21.5
Entrusted loans	5,245	24.7	22,365	39.6	10,640	40.9	12,066	31.0
Finance lease	—	—	492	0.9	—	—	3,137	8.1
<b>Total</b>	<b>21,244</b>	<b>100.0</b>	<b>56,416</b>	<b>100.0</b>	<b>25,993</b>	<b>100.0</b>	<b>38,972</b>	<b>100.0</b>



## SUMMARY

The following table summarises the key operating statistics of each of our five business activities during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
<b>Financing guarantee</b>				
Number of guarantee contracts with revenue contribution for the year/period	99	113	82	115
Number of new contracts granted during the year/period	39	70	35	43
Average amount guaranteed by us per new contract (RMB'000)	5,669	5,762	5,820	6,429
Average of the relevant loan period for our new contracts (months)	12.7	12.5	12.0	12.6
Range of guarantee fee rate charged for new contracts (% of the guaranteed amount per year)	1.0%–3.6%	1.0%–3.5%	1.0%–3.0%	1.6%–3.0%
<b>Pawn loans</b>				
Number of loans with revenue contribution for the year/period	38	51	31	38
Number of new loans granted during the year/period	31	35	15	25
Total amount of new loans granted during the year/period (RMB'000)	21,740	70,250	22,700	54,500
Average loan period per new loan (days)	137	121	94	136
Number of renewals for existing loans granted prior to the commencement of the year/period	6	10	10	8
Loan renewal ratio for existing loans granted prior to the commencement of the year/period	85.7%	62.5%	62.5%	61.5%
Number of renewals for new loans granted during the year/period	1	4	—	6
Loan renewal ratio for new loans granted during the year/period (%)	3.2%	11.4%	—	24.0%
Range of interest rates charged for new loans (% per month)	1%–1.5%	0.4%–1.5%	0.4%–1.5%	0.4%–0.47%
Range of comprehensive fee rates charged for new loans (% per month)	0.5%–1.8%	1.5%–3%	1.5%–3%	2.03%–2.6%
Amount of outstanding pawn loans receivables as at the end of the year/period (RMB'000)	9,930	33,250	26,180	35,850

The pawn loan renewal ratio for new loans increased because there were more customers requiring for loan periods of more than 6 months. Pursuant to the Pawning Measures, the maximum term of a pawn loan is 6 months, which may be renewed for a period not exceeding 6 months each time and our PRC Legal Adviser has advised that there is no restriction on the number of times for which a pawn loan can be renewed. We would consider granting renewal subject to our standard approval procedures and provided that all interest and comprehensive fees on the original loan are paid before its due date.

## SUMMARY

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
<b>Financial consultation</b>				
Number of contracts with revenue contribution for the year/period	11	35	26	11
Range of financial consultation fee rate for new contracts where the fee is charged as a percentage of the amount of financing obtained on a success basis	2.0%	1.5%–2.5%	1.5%–2.0%	1.0%–3.0%
Average financial consultation fee rate for new contracts where the fee is charged as a percentage of the amount of financing obtained on a success basis	2.0%	2.0%	1.8%	2.4%
Average contracted service period per contract entered into during the year/period (months)	13.7	10.9	12.0	6.3
<b>Entrusted loans</b>				
Number of loans with revenue contribution for the year/period	7	20	12	13
Number of new loans granted during the year/period	7	16	8	7
Total amount of loans granted during the year/period (RMB'000)	117,000	400,000	195,000	222,000
Average loan period per new loan (days)	91	140	129	108
Loan renewal ratio for new loans (%)	—	31.3%	12.5%	42.9%
Range of interest rate charged for new loans (% per month)	1.2%–1.5%	1.5%–2.0%	1.5%–2.0%	1.8%
Amount of outstanding entrusted loans receivables as at the end of the year/period (RMB'000)	43,717	120,000	110,000	97,000
<b>Finance lease</b>				
Number of finance lease with revenue contribution for the year/period	—	1	—	5
Total amount of financing for transactions granted during the year/period (RMB'000)	—	8,500	—	62,240
Average internal rate of return for transactions granted during the year/period (% per annum)	—	18.0%	—	12.4%

## SUMMARY

The following table sets out the total loan and account receivables of our Group as at the end of each year/period during the Track Record Period:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Finance lease receivables, gross and net ( <i>note</i> )	<u>—</u>	<u>3,130</u>	<u>37,638</u>
<b>Current assets</b>			
Pawn loan receivables, gross and net ( <i>note</i> )	9,930	33,250	35,850
Entrusted loan receivables, gross and net ( <i>note</i> )	43,717	120,000	97,000
Finance lease receivables, gross and net ( <i>note</i> )	—	4,048	23,244
Account receivables, gross and net ( <i>note</i> )	<u>4,737</u>	<u>1,240</u>	<u>1,147</u>
	<u>58,384</u>	<u>158,538</u>	<u>157,241</u>

*Note:* In accordance with Hong Kong Financing Reporting Standards, an entity should disclose an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period. “Gross” represented the principal amount of loans and lease receivables, while “net” represented the amount of loans and lease receivables after provision for impairment. Since the Directors are of the opinion that no provision for impairment is necessary, the gross and net balances of loan and lease receivables are the same, and are presented as “gross and net” accordingly.

The following table sets out our outstanding financing guarantee amount as at the end of each year/period during the Track Record Period:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding financing guarantee amount	246,590	408,310	484,100

In respect of our Group’s financing guarantee business, we have not been asked to honour our financing guarantee obligations during the Track Record Period. After Listing, we will disclose prominently (i.e. not only in a note to the accounts) in our interim and annual reports (i) the amount of our total exposure to financing guarantees and (ii) whether we have been asked to honour our financing guarantee obligations.

## SUMMARY

The following table sets out our loan-to-value ratio by business segment as at the end of each year/period during the Track Record Period:

	As at 31 December 2011			As at 31 December 2012			As at 31 July 2013		
	Outstanding balance of loans receivables or guarantee amount			Outstanding balance of loans receivables or guarantee amount			Outstanding balance of loans receivables or guarantee amount		
	Value of collaterals	Loan-to-value ratio		Value of collaterals	Loan-to-value ratio		Value of collaterals	Loan-to-value ratio	
	RMB'000 (B)	RMB'000 (A)	% (B/A)	RMB'000 (B)	RMB'000 (A)	% (B/A)	RMB'000 (B)	RMB'000 (A)	% (B/A)
Financing									
guarantee	246,590	499,770	49.3%	408,310	1,023,870	39.9%	484,100	1,052,323	46.0%
Pawn loans	9,930	21,683	45.8%	33,250	46,457	71.6%	35,850	58,408	61.4%
Entrusted loans	43,717	358,222	12.2%	120,000	208,143	57.7%	97,000	207,564	46.7%

The following table sets out our loan-to-value ratios by collateral type as at the end of each year/period during the Track Record Period:

### *Loan-to-value ratios by collateral types*

Type of collateral	31 December 2011			31 December 2012			31 July 2013		
	Average	Range	Number of transactions that exceeded the target ratio	Average	Range	Number of transactions that exceeded the target ratio	Average	Range	Number of transactions that exceeded the target ratio
Real estate	25.1%	6.8%–95.7%	8	46.4%	9.8%–99.1%	5	43.7%	9.4%–99.6%	5
Machineries and equipment	29.3%	8.1%–70.4%	1	51.1%	9.8%–83.4%	3	34.3%	6.1%–83.4%	2
Movable property									
— Inventory	60.5%	8.1%–90.8%	5	51.2%	14.2%–79.3%	2	51.6%	19.6%–99.4%	1
— Other movable property	82.8%	63.7%–119.4%	6	65.6%	14.2%–75.1%	1	75.0%	59.5%–92.6%	1
Property rights	—	—	—	11.4%	6.2%–84.5%	1	26.9%	21.8%–27.6%	—
			<u>15<sup>1</sup></u>			<u>9<sup>2</sup></u>			<u>9</u>

*Notes:*

- Four guarantee transactions were secured by both real estate and movable property collaterals and one guarantee transaction with movable property as collateral was secured by both inventory and other movable property.
- Two guarantee transactions were secured by both real estate and movable property collaterals and one guarantee transaction was secured by both real estate and machineries and equipment collaterals.

As illustrated in the above table headed “Loan-to-value ratios by collateral types”, the loan-to-value ratio of some of our loan/guarantee transactions exceeded our target ratio for the specific type of collaterals. While we have set a target loan-to-value ratio for each type of collateral as an internal guideline for reference, we consider each application on a case-by-case basis after taking into account

## SUMMARY

all relevant factors, including, for instance, the background of the customer and the guarantor or counter-guarantor. For cases where the customers or the guarantors or counter-guarantors are known to be financially resourceful or having strong cash flows generated from his/her/its business operations, we may consider accepting a loan-to-value ratio that is higher than our target ratios.

In particular, as illustrated in the above table headed “Loan-to-value ratios by collateral types”, the loan-to-value ratios for two movable property pawn loan transactions in 2011 have exceeded 100%. Such transactions were pawn loans secured by motor vehicles. The loan-to-value ratio being higher than 100% was mainly due to:

- (i) in compiling the loan-to-value ratios in the above table headed “Loan-to-value ratios by collateral types”, we have adopted the valuation provided by an independent qualified valuer in the PRC, which assessed the value of the collaterals as at the respective year/period end date. Our internal valuation, on the other hand, was prepared during our due diligence in assessing customer’s loan application;
- (ii) the loan-to-value ratios of such 2 movable property pawn loan transactions, if calculated based on our internal valuation performed during the due diligence, were lower than 100%;
- (iii) motor vehicles are considered by us to be highly liquid assets that can be easily and quickly disposed of at the prevailing market price.

Due to the inability of the relevant government authority to process any applications for the registration of motor vehicle collaterals, we have ceased to grant motor vehicle pawn loans. For details, please refer to the section headed “Business — Non-compliances” in this prospectus.

In general, when we notice that the loan-to-value ratio in respect of a transaction has increased substantially from the original approved level due to the decrease in the value of the collateral, we may request our customer to provide additional collaterals and/or guarantees pursuant to the relevant loan or guarantee agreement entered into with our customer. In cases of the lack of response from our customer, we would not consider renewing or granting any further loan or guarantee to such customers. During the Track Record Period, except for the two overdue cases disclosed in the section headed “Business — Entrusted loans — Previous overdue cases” in this prospectus, we did not experience any default or delay in payment from our customers.

## SUMMARY

The following table sets out the details of each transaction that exceeded the target loan-to-value ratio during the Track Record Period:

*For the year ended 31 December 2011*

No.	Type of transaction	Type of collateral	Value of collateral	Outstanding loan/guarantee	Target	Actual	Difference
			as at 31 December 2011	amount as at 31 December 2011	loan-to-value ratio	loan-to-value ratio	between actual and target ratio
			RMB'000	RMB'000			
1	Guarantee	Real estate	3,335	3,000	75.0%	90.0%	15.0%
2	Guarantee	Real estate	10,102	9,170	75.0%	90.8%	15.8%
		Inventory	915	830	75.0%	90.8%	15.8%
3	Guarantee	Real estate	1,084	860	75.0%	79.3%	4.3%
		Inventory	3,959	3,140	75.0%	79.3%	4.3%
4	Guarantee	Real estate	3,469	2,778	75.0%	80.1%	5.1%
		Inventory	1,526	1,222	75.0%	80.1%	5.1%
5	Guarantee	Real estate	2,499	1,882	75.0%	75.3%	0.3%
		Inventory	10,780	8,118	75.0%	75.3%	0.3%
6	Guarantee	Real estate	10,448	10,000	75.0%	95.7%	20.7%
7	Guarantee	Real estate	11,230	9,000	75.0%	80.1%	5.1%
8	Guarantee	Real estate	11,402	10,000	75.0%	87.7%	12.7%
9	Guarantee	Machineries and equipment	5,684	4,000	70.0%	70.4%	0.4%
10	Guarantee	Inventory	11,087	8,621	75.0%	77.8%	2.8%
		Other movable property	1,773	1,379	75.0%	77.8%	2.8%
11	Pawn loan	Other movable property	192	150	75.0%	78.1%	3.1%
12	Pawn loan	Other movable property	231	230	75.0%	99.6%	24.6%
13	Pawn loan	Other movable property	256	250	75.0%	97.7%	22.7%
14	Pawn loan	Other movable property	126	150	75.0%	119.4%	44.4%
15	Pawn loan	Other movable property	136	150	75.0%	110.3%	35.3%
			90,234	74,930			

## SUMMARY

*For the year ended 31 December 2012*

No.	Type of transaction	Type of collateral	Value of collateral	Outstanding loan/guarantee	Target	Actual	Difference
			as at 31 December 2012	amount as at 31 December 2012	loan-to-value ratio	loan-to-value ratio	between actual and target ratio
			RMB'000	RMB'000			
1	Guarantee	Real estate	2,094	1,660	75.0%	79.3%	4.3%
		Inventory	8,000	6,340	75.0%	79.3%	4.3%
2	Guarantee	Real estate	3,320	2,493	75.0%	75.1%	0.1%
		Inventory	10,000	7,507	75.0%	75.1%	0.1%
3	Guarantee	Real estate	2,336	1,770	75.0%	75.8%	0.8%
		Machineries and equipment	964	730	70.0%	75.8%	5.8%
4	Pawn loan	Real estate	3,027	3,000	75.0%	99.1%	24.1%
5	Pawn loan	Real estate	1,014	1,000	75.0%	98.6%	23.6%
6	Guarantee	Machineries and equipment	4,796	4,000	70.0%	83.4%	13.4%
7	Guarantee	Machineries and equipment	7,259	5,100	70.0%	70.3%	0.3%
8	Pawn loan	Other movable property	9,992	7,500	75.0%	75.1%	0.1%
9	Pawn loan	Property rights	8,873	7,500	50.0%	84.5%	34.5%
			61,675	48,600			

*For the seven months ended 31 July 2013*

No.	Type of transaction	Type of collateral	Value of collateral	Outstanding loan/guarantee	Target	Actual	Difference
			as at 31 July 2013	amount as at 31 July 2013	loan-to-value ratio	loan-to-value ratio	between actual and target ratio
			RMB'000	RMB'000			
1	Pawn loan	Real estate	3,720	3,000	75.0%	80.6%	5.6%
2	Pawn loan	Real estate	2,712	2,700	75.0%	99.6%	24.6%
3	Pawn loan	Real estate	2,128	2,000	75.0%	94.0%	19.0%
4	Pawn loan	Real estate	2,537	2,500	75.0%	98.5%	23.5%
5	Pawn loan	Real estate	1,304	1,200	75.0%	92.0%	17.0%
6	Guarantee	Machineries and equipment	4,796	4,000	70.0%	83.4%	13.4%
7	Guarantee	Machineries and equipment	3,378	2,500	70.0%	74.0%	4.0%
8	Guarantee	Inventory	10,057	10,000	75.0%	99.4%	24.4%
9	Pawn loan	Other movable property	8,100	7,500	75.0%	92.6%	17.6%
			38,732	35,400			

## SUMMARY

### COLLATERALS

The following table summarises the various types of collaterals that we have accepted during the Track Record Period:

Type of collaterals	Our right over the collaterals <i>(note)</i>	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013		As at Latest Practicable Date	
		Value of collaterals <i>RMB'000</i>	Corresponding	Value of collaterals <i>RMB'000</i>	Corresponding	Value of collaterals <i>RMB'000</i>	Corresponding	Value of collaterals <i>RMB'000</i>	Corresponding
			loan and guarantee value <i>RMB'000</i>		loan and guarantee value <i>RMB'000</i>		loan and guarantee value <i>RMB'000</i>		loan and guarantee value <i>RMB'000</i>
Real estate	Type One	169,903	71,477	327,158	178,647	395,808	198,878	290,517	187,976
	Type Two/Non-registered								
	Type A	459,493	86,413	250,427	92,664	152,954	40,749	159,921	39,959
Machinery and equipment	Type One	31,562	9,239	74,591	38,126	123,171	42,253	87,554	48,927
	Type Two/Non-registered								
	Type A	—	—	—	—	—	—	—	—
Inventory	Type One	215,689	130,599	426,377	218,342	606,172	312,868	658,779	353,973
	Type Two/Non-registered								
	Type A	—	—	—	—	—	—	—	—
Other movable property	Type One	3,028	2,509	32,318	21,208	23,640	17,755	8,128	4,968
	Type Two/Non-registered								
	Type A	—	—	—	—	—	—	—	—
Property rights	Type One	—	—	163,099	10,447	16,550	4,447	21,550	6,447
	Type Two/Non-registered								
	Type A	—	—	4,500	2,126	—	—	—	—
<b>Total</b>		<u>879,675</u>	<u>300,237</u>	<u>1,278,470</u>	<u>561,560</u>	<u>1,318,295</u>	<u>616,950</u>	<u>1,226,449</u>	<u>642,250</u>

*Note:* Type One Collaterals refer to those secured by first charge. Type Two Collaterals refer to those secured by second charge. Non-registered Type A Collaterals refer to those the registration of which is needed in order for the collaterals to be directly auctionable or saleable through application to PRC courts but the registration was not completed due to various reasons, such as the lack of proper title documents that were necessary for the completion of the registration when the pledgor has only recently acquired the collateral and was still in the process of obtaining the title documents.

### CUSTOMERS

Our customers include SMEs and individuals located mainly in Fujian Province with short to medium-term financing needs. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, we had approximately 117, 171 and 135 customers respectively. For further information, please refer to the section headed “Business — Customers” in this prospectus.

For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, our five largest customers accounted for approximately 40.2%, 41.0% and 48.0% of our total revenue respectively, while the largest customer accounted for approximately 9.9%, 17.6% and 21.5% respectively of our total revenue.



## SUMMARY

### NON-COMPLIANCES

The following table summarises our Group's historical material non-compliances with the PRC laws and regulations:

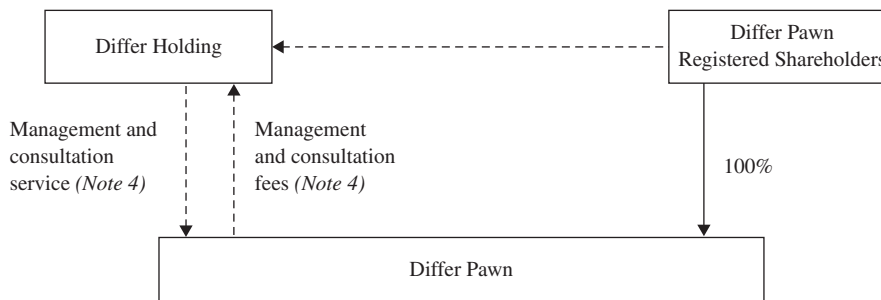
Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Differ Pawn charged monthly interest rates that exceed the maximum limit as prescribed under the Pawning Measures.	Due to inadvertent administrative oversight, Differ Pawn has previously misinterpreted that the monthly interest rate and the monthly comprehensive fee rate could be aggregated and be subject to one single threshold.	Before the approval of each pawn loan, our legal and compliance department is to cross-check the terms of the agreements of our pawn loan transactions, including the monthly interest rate and the monthly comprehensive fee rate separately, to ensure that the terms are in full compliance with the Pawning Measures and other relevant PRC laws and regulations.	As advised by our PRC Legal Adviser, we may be subject to a maximum penalty of RMB30,000 for the non-compliance with respect to the charging of a monthly interest rate above the prescribed limit.
Differ Pawn attempted, but failed, to complete the registration of the pledge of motor vehicle collaterals provided by our pawn loan customers, where such registration of motor vehicle collaterals is a procedure required by the Pawning Measures.	Differ Pawn attempted to complete the relevant registration procedures but were told by the relevant government authority responsible for handling the registration applications that they were unable to process any applications for the registration of motor vehicle collaterals.	We have refrained from granting any new motor vehicle pawn loans since June 2012 until the relevant government authority becomes able to process the registration of the pledge of motor vehicle collaterals.	As advised by our PRC Legal Adviser, the relevant PRC laws and regulations do not specify the specific penalty to be imposed for the non-compliance with respect to the failure in completing the registration of the pledge of motor vehicle collaterals.

## SUMMARY

### STRUCTURED AGREEMENTS

Our pawn loan business is currently carried out by Differ Pawn. Under current PRC laws and regulations, no approval can be granted and no licence can be issued to a foreign invested enterprise for carrying out pawn loan business. The Previous Structured Agreements were entered into on 7 May 2012, which were subsequently replaced by the Structured Agreements entered into on 16 July 2012, in order for our Group to control and manage the business of Differ Pawn in the PRC, under which all the business, financial and operating activities of Differ Pawn are managed by Differ Holding and all economic benefits and risks arising from the business, financial and operating activities of Differ Pawn are transferred to Differ Holding by means of management and consultation fees payable by Differ Pawn to Differ Holding. The following diagram illustrates the flow of economic benefits from Differ Pawn to Differ Holding as stipulated under the Structured Agreements:

- (1) Power of Attorney to exercise all shareholders' rights in Differ Pawn (*Note 1*)
- (2) Exclusive option to acquire all or part of the equity interest in Differ Pawn (*Note 2*)
- (3) Differ Holding as custodian to manage the entire equity interest in Differ Pawn (*Note 2*)
- (4) First priority security interest over the entire equity interest in Differ Pawn (*Note 3*)



#### Notes:

1. Please refer to the section headed “Structured Agreements — Power of Attorney” of this prospectus for further details.
2. Please refer to the section headed “Structured Agreements — Exclusive Option and Equity Custodian Agreement” of this prospectus for further details.
3. Please refer to the section headed “Structured Agreements — Equity Pledge Agreement” of this prospectus for further details.
4. Please refer to the section headed “Structured Agreements — Exclusive Management and Consulting Services Agreement” of this prospectus for further details.
5. “—————” denotes direct legal and beneficial ownership in the equity interest and “- - - - -” denotes contractual relationship.

The Structured Agreements will constitute continuing connected transactions of our Company. A waiver has been sought from and has been granted by the Stock Exchange, further details of which was disclosed in the section headed “Notifiable transactions and connected transactions” in this prospectus.

## SUMMARY

### SHAREHOLDER INFORMATION

Ms. Shi and Mr. Cai are the ultimate Controlling Shareholders of our Company. Ms. Shi owns indirectly 60% shareholding interest in our Company immediately prior to the Placing and 45% shareholding interest in our Company immediately after the Placing and the Capitalisation Issue (but without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon exercise of the options granted under the Share Option Scheme). Ms. Shi is the spouse of Mr. Hong. Mr. Hong is the chairman of our Company and an executive Director. Ms. Shi and Mr. Hong do not, directly or indirectly, carry on, participate or engage in, nor are they otherwise interested in, any business which is or may be in competition with the business of our Group.

Mr. Cai owns indirectly 40% shareholding interest in our Company immediately prior to the Placing and 30% shareholding interest in our Company immediately after the Placing and the Capitalisation Issue (but without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon exercise of the options granted under the Share Option Scheme). Mr. Cai is an executive Director. Mr. Cai does not, directly or indirectly, carry on, participate or engage in, nor is he otherwise interested in, any business which is or may be in competition with the business of our Group.

Please refer to the section headed “History, Reorganisation and corporate structure” for further details of our Shareholders.

### USE OF PROCEEDS

The net proceeds from the Placing based on the Placing Price of HK\$0.69 per Share (being the mid-point of the stated range of the Placing Price), after deducting related expenses, are estimated to be approximately HK\$153.0 million (assuming the Over-allotment Option is not exercised). Our Directors presently intend that the net proceeds will be applied as to (i) approximately HK\$68.0 million for the further development of our finance lease business; (ii) approximately HK\$45.3 million for the strengthening of our entrusted loan business; (iii) approximately HK\$30.2 million for the enhancement of our guarantee services; (iv) approximately HK\$4.5 million for the improvement on risk management; and (v) approximately HK\$5.0 million reserved for our general working capital. For details, please refer to the section headed “Future plans and use of proceeds — Use of proceeds” in this prospectus.

## SUMMARY

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		Seven months ended 31 July	
	2011	2012	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Revenue	21,244	56,416	25,993	38,972
Other income	2,059	3,224	1,159	2,348
Employee benefit expenses	(3,362)	(5,287)	(2,696)	(4,326)
Depreciation and amortisation expense	(825)	(1,817)	(1,028)	(1,187)
Operating lease expense	(900)	(313)	(181)	(181)
Other expenses	(4,269)	(10,050)	(3,757)	(7,086)
Finance costs	(229)	(526)	(404)	—
	13,718	41,647	19,086	28,540
Income tax expense	(3,667)	(10,409)	(4,783)	(8,209)
	10,051	31,238	14,303	20,331
Profit for the year/period attributable to the owners of the Company	10,051	31,238	14,303	20,331

The following table sets out our outstanding financing guarantee amounts as at the end of each year/period during the Track Record Period and such balances were not accounted for as the Group's liabilities in the Group's consolidated statements of financial position:

	As at 31 December		As at 31 July
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding financing guarantee amount	246,590	408,310	484,100

### SELECTED INFORMATION OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December 2011	As at 31 December 2012	As at 31 July 2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	Non-current assets	23,248	24,314
Current assets	266,183	328,586	314,924
Current liabilities	8,946	40,520	42,634
Non-current liabilities	7,564	—	12,350
Total equity	272,921	312,380	322,967

## SUMMARY

### SELECTED INFORMATION OF CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		Seven months ended	
			31 July	
	2011	2012	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Net cash (used in)/generated from operating activities	(57,100)	(63,732)	(55,099)	15,152
Net cash generated from investing activities	22,549	47,770	34,412	12,542
Net cash generated from/(used in) financing activities	10,175	48,971	50,113	(10,000)
Net (decrease)/increase in cash and cash equivalents	(24,376)	33,009	29,426	17,694

#### Net profit margin

Our Group's net profit margin increased from approximately 47.3% for the year ended 31 December 2011 to approximately 55.4% for the year ended 31 December 2012. Our revenue increased by approximately 165.6% from RMB21.2 million for the year ended 31 December 2011 to RMB56.4 million for the year ended 31 December 2012. By contrast, our profit for the year increased by 210.8% from RMB10.1 million for the year ended 31 December 2011 to RMB31.2 million for the year ended 31 December 2012. Due to the business expansion and workdone for the Listing, there were sharp increase in employee benefit expenses, depreciation and amortisation, operating expenses, Listing expenses and income tax expenses. However, the increase of the revenue is more than the total amounts of the above-mentioned expenses, the net profit margin increased accordingly.

Our Group's net profit margin decreased from approximately 55.0% for the seven months ended 31 July 2012 to approximately 52.2% for the seven months ended 31 July 2013. Although our revenue increased by approximately 49.9% from approximately RMB26.0 million for the seven months ended 31 July 2012 to approximately RMB39.0 million for the seven months ended 31 July 2013, our other expenses increased by a more-than-proportionate percentage of approximately 88.6% from RMB3.8 million for the seven months ended 31 July 2012 to approximately RMB7.1 million for the seven months ended 31 July 2013 due mainly to Listing expenses incurred.

#### Return on equity and return on total assets

Our Group's return on equity increased from approximately 3.7% for the year ended 31 December 2011 to approximately 10.0% for the year ended 31 December 2012 and our Group's return on total assets increased from approximately 3.5% for the year ended 31 December 2011 to approximately 8.9% for the year ended 31 December 2012. The significant increase of return on equity and return on total assets were mainly due to the remarkable growth and expansion of financial consultation business which contributed to a substantial increase in revenue and net profit for the year ended 31 December 2012. We did not require substantial amount of capital to finance our financial consultation business.

## SUMMARY

Our Group's return on equity increased from approximately 4.8% for the seven months ended 31 July 2012 to approximately 6.3% for the seven months ended 31 July 2013 and our Group's return on total assets increased from approximately 4.3% for the seven months ended 31 July 2012 to approximately 5.4% for the seven months ended 31 July 2013. The significant increase in return on equity and return on total assets were mainly due to our tremendous growth in our turnover for the seven months ended 31 July 2013 as compared with the corresponding period of the preceding year, whereas our equity and total assets only increased steadily during the same period.

### Current ratio

Our Group's current ratio decreased from approximately 29.8 as at 31 December 2011 to approximately 8.1 as at 31 December 2012. The significant decrease of current ratio was mainly due to significantly increase of amount due to shareholders from nil as at 31 December 2011 to RMB19.9 million as at 31 December 2012 for the contribution of registered capital in Differ Lease and increase of provision of taxation from approximately RMB3.7 million as at 31 December 2011 to approximately RMB10.5 million as at 31 December 2012.

Our Group's current ratio decreased from approximately 8.1 as at 31 December 2012 to approximately 7.4 as at 31 July 2013. The decrease in current ratio was mainly attributable to (i) significant decrease of amounts due from a related company and a director of RMB12.6 million as a result of repayment from Fujian VC and Mr. Hong respectively, and (ii) significant increase of accruals, other payables, receipt in advance and deferred income of approximately RMB5.4 million due to significant increase of deferred income of guarantee business and payables to designated suppliers for machineries of our finance lease customer.

### DIVIDEND AND DIVIDEND POLICY

Our Group did not declare any dividends to Shareholders during the Track Record Period. Shareholders will be entitled to receive dividends as declared by our Board, who will consider various factors including the financial condition, capital requirements and earnings of our Group, in order to determine in its discretion the payment and amount of any such dividends.

Dividends may be paid out of our distributable profits as permitted under the relevant laws. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

### RECENT DEVELOPMENT

Based on our unaudited consolidated management accounts ("Unaudited Accounts") for the three months ended 31 October 2013, we recorded revenue of approximately RMB18.9 million.

Based on our Unaudited Accounts, as at 31 October 2013, our restricted bank deposits, cash and cash equivalents and loan and receivables amounted to approximately RMB122.9 million, RMB68.5 million and RMB173.4 million respectively. Comparatively, as at 31 July 2013, our restricted bank deposits, cash and cash equivalents and loan and receivables amounted to approximately RMB93.5 million, RMB66.6 million and RMB194.9 million respectively. The increase of our restricted bank deposits was mainly due to the continued growth of our financing guarantee business. There was no significant change in cash and cash equivalents during this period. The decrease in loan and account

## SUMMARY

receivables was mainly due to repayment of entrusted loans from customers during this period. As at the Latest Practicable Date, approximately RMB80.3 million of loan and account receivables have been settled out of RMB194.9 million in loan and account receivables as at 31 July 2013. Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group did not experience any late repayment from our customers, nor did our Group experience any default by our customers resulting in our Group having to honour the financing guarantees provided to our customers. As at the Latest Practicable Date, all outstanding loan and accounts receivables of our Group were neither past due nor impaired.

The estimated expenses in relation to the Listing are approximately HK\$19.5 million (or RMB15.6 million), of which approximately HK\$7.9 million (or RMB6.3 million) is directly attributable to the issue of new Shares to the public and is to be accounted for as a deduction from equity upon Listing. We have charged approximately HK\$3.5 million (or RMB2.8 million), HK\$4.1 million (or RMB3.3 million) and HK\$2.4 million (or RMB1.9 million) for the year ended 31 December 2012, seven months ended 31 July 2013 and three months ended 31 October 2013 respectively. The remaining amount of approximately HK\$1.6 million (or RMB1.3 million) will be charged to the profit or loss of our Group for the two months ending 31 December 2013, period in which the relevant services are completed.

### NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that since 31 July 2013 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event had occurred that would materially and adversely affect the financial information of the accountants' report as set out in Appendix I to this prospectus.

### PLACING STATISTICS

	<b>Based on the Placing Price of HK\$0.60 per Share</b>	<b>Based on the Placing Price of HK\$0.78 per Share</b>
Market capitalisation of our Shares ( <i>Note 1</i> )	HK\$600,000,000	HK\$780,000,000
Unaudited pro forma adjusted net tangible assets per Share ( <i>Note 2</i> )	HK\$0.54	HK\$0.59

*Notes:*

- 1 The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue immediately upon completion of the Placing and the Capitalisation Issue without taking into account the Shares that may be allotted or issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme.
- 2 The unaudited pro forma adjusted net tangible assets per Share has been arrived at after the adjustments referred to under the paragraph headed "Unaudited pro forma adjusted net tangible assets" in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of 1,000,000,000 Shares in issue at the respective Placing Prices of between HK\$0.60 and HK\$0.78 per Share immediately following completion of the Placing and the Capitalisation Issue without taking into account the Shares that may be allotted or issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme.

## SUMMARY

### RISK FACTORS

We believe that there are certain risks involved in our operations, many of which are beyond our control. They can be broadly categorised into risks associated with our Group's business (including guarantee, pawn loan, financial consultation, entrusted loan and finance lease business), the Structured Agreements, the industry, the PRC, the Placing and this prospectus, among which, the relatively material risks encompass (i) the collateral pledged to us may not be sufficient, and we may be unable to realise the value of the collateral in a timely manner or at all; (ii) we recorded net cash outflow from operating activities during the two years ended 31 December 2012; (iii) we act as the guarantor for our customers in respect of the repayment of loans provided by banks to our customers and we may consequently be liable to the banks if our customers default on their loan repayments; and (iv) the PRC Government may determine that the Structured Agreements are not in compliance with applicable PRC laws, rules, regulations or policies. Details of these risks are set out in the section headed "Risk factors" in this prospectus.



## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings.*

“Aidu”	福建愛都工貿有限公司 (Fujian Aidu Industry and Trade Company Limited), which is a limited liability company established in the PRC on 12 January 2000 and is currently owned as to 99% by Mr. Hong and as to 1% by Ms. Zhang Huiling (張惠玲) (Mr. Hong’s mother). Aidu was interested in 78% of the equity interest in Differ Pawn as at the Latest Practicable Date
“Articles” or “Articles of Association”	the articles of association of our Company adopted on 26 November 2013 and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	our board of Directors
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 749,998,900 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Written resolutions of all Shareholders passed on 26 November 2013” under the paragraph headed “Further information about the Company” in Appendix V to this prospectus
“CBRC”	中國銀行業監督管理委員會 (China Banking Regulatory Commission of the PRC)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person permitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person permitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participants”	a CCASS Clearing Participant, a CCASS Custodian or a CCASS Investor Participant

## DEFINITIONS

“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Company”	Differ Group Holding Company Limited 鼎豐集團控股有限公司, (formerly known as Differ Holding Group Company Limited 鼎豐控股集團有限公司), which is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law on 4 December 2012
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the GEM Listing Rules and in the case of our Company, means collectively, Ms. Shi, Mr. Cai, Expert Corporate Limited and Ever Ultimate Limited
“Differ Guarantee”	鼎豐擔保股份有限公司 (Differ Guarantee Company Limited), which is a limited liability company established in the PRC on 11 June 2007 and is an indirect wholly-owned subsidiary of our Company. Differ Guarantee is principally engaged in the guarantee business of our Group
“Differ Holding”	鼎豐控股(廈門)有限公司 (Differ Holding (Xiamen) Company Limited), which is a wholly foreign-owned enterprise established in the PRC on 12 April 2010 and an indirect wholly-owned subsidiary of our Company. Differ Holding is principally engaged in the entrusted loan business and the financial consultation business of our Group
”Differ Hong Kong”	Differ Financial Holdings Limited (鼎豐金融控股有限公司), which was incorporated in Hong Kong on 22 September 2011 and is the intermediate holding company of our Group
“Differ Import & Export”	廈門鼎豐進出口發展有限公司 (Xiamen Differ Import and Export Development Company Limited), a limited liability company established in the PRC on 22 December 2011 and is an indirect wholly-owned subsidiary of our Company

## DEFINITIONS

“Differ Lease”	廈門市鼎豐融資租賃有限公司 (Xiamen Differ Financial Leasing Company Limited), which is a wholly foreign-owned enterprise established in the PRC on 19 April 2012 and an indirect wholly-owned subsidiary of our Company. Differ Lease is principally engaged in the finance lease business of our Group
“Differ Pawn”	福建鼎豐典當有限公司 (Fujian Differ Pawn Company Limited), which is a limited liability company established in the PRC on 15 May 2002 and is managed and controlled by our Group through the Structured Agreements. Differ Pawn is principally engaged in the pawn loan business of our Group
“Differ Pawn Registered Shareholders”	collectively, the shareholders of Differ Pawn as at the Latest Practicable Date, namely, Aidu (interested in 78% in Differ Pawn) and Fujian VC (interested in 22% in Differ Pawn)
“Differ VC”	廈門市鼎豐創業投資有限公司 (Xiamen Differ Venture Capital Company Limited), which is a limited liability company established in the PRC on 5 May 2010 and is an indirect wholly-owned subsidiary of our Company. Differ VC is principally engaged in the entrusted loan business of our Group
“Director(s)”	the director(s) of our Company
“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
“Equity Pledge Agreements”	the equity pledge agreements dated 16 July 2012 and entered into among Differ Holding, each of the Differ Pawn Registered Shareholders, and Differ Pawn, pursuant to which each of the Differ Pawn Registered Shareholders agreed to grant to Differ Holding a first priority security interest over all their respective direct equity interest in Differ Pawn (for Aidu, as to its 78% equity interest in Differ Pawn; and for Fujian VC, as to its 22% equity interest in Differ Pawn) for guaranteeing the performance of the obligations of the Differ Pawn Registered Shareholders and Differ Pawn under the Exclusive Management and Consulting Services Agreement and the Exclusive Option and Equity Custodian Agreement, details of which are set out in the section headed “Structured Agreements” in this prospectus

## DEFINITIONS

“Exclusive Management and Consulting Services Agreement”	the exclusive management and consulting services agreement dated 16 July 2012 and entered into among Differ Holding, the Differ Pawn Registered Shareholders and Differ Pawn, pursuant to which Differ Pawn agreed to engage Differ Holding on an exclusive basis to provide management and consultation services in connection with its operations, and in return, Differ Holding will charge for services rendered, details of which are set out in the section headed “Structured Agreements” in this prospectus
“Exclusive Option and Equity Custodian Agreement”	the exclusive option and equity custodian agreement dated 16 July 2012 and entered into among Differ Holding, the Differ Pawn Registered Shareholders and Differ Pawn, pursuant to which (i) the Differ Pawn Registered Shareholders granted, at nil consideration or the minimum amount as permitted by the applicable PRC laws and regulations, an exclusive and irrevocable option to Differ Holding or its nominee(s) to acquire all or part of their respective equity interest in Differ Pawn; and (ii) the Differ Pawn Registered Shareholders, jointly and severally, irrevocably granted, at nil consideration, a right to Differ Holding or its nominee(s) to manage the entire equity interest in Differ Pawn as custodian during the term of the Exclusive Option and Equity Custodian Agreement, details of which are set out in the section headed “Structured Agreements” in this prospectus
“Financing Guarantee Operation Permit”	融資性擔保機構經營許可證 (Financing Guarantee Institutions Operation Permit), which is a permit required for the operation of financing guarantee business in the PRC, details of which are disclosed in the section headed “Regulatory overview — E. The financing guarantee industry” in this prospectus
“FJDOP”	福建省財政廳 (Fujian Provincial Department of Finance)
“FJETC”	福建省經濟貿易委員會 (Fujian Provincial Economic and Trade Commission)
“Fujian Province”	福建省 (Fujian Province), a province on the southeast coast of the PRC
“Fujian VC”	福建省鼎豐創業投資有限公司 (Fujian Differ Venture Capital Company Limited), which is a limited liability company established in the PRC on 19 June 2009 and is currently owned as to 99% by Ms. Cai Danni (蔡丹妮) (Mr. Cai’s daughter) and as to 1% by Mr. Wu Zhipai (吳志培) (Mr. Ng’s cousin). Fujian VC was interested in 22% of the equity interest in Differ Pawn as at the Latest Practicable Date

## DEFINITIONS

“FY2011”	the financial year from 1 January 2011 to 31 December 2011
“FY2012”	the financial year from 1 January 2012 to 31 December 2012
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, as amended, modified and supplemented from time to time
“General Rules”	貸款通則 (the General Rules on Loans) which was promulgated by the PBOC on 28 June 1996 and came into effect on 1 August 1996
“Group”, “we” or “us”	our Company and our subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of our present subsidiaries, our present subsidiaries and the businesses operated by such subsidiaries, and for the purpose of this prospectus, include Differ Pawn
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK\$” or “HKD” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	an individual(s) or a company(ies) who or which is/are independent and not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive or substantial Shareholders (within the meaning of the GEM Listing Rules) or our Company, our subsidiaries or any of their respective associates and not otherwise a connected person of our Company
“Interim Measures”	融資性擔保公司管理暫行辦法 (Interim Measures for the Administration of Financing Guarantee Companies), which was promulgated by the CBRC, the National Development and Reform Commission, MOC and four other PRC Government authorities on 8 March 2010

## DEFINITIONS

“Joint Bookrunners” or “Joint Lead Managers”	Fortune (HK) Securities Limited, Kingston Securities Limited and Sinomax Securities Limited, each being a licensed corporation under the SFO to carry on type 1 (dealing in securities) regulated activity
“Kingston Securities”	Kingston Securities Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) regulated activity, one of the Joint Bookrunners and the Joint Lead Managers
“Latest Practicable Date”	25 November 2013, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in the prospectus prior to its publication
“Listing”	listing of the Shares on GEM
“Listing Date”	the date, expected to be on or about Monday, 9 December 2013, on which dealings in the Shares first commence on GEM
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted on 26 November 2013 and as amended from time to time
“MOC”	中華人民共和國商務部 (Ministry of Commerce of the PRC)
“MPS”	中華人民共和國公安部 (Ministry of Public Security of the PRC)
“Mr. Cai”	Mr. Cai Huatan (蔡華談), an executive Director and one of our Controlling Shareholders
“Mr. Hong”	Mr. Hong Mingxian (洪明顯), the chairman of our Company, an executive Director and the spouse of Ms. Shi
“Mr. Ng”	Mr. Ng Chi Chung (吳志忠), an executive Director and the chief executive officer of our Company
“Ms. Shi”	Ms. Shi Hongjiao (施鴻嬌), one of our Controlling Shareholders and the spouse of Mr. Hong
“Over-allotment Option”	the option expected to be granted by our Company to Kingston Securities (for itself and on behalf of the underwriters), at any time within a period commencing from the date of this prospectus and ending on the 30th day after the date of this prospectus, to require our Company to allot and issue the Over-allotment Shares at the Placing Price to cover over-allocations in the Placing subject to the terms of the Underwriting Agreement
“Over-allotment Share(s)”	up to an aggregate of 37,500,000 new Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option

## DEFINITIONS

“Pawn Operation Permit”	典當經營許可證 (Pawn Business Operation Permit) which is a permit required for the operation of a pawn loan business in the PRC pursuant to the Pawning Measures, details of which are disclosed in the section headed “Regulatory overview — C. The Pawn Loan Industry — 1. The Pawning Measures” in this prospectus
“Pawning Measures”	the Measures for the Administration of Pawning (典當管理辦法), which was jointly issued by the MOC and MPS on 9 February 2005 and came into effect on 1 April 2005
“PBOC”	中國人民銀行 (People’s Bank of China), the central bank of the PRC
“Placing”	the conditional placing of the Placing Shares by the Underwriters on behalf of our Company for cash at the Placing Price with professional, institutional and individual investors as described in the section headed “Structure of the Placing” in this prospectus
“Placing Price”	the final placing price for each Placing Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy) which will be not more than HK\$0.78 and is expected to be not less than HK\$0.60, such price to be determined in the manner as further described in the section headed “Structure of the Placing” in this prospectus
“Placing Shares”	the 250,000,000 Shares being offered for subscription at the Placing Price pursuant to the Placing, subject to the Over-allotment Option set forth in the section headed “Structure of the Placing” in this prospectus
“Power of Attorney”	the power of attorney dated 16 July 2012 and entered into between Differ Holding and the Differ Pawn Registered Shareholders, pursuant to which Differ Holding or its nominee(s) were authorised by the Differ Pawn Registered Shareholders to exercise their respective shareholders’ rights in Differ Pawn, details of which are set out in the section headed “Structured Agreements” in this prospectus
“PRC”	the People’s Republic of China, and for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Government”	the government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organisation thereof or, as the context requires, any of them

## DEFINITIONS

“PRC Legal Adviser”	Tian Yuan Law Firm (天元律師事務所), the legal advisers to our Company as to PRC law
“Previous Structured Agreements”	the agreements dated 7 May 2012 entered into between Differ Holding, Differ Pawn, Differ Guarantee and Fujian VC as described under the section headed “Structured Agreements” in this prospectus
“Price Determination Agreement”	the agreement to be entered into between Kingston Securities (for itself and on behalf of the Underwriters) and us on or before the Price Determination Date to record and fix the Placing Price
“Price Determination Date”	the date, expected to be on or before 3 December 2013 (or such later date as may be agreed between Kingston Securities (for itself and on behalf of the Underwriters) and us, on which the Placing Price is to be fixed
“Quanzhou”	泉州市 (Quanzhou city), a city in the Fujian Province of the PRC
“Reorganisation”	the corporate reorganisation arrangements implemented by our Group in preparation for the Listing which is more particularly described in the section headed “History, Reorganization and Corporate Structure” of this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	中華人民共和國國家外匯管理局 (State Administration of Foreign Exchange of the PRC)
“SAFE Circular No. 75”	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 (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)
“SAT”	國家稅務總局 (State Administration of Taxation of the PRC)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company, which are to be traded in Hong Kong dollars and listed on GEM
“Shareholder(s)”	holder(s) of our Share(s)



## DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 26 November 2013, the principal terms of which are summarized in the section headed “Statutory and General Information — Share Option Scheme” in Appendix V to this prospectus
“Shishi”	石獅市 (Shishi city), a city in the Fujian Province of the PRC
“SMEs”	small and medium enterprises
“Special Industry Permit”	特種行業許可證 (Special Industry Permit) which is a permit required for the operation of a pawn loan business in the PRC, details of which are disclosed in the section headed “Regulatory overview — The Pawn Loan Industry — The Pawning Measures” in this prospectus
“Sponsor” or “Messis Capital”	Messis Capital Limited, the sponsor for the Listing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Agreements”	collectively, the Exclusive Management and Consulting Services Agreement, the Equity Pledge Agreements, the Exclusive Option and Equity Custodian Agreement and the Power of Attorney described in the section headed “Structured Agreements” in this prospectus
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Substantial Shareholder”	has the meaning ascribed thereto in the GEM Listing Rules and details of our Substantial Shareholders are set out in the section headed “Substantial Shareholders” in this prospectus
“Takeovers Code”	The Hong Kong Codes on Takeovers and Mergers, as amended, modified and supplemented from time to time
“Track Record Period”	the two years ended 31 December 2012 and the seven months ended 31 July 2013
“Underwriters”	the underwriters of the Placing whose names are set out in the paragraph headed “Underwriters” in the section headed “Underwriting — Underwriters” in this prospectus
“Underwriting Agreement”	the conditional underwriting agreement relating to the Placing entered into on 2 December 2013 among our Company, our executive Directors, our Controlling Shareholders, the Sponsor, the Joint Lead Managers and the Underwriters relating to the Placing, particulars of which are summarised in the section headed “Underwriting” in this prospectus

## DEFINITIONS

“US\$” or “USD”	United States dollars, the lawful currency of the United States of America
“Xiamen”	廈門市 (Xiamen city), a city in the Fujian Province of the PRC
“Xiamen Interim Measures”	廈門市融資性擔保機構監督管理暫行辦法 (Xiamen Interim Measures on Administration and Supervision on the Financing Guarantee Companies), which was jointly promulgated by XMEDB, 廈門市工商行政管理局 (Xiamen Administration for Industry and Commerce), 中國人民銀行廈門市中心支行 (Xiamen Central Sub-branch of PBOC) and 中國銀行業監督管理委員會廈門監管局 (Xiamen Supervisory Bureau of CBRC) on 22 September 2010
“XMBOF”	廈門市財政局 (Xiamen Bureau of Finance)
“XMEDB”	廈門市經濟發展局 (Xiamen Economic Development Bureau)
“sq.ft.”	square feet
“sq.m.”	square meter(s)
“%”	per cent

Unless otherwise specified, translations of RMB into HK\$ and HK\$ into US\$ in this prospectus are based on the exchange rate set out below (for the purpose of illustration only):

HK\$1: RMB0.8

US\$1: HK\$7.8

No representation is made that any amounts in RMB, US\$ and HK\$ can be or could have been converted at the relevant dates at the above exchange rate or any other rates.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, the summation of rows or columns of numbers in tables may not be equal to the apparent summation of individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

In this prospectus, if there is any inconsistency between the Chinese names of the PRC entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

The English translations of the names of the PRC laws, rules and regulations printed in this prospectus are not official names for, and do not form any official part of, such laws, rules and regulations. Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only, and in the event of any inconsistency between the Chinese names of the Chinese natural persons, legal persons, governmental authorities, institutions or other entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases we use words such as “aim”, “anticipate”, “believe”, “estimate”, “expect”, “going forward”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would” and other similar expressions to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and plans of operation;
- the amount and nature of, and potential for, future development of the Group’s business;
- our dividend distribution plans;
- the regulatory environment as well as the general industry outlook for the industry in which we operate;
- future developments in the industry which we operate; and
- the trend of the PRC and global economy in general.

These statements are based on numerous assumptions, including those regarding our present and future business strategy and the environment in which we will operate in the future.

Our future results could differ materially from those expressed or implied by such forward-looking statements. In addition, our future performance may be affected by various factors including, without limitation, those discussed in the sections headed “Risk Factors” and “Financial Information” of this prospectus.

Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions to prove incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of these forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements as set out in this section.

In this prospectus, statements of, or references to, our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

## RISK FACTORS

*Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to the Placing Shares. If any of the possible events as described below, or any other risk factors or uncertainties that our Company is unaware of, materialises, our 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 OUR GROUP'S BUSINESS

**The collateral pledged to us may not be sufficient, and we may be unable to realise the value of the collateral in a timely manner or at all.**

During the Track Record Period, we have accepted different types of collateral for our entrusted loans, guarantee services and pawn loans. 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 declines in the value of the real estate collateral to levels below the outstanding principal balance of our entrusted loans or pawn loans or the guarantee amount. Besides, some of our customers are property developers, which are generally considered vulnerable to a property market downturn. 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 our real estate collateral may be subject to fluctuations in real estate prices, and may be exposed to the downside risk of properties 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 our loan in full due to such price fluctuations, and in turn our 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, the Property Law and other relevant PRC laws and regulations.

For other types of collateral such as machineries, inventories, motor vehicles, gold and antiques, 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 our control.

We are therefore exposed to the risk that we may not be able to realise the value of collateral in a timely manner or at all in the event of default.

**We recorded net cash outflow from operating activities during the two years ended 31 December 2012.**

Our Group incurred net cash outflow from operating activities of approximately RMB57.1 million and RMB63.7 million for each of the two years ended 31 December 2012 respectively. The net cash outflow from operating activities for the two years ended 31 December 2012 were mainly attributable to

## RISK FACTORS

the increase in our net loan receivables as our Group expanded our loan portfolio. Due to the nature of our money lending business, when we grant a loan to our customer, it will be recorded as our operating cash outflow; and when our customer makes repayment to us, it will be recorded as our operating cash inflow. During the two years ended 31 December 2012, our pace of granting loans increased and our loan portfolio expanded, leading to the amount of new loans granted to our customers being larger than the amount of repayment from our customers. As a result, we recorded negative operating cash flow. Operating cash inflow may be recorded if we slow down our pace of granting new loans. We may fund the operating cash shortfall by our internal resources, debt or equity financing.

In the event that we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our business operations may be materially and adversely affected. There can also be no assurance that we will be able to maintain sufficient working capital and revenues or raise necessary funding to sustain our business activities and growth.

**We have a limited operating history and our results during the Track Record Period may not be representative of the results of our operations in the future.**

Our entrusted loan, financial consultation, guarantee, pawn loan and finance lease businesses are carried out by our principal operating subsidiaries in the PRC, namely, Differ Holding, Differ VC, Differ Guarantee, Differ Pawn and Differ Lease, which have either been established or acquired (including through the Structured Agreements) by us since 2010. For further information about the history and development of our principal operating subsidiaries in the PRC, please refer to the section headed “History, reorganisation and corporate structure” in this prospectus.

Due to this limited operating history, it may be difficult to evaluate our business prospects and future financial performance. There is no assurance that we can maintain our profitability and growth in the future. Furthermore, our future operating results depend upon a number of factors, including our ability to manage our growth and to provide a wide range of financing products and financing-related solutions which suit our customers’ needs. Our results during the Track Record Period may not be representative of the results of our operations in the future.

## RISK FACTORS

### We may be exposed to higher credit risk if real estate prices in the PRC drop.

During the Track Record Period, we have granted loans and guarantees (i) to customers that operated in the real estate industry in the PRC, such as companies engaged in property development and/or sales of construction materials; and/or (ii) that were secured by real estate collateral. The following tables sets out our total exposures to real estate industry during the Track Record Period:

	<b>As at</b>		<b>As at</b>		<b>As at</b>	
	<b>31 December 2011</b>		<b>31 December 2012</b>		<b>31 July 2013</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Outstanding amount of financing guarantees, loans and finance lease receivables						
— Granted to customers that operated in the real estate industry in the PRC and/or secured by real estate collateral	157,890	52.6	263,811	46.4	239,627	35.4
— All others	<u>142,347</u>	<u>47.4</u>	<u>304,927</u>	<u>53.6</u>	<u>438,205</u>	<u>64.6</u>
	<u><u>300,237</u></u>	<u><u>100.0</u></u>	<u><u>568,738</u></u>	<u><u>100.0</u></u>	<u><u>677,832</u></u>	<u><u>100.0</u></u>

The following table sets out a breakdown of the fair value of our real estate collaterals by property type as at the end of each year/period during the Track Record Period:

	<b>As at</b>		<b>As at</b>		<b>As at</b>	
	<b>31 December 2011</b>		<b>31 December 2012</b>		<b>31 July 2013</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Residential	100,007	15.9	280,384	49.3	328,122	59.8
Commercial	175,506	27.9	44,867	7.9	28,596	5.2
Commercial/Residential	252,918	40.2	4,416	0.8	52,115	9.5
Industrial	<u>100,965</u>	<u>16.0</u>	<u>239,046</u>	<u>42.0</u>	<u>139,929</u>	<u>25.5</u>
	<u><u>629,396</u></u>	<u><u>100.0</u></u>	<u><u>568,713</u></u>	<u><u>100.0</u></u>	<u><u>548,762</u></u>	<u><u>100.0</u></u>

The real estate market and real estate prices in the PRC may be influenced by market forces as well as macroeconomic policies of the PRC Government, such as changes in the interest rates and/or monetary policies. If real estate prices in the PRC drop significantly, the operating results and financial position of our customers engaged in the PRC real estate industry may be negatively affected, which may in turn result in their weakened repayment ability and consequently, we may be exposed to higher credit risk.

## RISK FACTORS

In addition, there may be liquidity risk in relation to the disposal of real estate collaterals in the event of customers' default. Our ability to dispose of and realising the value of our real estate collaterals is affected by the general real estate market condition, such as the demand and supply in the real estate market and the relevant macroeconomic and/or government policies. We are therefore exposed to the risk that we may not be able to realise the value of real estate collateral in a timely manner or at all in the event of default.

**Some of our transactions secured by inventory collaterals have relatively high loan-to-value ratio. There can be no assurance that we can realise or liquidate the full value of these inventory collaterals in a timely manner or at all and the business operations and financial results of our Group may be adversely affected.**

During the Track Record Period, the nature of inventories that we have accepted as collaterals included raw materials such as steel, fabric, yarn, nylon and textiles, as well as finished goods such as garments, lightings, mechanical components, chemical products, infant products, refined coal and high-grade stones. During the Track Record Period, the loan-to-value ratio for our loan/guarantee transactions secured by inventory collaterals ranged from 8.1% to 99.4%. The average loan-to-value ratio amounted to approximately 60.5%, 51.2% and 51.6% for transactions secured by inventory collaterals as of 31 December 2011, 31 December 2012 and 31 July 2013 respectively. Given the relatively high loan-to-value ratio in respect of some of our loan/guarantee transactions, in the event of customers' default, there is a possibility that the amount recovered from the disposal of the inventory collaterals may not be sufficient to cover the loan/guarantee amount in default. Therefore, we may suffer losses as a result and the business operations and financial results of our Group may be adversely affected.

**There are risks associated with the availability of funds to sustain our operations and growth.**

We require substantial amount of capital to finance our business operations, in particular, our provision of entrusted loans, financing guarantee services, pawn loans and finance lease services. For our entrusted loan and pawn loan businesses, we provide financing to our customers out of our available capital. For our financing guarantee business, we are required by our cooperating banks to either maintain an initial cash deposit of a specified amount with these banks upon the commencement of our cooperation and/or maintain a cash deposit typically amounting to 10–20% of the amount guaranteed by us during the term of each financing guarantee transaction with them. For our finance lease business, we buy certain assets from our customers (or supplier designated by our customer) in cash at the beginning and lease them back to our customers immediately in return for a series of monthly rental payments over a certain period of time.

We have been financing our operations mainly through capital contributions from our Shareholders. In the event that we have insufficient internal resources and if we are unable to obtain external loans or other credit facilities on reasonable terms or at all, we may not be able to continue to provide entrusted loans, guarantee services, pawn loans and finance lease services to our customers and our business operations will be adversely affected.

## RISK FACTORS

### **Our Group may not be fully secured by the pledged collateral which are kept at our customers' premises.**

Some of the assets pledged in favour of our Group were continued to be physically held by our customers to enable them to carry on their ordinary and usual course of business. As such, our Group may not have physical control over those pledged assets which are kept at our customers' premises. Even if we make regular and spontaneous visits to such assets for risk control and on-going monitoring, our Group may not repossess the pledged assets immediately as required since it is necessary for our customers to generate income from them to repay the relevant loans (as is the case, for example, with inventories and equipment). If the pledged assets are stolen, destroyed or damaged for any reasons other than due to the faults of our customers and our customers do not maintain any insurance over the pledged assets, we may not be able to realise the value of collateral and/or recover the outstanding fees in full or at all in the event of default. There may also be a risk that the value of the pledged assets will be reduced through our customer's failure to provide necessary upkeep and maintenance. Our Group performs due diligence on our customers as part of our approval procedure and conduct post-approval monitoring to keep track with the business conditions of the customers and assess the market values of the pledged assets and we are entitled to ask for further assets to be pledged in case the value of the pledged assets decrease substantially or to require the provision of personal guarantee. Although we are entitled to require our customers to provide additional assets as collateral, we may not be able to realise or liquidate the full value of these additional collateral in a timely manner or at all. There can be no assurance that our Group can be fully secured by, or realised in a timely manner, the pledged assets kept at either our customers' premises and the business operations and financial results of our Group may be adversely affected.

### **There are risks associated with the physical storage of collaterals by us.**

Certain types of collaterals provided by our customers will be physically kept in our possession during the relevant loan/guarantee period. Collaterals that are retained in our possession generally include movable collateral (e.g. antique, jewelries and gold) in respect of our pawn loans, which are stored in a secured safe located at the back of the sales outlet of Differ Pawn in Shishi which was built in accordance with the requirements of the Pawning Measures. Such secured safe was equipped with closed-circuit television security cameras as well as a security alarm that is connected to the system of 石獅市公安局 (Shishi Public Security Bureau). Opening of the safe requires two keys and a password that are separately kept by three designated personnel of Differ Pawn. We also keep a register of all collaterals stored in the safe. Nevertheless, there is no assurance that there will not be any accidents, thefts, natural disasters, terrorist attacks, or other events that could lead to the damage or loss of the collaterals. Any damage or loss of such collaterals could result in the lack of sufficient collaterals to cover our credit risk as well as potential liabilities resulting from possible litigation and claims from the relevant pledgers, and therefore could have a material adverse impact on our Group's business operation and financial position.



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**Our loan portfolio is concentrated in Fujian Province and if the economy of Fujian Province significantly deteriorates, our financial condition and results of operations may be materially and adversely affected.**

As at the Latest Practicable Date, we operated only through our offices located in Fujian Province. We currently expect that the future growth of our business will continue to be concentrated in Fujian Province. As a result, any significant economic downturn in the Fujian Province may affect our customers' ability to repay our loans or loans to commercial banks which are guaranteed by us, and will materially and adversely affect our financial condition and results of operations.

**Our net profit may not be sustainable.**

Our net profit was approximately RMB10.1 million, RMB31.2 million and RMB20.3 million for each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, respectively. However, such profit may not be taken as a reference to estimate our Group's profit in the future. There is no assurance that our Group will be successful in meeting all challenges and addressing the risks and uncertainties as may be faced by our Group in developing our business and our Group's profit can be maintained at a level similar to or higher than those in the Track Record Period.

**We may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties.**

We may be exposed to fraud or other misconduct committed by our employees, agents, customers or other third parties that could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. As at the Latest Practicable Date, our Directors confirmed that no such fraud or other misconduct was committed by our employees, agents, customers or third parties that had an adverse effect on our business reputation, financial condition and results of operations nor were sanctions imposed by governmental authorities.

Our internal control procedures are designed to monitor our operations and overall compliance. However, they may be unable to identify non-compliant and/or suspicious transactions in a timely manner or at all. Further, it is not always possible for us to detect and prevent fraud and other misconduct, and the precautions we take 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 our business reputation, financial condition and results of operations.

**We are dependent on key personnel and there is no assurance that we can retain them.**

The development of our business is, to a large extent, attributable to the contribution of our executive Directors and senior management. The knowledge and experience of these key personnel has played a significant role in the business operations and strategic planning during the Track Record Period and is instrumental to the future development of our Group. Although our Company has entered into a service agreement with each of our executive Directors, there could be an adverse impact on our operations should any of these executive Directors or senior management terminate his/her service agreement with our Group or otherwise cease to serve our Group and we cannot find appropriate persons to replace them. There is no assurance that we will be able to attract and retain capable staffs to serve our Group or that they will not resign in the future.

## RISK FACTORS

**The financial results of our Group are expected to be affected by the expenses in relation to the Listing.**

The financial results of our Group for the year ending 31 December 2013 will be affected by the non-recurring expenses in relation to the Listing. The estimated expenses in relation to the Listing are approximately HK\$19.5 million (or RMB15.6 million), of which approximately HK\$7.9 million (or RMB6.3 million) is directly attributable to the issue of new Shares to the public and is to be accounted for as a deduction from equity. The remaining estimated Listing expenses of approximately HK\$3.5 million (or RMB2.8 million), HK\$4.1 million (or RMB3.3 million) and HK\$4.0 million (or RMB3.2 million) were or will be charged to the profit and loss account of our Group for the year ended 31 December 2012, the seven months ended 31 July 2013 and the five months ending 31 December 2013 respectively.

Accordingly, the financial results of the Group for the year ending 31 December 2013 are expected to be affected by the estimated expenses in relation to the Listing.

**The future development and implementation of anti-money laundering laws in PRC may increase our obligations to supervise and report transactions with our customers, thereby increasing our costs and exposing us to the risk of criminal or administrative sanctions.**

PRC laws and regulations relating to anti-money laundering have undergone considerable development over recent years. While we are not currently subject to anti-money laundering laws and regulations and are not required by current laws and regulations to establish specific identification and reporting procedures relating to anti-money laundering, any new requirement under anti-money laundering laws to supervise and report transactions with our customers would increase our costs, and may expose us to potential criminal or administrative sanctions in case we fail to establish and implement adequate procedures in accordance with law.

**The landlords of certain of our leased properties was unable to provide the relevant title documents of the properties.**

As at the Latest Practicable Date, we have leased a property located at Level 9, Hengyu Trading Centre, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi, Fujian Province, the PRC (中國福建省石獅市石泉路東北側華山村K8號樓恒宇商貿中心9樓), which is currently occupied by us for office use mainly for our pawn loan business and with a small section for office use for our guarantee business. This property is occupied by us under two leases each expiring on 20 November 2016.

We have also leased a property located at Shop No. 2 on Level 1, Hengyu Trading Centre, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi, Fujian Province, the PRC (中國福建省石獅市石泉路東北側華山村K8號樓恒宇商貿中心第二間臨街店面), which is currently occupied by us for use as our pawn shop outlet. This property is held by us under a lease which expires on 20 November 2016.

In addition, we have obtained free right of use of a property located at Units 114, 115, 125 and 126, 619 Sishui Road, Huli District, Xiamen from a state-owned assets investment company under 廈門市湖里區投資促進局 (Xiamen Huli District Investment Promotion Agency) (“**Huli Agency**”) for our

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office use by Differ Holding, Differ Guarantee, Differ Lease and Differ Import & Export. We have been given to understand that the state-owned assets investment company under Huli Agency is the landlord of the property, whilst it was unable to provide the relevant title documents to us.

The landlords of the aforesaid leased properties was unable to provide the relevant title documents showing the ownership of the properties. As advised by our PRC Legal Adviser, if there is any dispute over the ownership of the properties, we may not be able to operate normally within the aforesaid leased properties. If the lease contracts are invalidated, revoked or terminated because the landlords does not have the legal titles to the leased properties, we may be evicted from the properties and our business and operations (in particular, our pawn loan business) may be adversely affected.

**Some of our subsidiaries have not fully complied with the Company Law of the PRC (中華人民共和國公司法) in relation to the difference between the registered address and the actual place of business during the Track Record Period.**

As at the Latest Practicable Date, the registered addresses of Differ Holding, Differ Guarantee, Differ Lease and Differ Import & Export were located in a building at 619 Sishui Road, Huli District, Xiamen (the “**Sishui Road Addresses**”). Before 16 April 2013, we have not actually occupied the Sishui Road Addresses for office use. Such difference in the registered address and the actual place of business was not in full compliance with the Company Law of the PRC.

The use of the Sishui Road Addresses as the registered addresses was due to the invitation of the Huli Agency, a government agency in Xiamen, as part of the Huli Agency’s campaign to solicit quality financial institutions and to attract investments into Huli District of Xiamen. Huli Agency provided the Sishui Road Addresses to us free of charge for our use as the registered address of Differ Holding, Differ Guarantee, Differ Lease and Differ Import & Export. Our PRC Legal Adviser has been confirmed by 廈門市工商行政管理局 (Xiamen Administration for Industry and Commerce) (“**XAIC**”) on 22 January 2013 that, among other things, XAIC will not impose any penalty on us because of such issue. Our PRC Legal Adviser advised that XAIC is competent to give such confirmation. Ms. Shi and Mr. Cai, our Controlling Shareholders, have undertaken to indemnify us for any losses or penalties which we may suffer in connection with such non-compliance. Please refer to the section headed “Business — Registered address” for more information.

As advised by our PRC Legal Adviser, the relevant PRC laws and regulations have not specified any specific penalty that can be imposed on an enterprise having its registered address different from its actual principal place of business as a result of government’s investment promotion campaign. If any penalty shall be imposed on us for the aforesaid non-compliance, our Group’s business, reputation and financial positions may be affected.

**Our Group has not paid housing provident fund contributions for and on behalf of the employees of our Group during the Track Record Period.**

Before March 2013, we had not made our housing provident fund registered with the local housing fund bureau within the time stipulated under the relevant PRC laws and regulations, and had not made contributions to the housing provident fund in accordance with the relevant PRC laws and regulations. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, the amount of unpaid housing provident fund contributions were approximately RMB179,000, RMB205,000 and RMB55,000 respectively. Please refer to the section headed “Business — Non-compliances —

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Housing provident funds” in this prospectus for further details. We registered our housing provident fund with the local housing fund bureau in March 2013. Since March 2013, we have made contributions to the housing provident fund for our employees.

As advised by our PRC Legal Adviser, according to 住房公積金管理條例 (Regulations on Management of Housing Provident Fund), if a company fails to register its housing provident fund with the local housing provident fund management centre, the company may be ordered by the housing provident fund management centre to make the registration within a time limit. If the company still fails to comply with such order within the time limit, a fine ranging from RMB10,000 to RMB50,000 may be imposed. If a company fails to pay the housing provident fund in accordance with the relevant regulations, the housing provident fund management centre is entitled to order it to make payment before a specified deadline, and if the company still fails to do so, the housing provident fund management centre may apply to the court for enforcement of the unpaid amount. As advised by our PRC Legal Adviser, we have not been ordered by the relevant authority to rectify the deficiency in contribution and pay the outstanding amount, and we have not been penalised by any authority in this respect. Ms. Shi and Mr. Cai, our Controlling Shareholders, have undertaken to indemnify us for any losses or penalties which we may suffer in connection with such non-compliance. Any judgment or decision against our Group in respect of the outstanding housing provident fund contributions could have an adverse effect on the reputation and business operations of our Group.

### **Acts of God, acts of war, natural disasters and other disasters could have a negative impact on our business.**

Our business is subject to the general and social conditions in the PRC in which our operations are located. Natural disasters, acts of God and other disasters such as flood, earthquake, sandstorm or drought that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood as well as living and consumption patterns of the people of the PRC. Our business, financial condition and results of operations may be materially and adversely affected if these natural disasters occur.

Acts of war and terrorist attacks may cause damage or disruption to our Group or our customers or may affect the value of collaterals provided by our customers, any of which may materially and adversely impact on our Group’s revenue, financial condition and results of operation or Share price. Potential war or terrorist attacks may also cause uncertainty and cause our Group’s business to suffer in ways that we cannot currently predict.

An outbreak in the future of SARS, H5N1, H1N1, H7N9 or other epidemic, if protracted and uncontrolled, may result in the contraction of such disease amongst our employees or those with whom we conduct business on a regular basis, making it necessary to suspend or close certain parts of our operations to prevent the spread of the disease. For these reasons, an outbreak of SARS, H5N1, H1N1, H7N9 or other epidemic could cause significant interruption to our business and may have an adverse impact on our revenue and profitability.

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### **RISKS ASSOCIATED WITH OUR FINANCING GUARANTEE BUSINESS**

**We act as the guarantor for our customers in respect of the repayment of loans provided by banks to our customers and we may consequently be liable to pay the banks if our customers default on their loan repayments.**

One of our businesses is the provision of financing guarantee services. For our financing guarantee service, we act as the guarantor for our customers in respect of the loans provided by banks to our customers. If our customer defaults on its loan, we would be required by the bank to repay the entire outstanding principal amount of the loan, together with all accrued interest thereon, owing by our customer to the bank. As at 31 December 2011, 31 December 2012 and 31 July 2013, the maximum loan amounts guaranteed by us for our customers were RMB246.6 million, RMB408.3 million and RMB484.1 million respectively. While we would require our financing guarantee customers to provide counter-guarantees (such as collateral provided by our customer or related party(ies) of our customer and personal guarantees from the owners of our customer and his/her spouse and other related persons as well as corporate guarantees from our customers' related entities) to us, we may or may not be able to recover any funds from such counter-guarantees (for example, by liquidating the collateral). In addition, any funds recovered from the enforcement of such counter-guarantees, if any, may not be sufficient to cover our liabilities to the bank and we may have to repay the bank with our own internal resources. If the amount of such liabilities is substantial, our financial condition, liquidity and results of operations may be adversely affected.

**We rely on our cooperation with various banks for the operation of our financing guarantee business.**

We cooperated with a number of banks during the Track Record Period in providing our financing guarantee services. Some of the banks required us to enter into a cooperation agreement with them pursuant to which the banks agree that Differ Guarantee may act as the guarantor for the bank's borrower customers within a specified period of time, while other cooperating bank did not require us to enter into any cooperation agreements but instead, we enter into agreements and placed pledged deposits with such bank for each guarantee transaction. If there is any change in our relationship with the cooperating banks, or if the terms of any of the cooperation agreements are varied, the business and results of operations of our Group may be adversely affected.

**If our cooperating banks tightens the security deposit requirements on our Group, our business, financial and working capital position may be adversely affected.**

In respect of our financing guarantee service, we act as the guarantor for our customers in order to facilitate our customers in obtaining bank financing. As part of the guarantee arrangement, in some of our financing guarantee transactions, the bank generally requires us to provide security deposit by placing a cash deposit in the amount equivalent to a certain percentage of the principal amount of the loan granted by the bank to our customer. During the Track Record Period, such percentage typically ranged from 10% to 20%.

During the Track Record Period and up to the Latest Practicable Date, there was no unfavourable change in the security deposit requirement on our Group. However, if there is any unfavourable change in the security deposit requirement on our Group in the future, the amount of security cash deposit required to be placed by our Group with the bank will increase and the amount of financing guarantee

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that our Group will be able to provide will be reduced. As at 31 July 2013, our outstanding financing guarantee amount was approximately RMB484,100,000 while our restricted bank deposits (security cash deposits placed with the cooperating banks) amounted to approximately RMB93,545,000, representing an average security deposit ratio of approximately 19.3%. As such, our Group does not anticipate any material adverse change in our Group's business, financial or working capital position if banks require a security deposit ratio of 20% as our Group has maintained an average security deposit ratio close to 20% with our cooperating banks. Nevertheless, if our Group's cooperating banks tightens the security deposit requirements to above 20%, our Group will be required to increase the amount of money placed as security deposit with our cooperating banks and our restricted bank deposits will increase. In addition, the amount of financing guarantee that our Group will be able to provide will be reduced and our Group's business, financial and working capital position may be adversely affected.

**There may be changes in the subsidy programmes such that Differ Guarantee may not be able to obtain subsidy from the PRC Government in the future.**

During the Track Record Period, Differ Guarantee was granted four subsidies amounting to an aggregate of RMB3.25 million from the PRC Government. The aim of the subsidy programmes was to facilitate the development of the financing guarantee industry and financing guarantee companies in Fujian Province. For details, please refer to the section headed "Business — Guarantee services — Government subsidies awarded to Differ Guarantee" in this prospectus. There is no assurance that the PRC Government will continue to implement similar subsidy programmes in the future as those implemented during the Track Record Period. In the event that no similar subsidy programmes are implemented in the future or if the eligibility criteria of any future subsidy programmes were varied, Differ Guarantee may not be able to obtain any subsidy from the PRC Government in the future and our results of operation may be affected.

**There is no assurance that we will be able to renew our Financing Guarantee Operation Permit.**

The Financing Guarantee Operation Permit is required for the operation of our financing guarantee business. Our current Financing Guarantee Operation Permit was granted by XMEDB on 24 January 2013 and is valid until 28 March 2016. If we are unable to renew our Financing Guarantee Operation Permit on a timely basis when its term expires or at all, it could have a material adverse impact on our Group's business, financial condition and operation results.

### **RISKS ASSOCIATED WITH OUR ENTRUSTED LOAN BUSINESS**

**A significant amount of our entrusted loans receivables was attributable to a small number of customers.**

We have certain concentration risk on our entrusted loans receivables as an outstanding balance of entrusted loans receivables (including principal and interest) of approximately RMB41.0 million, RMB100.5 million and RMB68.4 million was attributable to 2, 2 and 2 customers respectively as at 31 December 2011, 2012 and 31 July 2013. If such customers fail to repay the full loan by the respective due date or defaults on the loan, our liquidity, financial position and results of operations may be adversely affected.



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### **We may not be able to maintain the growth rate of our entrusted loan operation.**

We commenced our entrusted loan operation in 2011. During the Track Record Period, we had 13 entrusted loan customers with loan principal amount ranging from RMB5 million to RMB60 million. For the year ended 31 December 2012 as compared with the year ended 31 December 2011, the growth in revenue contributed by our entrusted loan business was approximately 326.4% on a year-on-year basis. For the seven months ended 31 July 2013, the growth in revenue contributed by our entrusted loan business was approximately 13.4% as compared with the seven months ended 31 July 2012. However, there is no assurance that we are able to maintain growth in our revenue derived from our entrusted loan operation.

### **We may not be able to realise the collateral pledged to banks in a timely manner for our entrusted loans in cases of default.**

In our entrusted loan business, we provide financing to our customers out of our available capital. We effectively take the risk of default in repayment by the borrower. The bank acts as an entrusted party of our Group which enters into the loan agreements with our customers. Our customers repay their loans to the bank and then the bank returned the principal and accrued interest to our Group. While the bank exercises supervision over and receives repayment from our customers, the bank does not assume any risk of default in repayment by our customers. Despite the assistance provided by the bank to our Group to recover the full loan from our customers, the process required to enforce the collateral, including the obtaining of authorization 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 affect our liquidity and adversely affect the financial position and operations of our Group.

## **RISKS ASSOCIATED WITH OUR PAWN LOAN BUSINESS**

### **There is no assurance that we will be able to renew our Pawn Operation Permit and/or Special Industry Permit.**

The Pawn Operation Permit and the Special Industry Permit are required for the operation of our pawn loan business. The current Pawn Operation Permit held by Differ Pawn was granted by FJETC on 31 January 2013 and is valid for six years. The current Special Industry Permit held by Differ Pawn was granted by 石獅市公安局 (Shishi Public Security Bureau) on 19 November 2012 and bears no period of validity. If Differ Pawn is unable to renew the Pawn Operation Permit and/or the Special Industry Permit on a timely basis when their terms expire or at all, it could have a material adverse impact on our Group's business, financial condition and operation results.

### **Some of our pawn loan transactions during the Track Record Period were not in compliance with the Pawning Measures.**

We had granted an aggregate of 31 pawn loans in 2011 and 4 pawn loans in 2012 where the monthly interest rates that we charged exceeded the maximum limit as prescribed under the Pawning Measures. In addition, during the Track Record Period, we had granted an aggregate of 13 motor vehicles pawn loans where the required registration of the pledge of the motor vehicle collaterals provided by our customers were not completed. Please refer to the section headed "Business — Non-compliance" in this prospectus for further details.

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As advised by our PRC Legal Adviser, we may be subject to a maximum penalty of up to RMB30,000 for the non-compliance with respect to the charging of a monthly interest rate above the prescribed limit. In respect of the failure in completing the required registration of the pledge of motor vehicle collaterals, our PRC Legal Adviser advised that the relevant PRC laws and regulations do not specify any specific penalty that may be imposed for such non-compliance. Ms. Shi and Mr. Cai, our Controlling Shareholders, have undertaken to indemnify us for any losses or penalties which we may suffer in connection with such non-compliance incidents. Any judgment or decision against our Group in respect of the aforesaid non-compliance could have an adverse effect on the reputation and business operations of our Group.

### **RISKS ASSOCIATED WITH OUR FINANCE LEASE BUSINESS**

**Differ Lease is subject to value-added tax since 1 January 2013 which may increase the amount of taxes payable.**

Before 1 January 2013, the finance lease services provided by Differ Lease were subject to, among other taxes, business tax, which is levied on the turnover at a standard rate of 5%. As a result of the pilot value-added tax reform in the PRC (details of which are disclosed in the section headed “Regulatory overview — L. Taxation — 3. Value-added tax” in this prospectus), the finance lease services provided by Differ Lease are subject to value-added tax instead of business tax starting from 1 January 2013. The value-added tax rate applicable to Differ Lease is 17%. Due to the aforesaid change, the amount of taxes payable by Differ Lease may increase and our results of operations may be affected.

**We commenced our finance lease business in the second half of 2012 and we may not be successful in developing our finance lease business.**

We commenced our finance lease business in the second half of 2012. Therefore, the results of our finance lease operations are based on a relatively short operating history and such results may not be representative of the results of our operations in the future.

We may not be successful in developing our finance lease business, which may face competition from similar services offered by our competitors and other factors which are beyond our control, including the market demand for this service and the level of competition. We must also be able to anticipate and respond effectively to competition posed by our competitors. If we fail to expand our business as planned or if we are unable to compete effectively with our competitors, our business, financial condition and results of operations may be materially and adversely affected.

### **RISKS ASSOCIATED WITH OUR FINANCIAL CONSULTATION BUSINESS**

**We may not be able to maintain the growth rate of our financial consultation business.**

We commenced our financial consultation business in 2010. Our customers pay us consultation fees for our financial consultation services. The amount of fee is determined on a case-by-case basis. Such fee may also be determined as a certain percentage of the amount of loan subsequently obtained by our customers as a result of our financial consultation services. For the year ended 31 December 2012, the growth in revenue contributed by our consultation business was approximately 149.7% as compared with the year ended 31 December 2011. However, for the seven months ended 31 July 2013, the revenue



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contributed by our consultation services decreased by approximately 7.8% as compared with the seven months ended 31 July 2012. Therefore, we may not be able to maintain growth in our revenue derived from our consultation business or at all.

**Differ Holding is subject to value-added tax since 1 February 2013 which may increase the amount of taxes payable.**

Before 1 February 2013, the financial consultation services provided by Differ Holding were subject to, among other taxes, business tax, which is levied on the turnover at a standard rate of 5%. As a result of the pilot value-added tax reform in the PRC (details of which are disclosed in the section headed “Regulatory overview — L. Taxation — 3. Value-added tax” in this prospectus), the financial consultation services provided by Differ Holding are subject to value-added tax instead of business tax starting from 1 February 2013. The value-added tax rate applicable to Differ Holding is 6%. Due to the aforesaid change, the amount of taxes payable by Differ Holding may increase and our results of operations may be affected.

### **RISKS ASSOCIATED WITH THE STRUCTURED AGREEMENTS**

**The PRC Government may determine that the Structured Agreements are not in compliance with applicable PRC laws, rules, regulations or policies.**

The pawn loan business currently carried out by Differ Pawn is regulated by, amongst others, the Pawning Measures. According to article 71 of the Pawning Measures, rules and regulations governing the investment by foreign-invested enterprises in pawn loan business in the PRC shall be separately announced by the MOC and other relevant authorities.

As at the Latest Practicable Date, no relevant rules and regulations have been announced by the authorities. According to 中華人民共和國行政許可法 (Administrative Licensing Law of the PRC), administrative licensing regimes may only be set up and implemented where there are established laws setting out relevant procedures, parameters, conditions and scope of administrative power. As the approval of investment in a pawn loan business by foreign-invested enterprises in the PRC falls under an administrative act, no approval can be granted and no licence can be issued to foreign-invested enterprises if there are no established laws governing the investment by foreign-invested enterprises in a pawn loan business.

Given the above, the Pawning Measures relate only to domestic investment in the pawn loan industry, in practice means Pawn Operation Permit may not be issued to foreign-invested enterprises.

The Previous Structured Agreements were entered into on 7 May 2012, which were subsequently replaced by the Structured Agreements entered into on 16 July 2012, in order for our Group to control and manage the business of Differ Pawn in the PRC, under which all the business, financial and operating activities of Differ Pawn are managed by Differ Holding and all economic benefits and risks arising from the business, financial and operating activities of Differ Pawn are transferred to Differ Holding by means of management and consultation fees payable by Differ Pawn to Differ Holding.

As at the Latest Practicable Date, we have been advised by our PRC Legal Adviser that the Structured Agreements is legal, valid and binding on the parties thereto. However, there can be no assurance that these contractual arrangements will be determined by the PRC Government to be in

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compliance with existing policies or with requirements or policies that may be adopted in the future, or that these contractual arrangements may be effectively enforced without limitation, and we cannot rule out the possibility that the PRC Government may restrict or impose additional requirements regarding overseas listing of PRC companies engaging in pawn loan business by way of the arrangement of the structured agreements in the future. If the Structured Agreements are adjudicated to be in violation of any applicable PRC laws, rules or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including revoking the business and operating licences of Differ Pawn, imposing economic penalties, imposing conditions or requirements with which our Group may not be able to comply, requiring our Group to restructure the relevant ownership structure or operations, taking other regulatory or enforcement actions that could adversely affect the business of our Group. Any of these actions could have a material adverse impact on our Group's business, prospect, financial condition and results of operations.

### **Our Group relies on the Structured Agreements in conducting its pawn loan business in the PRC and receiving payments through Differ Pawn, which may not be as effective as direct ownership.**

Our Group conducts the pawn loan business in the PRC and generates the relevant revenues through the Structured Agreements. The Structured Agreements may not be as effective in providing our Group with control over Differ Pawn as direct ownership.

The Structured Agreements are governed by PRC law. Accordingly, the Structured Agreements would be interpreted in accordance with PRC law and any disputes would be finally resolved by negotiation between the parties and/or arbitration. If Differ Pawn or any of the Differ Pawn Registered Shareholders fails to perform their respective obligations under the Structured Agreements, our Group may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which may not be effective. The legal environment in the PRC is not as developed as in other jurisdictions. As a result, uncertainties in the PRC legal system could limit the ability of our Group to enforce the Structured Agreements. Any inability to enforce the Structured Agreements or limitation thereon could disrupt the business of our Group and have a material adverse impact on our Group's business, prospects and results of operation.

In case of disputes, the dispute resolution clause of the Structured Agreements provides for the resolution of disputes through arbitration in accordance with the arbitration rules of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) and that the arbitrators may award remedies in rem over the shares or assets of Differ Pawn, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Differ Pawn in arbitration. As advised by our PRC Legal Adviser, the tribunal has no power to grant such kind of injunctive relief or winding up order under the PRC laws. Thus, in case of dispute, Differ Holding, not being a registered shareholder of Differ Pawn, is not legally entitled to prevent the Differ Pawn Registered Shareholders and/or Differ Pawn from ceasing business, transferring assets or harming the interests of Differ Holding before the tribunal renders an arbitral award. However, since all of the ultimate shareholders of the Differ Pawn Registered Shareholders have undertaken to compensate the losses actually incurred by Differ Holding, the financial conditions of Differ Holding will not be adversely affected ultimately.

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The Structured Agreements provide Differ Holding with a right to appoint a liquidator to manage the assets of Differ Pawn in the event of liquidation of Differ Pawn and prohibit the Differ Pawn Registered Shareholders and/or Differ Pawn from transferring, mortgaging, pledging or otherwise deal with the assets of Differ Pawn during the term of the Exclusive Option and Equity Custodian Agreement. As advised by our PRC Legal Adviser, the right of appointment of a liquidator may not be enforceable under the PRC laws and regulations. If Differ Holding is not able to appoint a liquidator in the event of liquidation of Differ Pawn, the assets of Differ Pawn will be liquidated in accordance with the PRC law. The liquidated assets of Differ Pawn, after paying off the relevant liquidation expenses, wages, social insurance premiums, compensations, taxes and debts, will be distributed to the Differ Pawn Registered Shareholders. Nevertheless, the Differ Pawn Registered Shareholders have undertaken to return to Differ Holding any proceeds they receive upon the liquidation of Differ Pawn in accordance with the PRC laws in the event that Differ Holding is not able to appoint a liquidator as stipulated in the Structured Agreements. Therefore, there will not be any adverse impact on the economic interests of Differ Holding under the Structured Agreements.

**Our Group relies on the Pawn Operation Permit and Special Industry Permit held by Differ Pawn in our pawn loan business and any deterioration of the relationship between Differ Pawn and our Group could materially and adversely affect the pawn loan business operation of our Group.**

The Pawn Operation Permit and the Special Industry Permit currently held by Differ Pawn are required for the operation of our pawn loans business. If Differ Pawn is unable to renew the Pawn Operation Permit and/or the Special Industry Permit on a timely basis when their terms expire or at all, it could have a material adverse impact on our Group's business, financial condition and operation results.

On 7 May 2012, the Previous Structured Agreements were entered into, and on 16 July 2012, Differ Holding, Differ Pawn and/or the Differ Pawn Registered Shareholders entered into the Structured Agreements, further information on which is set out in the section headed "Structured Agreements" in this prospectus. Pursuant to the Structured Agreements, Differ Holding was granted the exclusive option to acquire all or part of the equity interests in Differ Pawn. The Structured Agreements may not be effective in providing control over the application for and maintenance of the licences required for our Group's business operations. Differ Pawn and/or the Differ Pawn Registered Shareholders could violate the Structured Agreements, go bankrupt or otherwise become unable to perform their respective obligations under the Structured Agreements and, as a result, our Group's operations, reputation and business could be materially affected.

**The Differ Pawn Registered Shareholders may have potential conflicts of interest with our Group.**

The Differ Pawn Registered Shareholders, namely, Aidu and Fujian VC, may have potential conflicts of interest with our Group. As at the Latest Practicable Date, Aidu was owned as to 99% by Mr. Hong and as to 1% by Ms. Zhang Huiling (張惠玲) (Mr. Hong's mother), while Fujian VC was owned as to 99% by Ms. Cai Danni (蔡丹妮) (Mr. Cai's daughter) and as to 1% by Mr. Wu Zhipai (吳志培) (Mr. Ng's cousin). Potential conflicts of interest between our Group and the Differ Pawn Registered Shareholders may exist and whether the Differ Pawn Registered Shareholders will act completely in the interest of our Group is outside the control of our Group.

## RISK FACTORS

Whether such conflicts of interest could be effectively managed or otherwise be resolved in favour of our Group will be crucial to the effectiveness of contractual arrangements contemplated under the Structured Agreements. There are arrangements in place under the Structured Agreements to address the potential conflicts of interest that the Differ Pawn Registered Shareholders may have with the Group. Specifically, the Equity Pledge Agreement, the Exclusive Option and Equity Custodian Agreement, and the Power of Attorney are designed to address such potential conflicts of interest. For instance, under the Power of Attorney, the directors of Differ Holding (including their successors) or its nominee(s) shall exercise all shareholders' rights in Differ Pawn; while under the Exclusive Option and Equity Custodian Agreements, Differ Pawn and the Differ Pawn Registered Shareholders shall not engage in any transactions which will materially affect the assets, business, rights, operation or management of Differ Pawn without prior consent from Differ Holding. If any conflicts of interest between the Differ Pawn Registered Shareholders and the Group arise and if Differ Pawn and/or the Differ Pawn Registered Shareholders violate any of the Structured Agreements or otherwise become unable to perform, in whole or in part, their respective obligations under the Structured Agreements, our Group's operations, reputation and business could be adversely affected.

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

Our Group may face adverse tax consequences if the PRC tax authorities determine that the Structured Agreements were not entered into on an arm's length basis. Pursuant to article 41 of the EIT Law, 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 our Group for PRC tax purposes which could result in higher income tax liability of our Group. In such case, our Group's business, financial conditions and results of operations could be adversely affected.

### **The option to acquire ownership in Differ Pawn may be subject to substantial costs.**

Pursuant to the Exclusive Option and Equity Custodian Agreement, the Differ Pawn Registered Shareholders granted an exclusive and irrevocable option to Differ Holding or its nominee(s) to acquire all or part of their respective equity interest in Differ Pawn, at nil consideration or the minimum amount as permitted by the applicable PRC laws and regulations, during the term of the Exclusive Option and Equity Custodian Agreement. The Differ Pawn Registered Shareholders further covenanted that if such minimum amount is required to be paid by Differ Holding or its nominee(s) as consideration for the acquisition of the equity interest of Differ Pawn, such amount would be waived by the Differ Pawn Registered Shareholders subject to compliance with the then prevailing PRC laws.

If the aforesaid minimum amount is required to be paid by Differ Holding or its nominee(s) as consideration for the acquisition of the equity interest of Differ Pawn and the Differ Pawn Registered Shareholders fail to perform their obligations under the Exclusive Option and Equity Custodian Agreement to waive such minimum amount, our Group may incur substantial costs for Differ Holding or its nominee(s) to exercise the option to acquire the entire equity interest of Differ Pawn.

### **We have not purchased any insurance to cover the risks relating to the Structured Agreements.**

Our Group has not purchased any insurance to cover the abovementioned risks associated with the Structured Agreements. As such, if any of those risks materialises, there could be a material adverse impact on our Group's business, financial condition and results of operations.

## RISK FACTORS

### **RISKS ASSOCIATED WITH THE INDUSTRY IN WHICH WE OPERATE**

**The pricing in respect of our entrusted loans, guarantee services and pawn loans are subject to certain prescribed limits.**

As advised by our PRC Legal Adviser, there are certain prescribed pricing limits applicable to our entrusted loans, guarantee services and pawn loans businesses, details of which are set out in the section headed “Regulatory overview” in this prospectus.

With such restrictions, we may not be able to adjust our fees quickly to cope with any increase in our operating cost or change in demand for pawn loan services. Further, our room for enlarging our client base for our guarantee business and pawn loan business may also be restricted due to the requirement of the maximum guarantee amount and maximum pawn loan amount as prescribed in the relevant PRC rules and regulations.

Besides, there can be no assurance that future directives or notices in respect of the pricing limits applicable to our businesses or changes in the government policies in this regard will not have an adverse effect on the revenue or results of operation of our Group.

**There is a lack of recent, reliable, complete and accurate information on the market conditions of the industry in which we operate in the PRC.**

There is currently no generally available, recent, reliable, complete and accurate information on the market conditions and statistical information of the entrusted loan industry, financial consultation industry, guarantee industry, pawn loan industry and finance lease industry in the PRC, such as the amount and nature of loan and guarantee activities, the supply and demand for each type of loans and guarantee services and so on. Accordingly, our Group’s development and investment decisions may be adversely affected by the lack of recent, accurate or complete information. Our Group’s results of operations and financial condition could consequently be adversely affected.

**Our revenue and profitability are on a project basis and there is no assurance that we can secure a stable income stream.**

Our Group’s revenue from the financial consultation services are primarily generated from mandates on a project basis, each of which may vary in scope, size and complexity of services to be rendered. In addition, terms and conditions of each mandate, including its payment schedule, are negotiated and determined on a project basis. If a project cannot be carried through to completion, or performance target cannot be attained, or where the project is put on hold by client, we might not receive such portion or all of the fees (as the case may be) even if substantial amount of time and effort has been expended. As a result, the income and profitability of our Group may be unpredictable.

For our entrusted loan, guarantee services, pawn loan and finance lease operations, these businesses are relatively short or medium term in nature and may fluctuate from time to time. High levels of revenue in one period are not necessarily predictive or indicative of continued high levels of revenue in any future period. Also, there is no assurance that we can secure continuous income stream deriving from the interest payment of our loans with short tenors. In the event that we are not able to fully utilize our financial resources in an efficient manner in order to generate continuous income, our financial condition and results of operations may be adversely affected.

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### **Any failure by us to compete could result in losing market share and revenues.**

Our Directors consider that the industry in which we operate is highly fragmented and very competitive. In addition, we believe that the market will become more competitive as the industry matures and consolidates. We compete with other short to medium-term financing providers in the Fujian Province as well as banks and other financial institutions. Our Directors understand that some of our competitors have larger and more established customer bases and substantially greater financial, marketing and other resources than we do.

If we do not successfully compete against other short to medium-term financing providers, banks and financial institutions, our results of operations may be materially and adversely affected.

### **The growth of the PRC secured financing industry may not be sustainable.**

Based on the industry knowledge of our Directors, the PRC secured financing industry has experienced rapid growth, consistent with the economic development of the PRC financial system. Banks have historically been the principal financing channel for enterprises but many SMEs find it difficult to obtain banking facilities from banks. The major customers of secured financing providers comprise individuals and SMEs, and the major function of secured financing providers is to provide short-term financing. Thus, secured financing providers complement the role played by banks as they provide convenient and efficient services to customers who may otherwise face difficulty obtaining finance from banks.

We expect the secured financing industry in the PRC to expand as a result of the continued growth in the PRC economy. However, since the late 2009, global markets have experienced tremendous volatility as a result of the turmoil originating from the US subprime mortgage and Europe sovereign debt crises, which have brought about a global economic downturn. We cannot assure you that the growth and development of the PRC secured financing industry will be sustainable. If the rate of growth of the overall economy or stock market in the PRC or the secured financing industry slows down, our business, financial condition and results of operations 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 our business, growth strategies, 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's 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 PRC's industrial output, the PRC Government is generally reducing the level of direct control which it exercises over the economy. Many of the reforms



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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.

We may not in all cases be able to capitalise on the economic reform measures adopted by the PRC Government. Our 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 our current or future business, growth strategies, financial condition and results of operations.

### **Development of PRC legal system and other regulatory considerations may adversely affect our business, growth strategies, financial condition and results of operations.**

As substantially all of our business activities are conducted in the PRC and all of our revenue are derived from the PRC market, all of our 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 Chinese legal system is based in part on government policies and administrative rules that may have a retroactive effect. We cannot predict 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 preemption of local regulations by national laws, and the effect it may have on our Group. Furthermore, the legal protections available to our 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.

### **We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our 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 enterprise 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 our Group in the PRC to their overseas holding companies will be exempted from enterprise income tax if they are recognised as PRC tax residents.

The SAT promulgated 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業有關問題的通知 (the Circular on Identifying Chinese-Controlled Offshore Enterprises as PRC Resident Enterprises in accordance with Criteria for Determining Place of Effective Management) in

## RISK FACTORS

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 us. As such, our PRC Legal Adviser has advised us that there is uncertainty whether we will be deemed as a PRC “resident enterprise” for the purpose of the EIT Law. Substantially all of our management is currently based in the PRC, and therefore, we may be treated as a PRC “resident enterprise” for enterprise income tax purposes in which case we may be subject to PRC enterprise income tax at the rate of 25% on our 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. Moreover, since our Company is an investment holding company and could not generate any profit on our own, the financial impact towards our Company even if it is deemed to be a PRC “resident enterprise” would be minimal. Please also refer to the paragraph below headed “Gains on the sales of the Shares and dividends on the Shares may be subject to PRC income taxes”.

### **Gains on the sales of the Shares and dividends on the Shares may be subject to PRC income taxes.**

Under the EIT Law, and its implementation rules, we may in the future be recognised as a PRC “resident enterprise” by the PRC taxation authorities, and capital gains realised by foreign Shareholders from sales of the Shares and dividends on the Shares payable to foreign Shareholders may be regarded as income from “sources within the PRC” and therefore become subject to a 10% withholding income tax. If we are required under the EIT Law to withhold PRC income tax on capital gains on sales of Shares and/or dividends on the Shares payable to foreign Shareholders, the value of the foreign Shareholders’ investment in the 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 our financial position, results of operations and our ability to pay dividends.**

We are exposed to the risks associated with currency conversion and the exchange rate system in the PRC as our 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 our Group’s revenue derived from the PRC, restrictions on the conversion of RMB into foreign currencies may affect our 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 us.

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.



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On the other hand, capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including the proceeds from the Placing, 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 our PRC Legal Adviser, since Differ Holding currently does not have foreign currencies which are converted into RMB funds for capital expenditure purposes, such regulations do not restrict Differ Holding from granting entrusted loans. However, such regulations may impose additional requirements on us when we need to convert foreign currencies into RMB funds for capital expenditure purposes or may limit or restrict the use by our PRC subsidiaries of such capital contributions for certain purposes. If any laws, regulations or government policies in relation to foreign exchange are implemented and we fail to comply with the relevant PRC foreign exchange regulations on a timely basis or at all, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund our operations may be negatively affected or delayed, which may adversely affect our PRC subsidiaries' profitability and ability to fund our business. For details, please refer to the section headed "Regulatory Overview" in this prospectus.

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 our Group in the PRC, when the same are converted from RMB into HKD.

The exchange rate of the RMB against the USD 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 since 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 USD, HKD or other foreign currencies. If the appreciation of RMB continues, and as we need to convert the proceeds from the Placing and future non-RMB financing into RMB for our operations, appreciation of RMB against the relevant foreign currencies would reduce the RMB amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in HKD, any devaluation of RMB against the HKD could reduce the amount of any cash dividends on our Shares in HKD terms.

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**Tightening of credit policy in the PRC may adversely affect our business, growth strategies, financial conditions and results of operation.**

Recently, the PRC has adopted a tight credit policy which increases the difficulties in obtaining financing from banks. We are unable to predict whether there is any further fiscal or credit tightening by the PRC Government. As at the Latest Practicable Date, we did not have any bank borrowings and our operations were mainly financed by our internal resources. Nonetheless, if we need to seek financing from banks in the future, those policies would increase our financing costs. If we are unable to obtain financing in a timely manner or at all, at reasonable cost or on reasonable terms, our business plans may be hindered, and our growth, competitive position, financial position and results of operations may be adversely affected.

**It may be difficult to effect service of process upon our senior management and executive Directors who live in the PRC or to enforce against us in the PRC any judgments obtained from non-PRC courts.**

Most of our senior management and executive Directors are residents of the PRC. Therefore, it may be difficult or impossible for investors to effect service of process upon those persons in the PRC. In addition, substantially all of our 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 you to enforce against us in the PRC any judgments you may obtain from non-PRC courts.

### **RISKS ASSOCIATED WITH THE PLACING**

**There has been no prior public market for the Shares.**

Prior to the Placing, there was no public market for the Shares. The Placing Price for the Placing Shares was the result of negotiations among our Company and Kingston Securities on behalf of the Underwriters. You should not view the Placing Price as any indication of the price that will prevail in the trading market. The market price for the Shares may decline below the Placing Price. Although we have applied for the Listing, the Listing does not guarantee that an active and liquid trading market for the Shares will develop or be sustained following the Placing or in the future.

**The market price of the Shares may be volatile.**

The trading price of the Shares could be subject to significant volatility in response to, among other factors: (i) investor perceptions of our Group and our future plans; (ii) variations in our Group's operating results; (iii) changes in pricing made by us or our competitors; (iv) changes to senior management; (v) the depth and liquidity of the market for the Shares; and (vi) general economic and other factors. Any material changes in the above factors could cause the market price of the Shares to fluctuate substantially.

## RISK FACTORS

### **There may be dilution of shareholding as a result of additional equity fund raising.**

We may need to raise additional funds in the future to finance the expansion of our new developments relating to our existing operations or new acquisition. We will comply with Rule 17.29 of the GEM Listing Rules, which specifies that no further Shares or securities convertible into equity securities of our Company (subject to certain exceptions) may be issued or form the subject of any agreement to be issued within six months from the Listing Date. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders after six months from the Listing Date, the percentage of ownership of our then Shareholders in our Company may be diluted. Shareholders may experience subsequent dilution and/or such securities may have rights, preferences and privileges senior to the Shares.

### **Sale or perceived sale of substantial amounts of the Shares in the public market after the Placing could adversely affect the prevailing market price of the Shares.**

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods under the GEM Listing Rules. There is no assurance that our Controlling Shareholders will not dispose of these Shares following the expiration of the lock-up periods. Sale of substantial amounts of the Shares in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of the Shares.

### **Our Company will be controlled by our Controlling Shareholders, whose interests may differ from those of the other Shareholders.**

Upon the completion of the Placing (assuming that the Over-allotment Option is not exercised), our Controlling Shareholders will beneficially own and control approximately 75% of equity interest in our Company. Subject to the Articles, our Controlling Shareholders will continue to have the ability to exercise a controlling influence over the management, policies and business of our Company through the power to nominate and elect board members, determine the timing and amount of dividend distributions, approve or disapprove significant corporate transactions such as mergers and acquisitions, and approve or disapprove annual budgets. In the case where the interests of our Controlling Shareholders conflict with those of our public Shareholders, or if our Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of our public Shareholders, such public Shareholders could be left in a disadvantageous position by such actions caused by our Controlling Shareholders. The concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our Shares.

### **Payment of dividends is subject to restrictions under the PRC law.**

No dividend has been declared by our Company since the date of incorporation. The ability of our Company to pay dividends is subject to the requirements of the Companies Law and the judgment of the Board as to the declaration of dividends. PRC laws require that dividends be paid only out of the net profit calculated according to PRC GAAP, which differs from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign-invested PRC enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not

## RISK FACTORS

available for distribution as cash dividends. These restrictions could reduce the amount of distributions that our Company receives from its subsidiary which in turn would restrict our Company's ability to pay dividends to its shareholders.

Our ability to pay dividends or make other distributions to our Shareholders is also subject to the future financial performance and cashflow position of our Company. We may not be able to distribute dividends to our Shareholders as a result of the abovementioned factors. Accordingly, our historical dividend distribution should not be used as a reference or basis to determine the level of dividends that may be declared and paid by us in the future. We may not be able to record profits and have sufficient funds above our funding requirements, other obligations and business plans to declare dividends to our Shareholders.

### **Investors may experience difficulties in enforcing Shareholder rights because our Company is incorporated in the Cayman Islands.**

Our Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. Our Company's corporate affairs are governed by our Memorandum and our Articles, the Companies Law and the common law of the Cayman Islands. The rights of shareholders to take legal action against our Company and/or our Directors, the rights of minority shareholders to institute actions, and the fiduciary duties of our Directors to us under the laws of the Cayman Islands are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, the latter of which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. A summary of the relevant laws and regulations of the Cayman Islands and of our constitution is set out in Appendix IV to this prospectus.

### **RISKS RELATING TO THIS PROSPECTUS**

#### **Statistics and facts in this prospectus have not been independently verified and may not be reliable.**

This prospectus includes certain statistics and facts that have been extracted from government official sources and publications or other sources. Whilst our Directors have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by our Company, the Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors or any other party involved in the Placing and therefore, our Company makes no representation as to the accuracy or completeness of these statistics and facts, as such these statistics and facts should not be unduly relied upon. Due to possibly flawed or ineffective collection methods and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Our Company has no reason to believe that such statistics and facts are false or misleading or that any fact has been omitted that would render such statistics and facts false or misleading.

## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

### STRUCTURED AGREEMENTS

We have applied for and have been granted a waiver from the Stock Exchange from (i) strict compliance with the announcement and the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules in respect of the transactions contemplated under the Structured Agreements; (ii) setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to Differ Holding under the Structured Agreements; and (iii) fixing the term of the Structured Agreements to three years or less.

Further information on the waiver granted by the Stock Exchange in relation to the Structured Agreements is set forth in the section headed "Notifiable transactions and connected transactions" in this prospectus.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Company Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the prospectus is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this prospectus misleading.

### **FULLY UNDERWRITTEN**

This prospectus is published in connection with the Placing, which is sponsored by Messis Capital Limited and is managed by the Joint Lead Managers. The Placing Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreement subject to the Placing Price being fixed by us and Kingston Securities (for itself and on behalf of the Underwriters). For further information about the Underwriters and the placing and underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

### **RESTRICTIONS ON OFFER AND SALE OF THE PLACING SHARES**

Each person acquiring the Placing Shares will be required to confirm, or be deemed by his/her/its acquisition of Placing Shares to confirm, that he/she/it is aware of the restrictions on offers and sales of the Placing Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sponsor, the Joint Lead Managers, the Underwriters, and any of their respective directors or any other persons involved in the Placing. It is expected that, pursuant to the Placing, the Underwriters will conditionally place the Placing Shares on behalf of our Company with investors.

### **STRUCTURE AND CONDITIONS OF THE PLACING**

#### **Over-allotment Option**

Our Company has granted to Kingston Securities the Over-allotment Option which if exercised, requires us to allot and issue up to an aggregate of 37,500,000 additional Placing Shares, representing 15% of the initial number of Placing Shares at the Placing Price to cover any over-allocations in the Placing.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

### **Stabilisation**

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the Placing Price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Placing Price. In connection with the Placing, Kingston Securities and/or its affiliates and agents, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the date of this prospectus. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Kingston Securities or its agent to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of Kingston Securities and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days after the date of this prospectus.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO. Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

Further information on the above and the structure and conditions of the Placing is set forth in the section headed “Structure of the Placing” in this prospectus.

### **APPLICATION FOR LISTING ON GEM**

Our Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Placing (including any Shares to be issued upon exercise of the Over-allotment Option and any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

No part of the share or loan capital of our Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

A total of 250,000,000 Shares representing 25% of the enlarged issued share capital of our Company immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) will be made available under the Placing.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.



## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the issued share capital of our Company in the hands of the public. A total of 250,000,000 Placing Shares representing 25% of the enlarged issued share capital of our Company will be in the hands of the public immediately following completion of the Placing and the Capitalisation Issue and upon Listing without taking into account any Over-allotment Shares.

Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sponsor, the Underwriters, their respective directors or any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares or the exercise of their rights thereunder.

### **REGISTRATION AND STAMP DUTY**

All the Placing Shares will be registered on the Hong Kong branch register of members of our Company in Hong Kong. Dealings in the Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members of our Company maintained on the Cayman Islands will not be subject to the Cayman Islands stamp duty.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on GEM are expected to commence on or about Monday, 9 December 2013. The Shares will be traded in board lots of 5,000 Shares each.



## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

### LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

### ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

<b>DIRECTORS AND PARTIES INVOLVED IN THE PLACING</b>
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**DIRECTORS**

Name	Residential address	Nationality
<i>Executive Directors:</i>		
Mr. HONG Mingxian (洪明顯)	Room A1501, Block 5 Hao Jiang Li Jing Shishi Fujian Province, PRC	Chinese
Mr. NG Chi Chung (吳志忠)	Flat 2002 Winner House 310 King's Road North Point, Hong Kong	Chinese
Mr. CAI Huatan (蔡華談)	Flat E, 15th Floor Block 16, Provident Centre No. 51 Wharf Road North Point, Hong Kong	Chinese
<i>Non-executive Directors:</i>		
Mr. CAI Jianfeng (蔡劍鋒)	Room 1316, 13/F. Block A, Wai Ming House Yuk Ming Court Tseung Kwan O New Territories, Hong Kong	Chinese
Mr. WU Qinghan (吳清函)	Room 4, 16/F. Block B, Ming Fai Building Nos. 20-36 Wharf Road North Point, Hong Kong	Chinese
<i>Independent non-executive Directors:</i>		
Mr. CHAN Sing Nun (陳星能)	Flat A, 43/F., Block 5 Belvedere Garden (Phase II) 620 Castle Peak Road Tsuen Wan New Territories, Hong Kong	Chinese
Mr. TSANG Hin Man Terence (曾憲文)	Flat B, 7th Floor Wisteria Mansion Taikoo Shing Hong Kong	Chinese
Mr. ZENG Haisheng (曾海聲)	Room 902 No. 86 Hai Tun Wan Huan Dao East Road Hui Zhan Nan Er Li Xiamen, Fujian Province, PRC	Chinese

## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

### PARTIES INVOLVED IN THE PLACING

#### Sponsor

#### **Messis Capital Limited**

Room 1606, 16th Floor  
Tower Two  
Admiralty Centre  
18 Harcourt Road  
Hong Kong

#### **Joint Bookrunners and Joint Lead Managers (in alphabetical order)**

#### **Fortune (HK) Securities Limited**

35th Floor  
Office Tower Convention Plaza  
Wan Chai  
Hong Kong

#### **Kingston Securities Limited**

Suite 2801, 28th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

#### **Sinomax Securities Limited**

Room 1601, Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

#### **Underwriters (in alphabetical order)**

#### **Fortune (HK) Securities Limited**

35th Floor  
Office Tower Convention Plaza  
Wan Chai  
Hong Kong

#### **Kingston Securities Limited**

Suite 2801, 28th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

#### **Sinomax Securities Limited**

Room 1601, Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE PLACING

### Legal advisers to our Company

*As to Hong Kong law*

**Michael Li & Co.**  
19th Floor, Prosperity Tower  
39 Queen's Road Central  
Central, Hong Kong

*As to PRC law*

**Tian Yuan Law Firm**  
10th Floor  
China Pacific Insurance Plaza  
28 Fengsheng Lane  
Xicheng District  
Beijing 100032  
PRC

*As to Cayman Islands law*

**Conyers Dill & Pearman (Cayman) Limited**  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### Legal advisers to the Sponsor, the Joint Lead Managers and the Underwriters

*As to Hong Kong law*

**Vincent T. K. Cheung, Yap & Co.**  
11th Floor, Central Building  
1-3 Pedder Street  
Central  
Hong Kong

*As to PRC law*

**Dacheng Law Offices**  
5th Floor, 30th Floor  
China Development Bank Tower  
500 Pudong South Road  
Shanghai 200120, PRC

<b>DIRECTORS AND PARTIES INVOLVED IN THE PLACING</b>
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**Reporting accountants**

**BDO Limited**

25th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

**Property valuer**

**Asset Appraisal Limited**

Room 901  
On Hong Commercial Building  
145 Hennessy Road  
Wanchai  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters and principal place of business in the PRC</b>	23rd Floor, Tower 11 166 Tapu East Road Xiamen, PRC
<b>Principal place of business in Hong Kong registered under Part XI of the Companies Ordinance</b>	19th Floor Prosperity Tower 39 Queen's Road Central Central Hong Kong
<b>Company secretary</b>	TAM Wai Tak Victor (譚偉德)
<b>Compliance officer</b>	CAI Huatan (蔡華談)
<b>Compliance adviser</b>	<b>Messis Capital Limited</b> Room 1606, 16th Floor Tower Two Admiralty Centre 18 Harcourt Road Hong Kong
<b>Authorised representatives</b>	HONG Mingxian (洪明顯) TAM Wai Tak Victor (譚偉德)
<b>Members of Audit Committee</b>	CHAN Sing Nun (陳星能) ( <i>chairman</i> ) TSANG Hin Man Terence (曾憲文) ZENG Haisheng (曾海聲)
<b>Members of Remuneration Committee</b>	TSANG Hin Man Terence (曾憲文) ( <i>chairman</i> ) ZENG Haisheng (曾海聲) CHAN Sing Nun (陳星能)
<b>Members of Nomination Committee</b>	ZENG Haisheng (曾海聲) ( <i>chairman</i> ) TSANG Hin Man Terence (曾憲文) CHAN Sing Nun (陳星能)
<b>Principal share registrar and transfer office</b>	<b>Codan Trust Company (Cayman) Limited</b> Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands

## CORPORATE INFORMATION

**Hong Kong branch share registrar and transfer office**

**Tricor Investor Services Limited**  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

**Principal bankers**

**China Construction Bank, Guanyinshan branch**  
Podium Floor, Tower 4  
Guanyinshan Business District  
Xiamen, Fujian Province  
The PRC

**Bank of China, Shishi branch**

Bank of China Tower  
2059 Baqi Road  
Shishi, Fujian Province  
The PRC

**Company website**

[www.dingfeng-cn.com](http://www.dingfeng-cn.com)  
(information of this website do not form part of this prospectus)

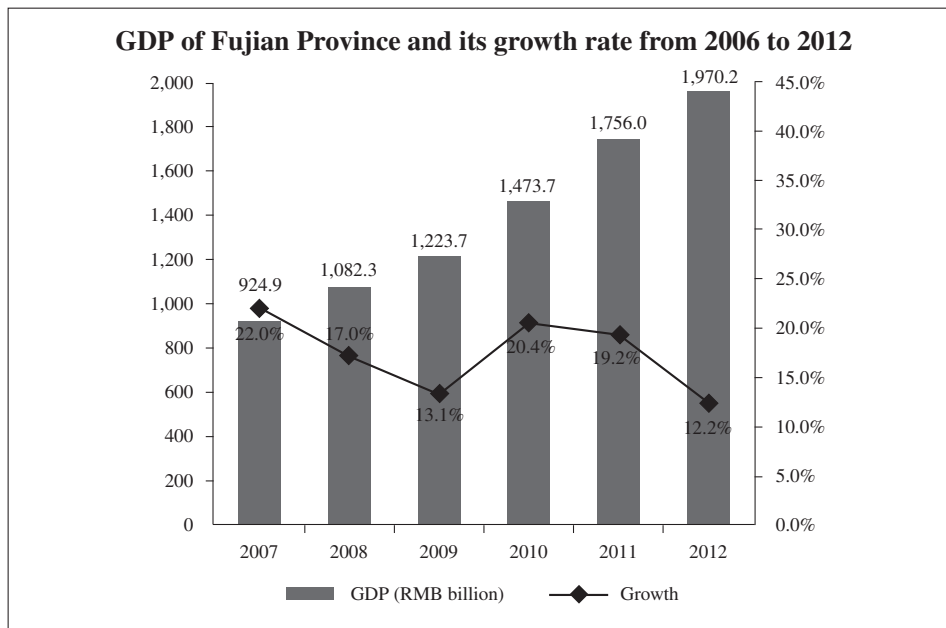
## INDUSTRY OVERVIEW

*Certain information provided in this section is derived from various official or publicly available sources comprising certain articles, reports and publications, the preparations of which were not commissioned by our Group. The Company and the Sponsor (a) believe that the sources of information are appropriate sources for such information; and (b) have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Our Company and the Sponsor have exercised reasonable care in reproducing such official information from the sources referred to in this prospectus. Such official information, however, has not been prepared or independently verified by our Company, the Sponsor, the Lead Manager, the Underwriters or their respective directors or advisors. Our Company, the Sponsor, the Lead Manager, the Underwriters, their respective directors and advisors or any other parties involved in the Placing make no representation as to the accuracy or completeness of such official information.*

### OVERVIEW OF THE PRC ECONOMY

#### ECONOMIC DEVELOPMENT OF FUJIAN PROVINCE

The Group's business is mainly based in Fujian Province. According to the People's Government of Fujian Province, the GDP of Fujian had increased by approximately 12.2% year on year in 2012, to approximately RMB1.97 trillion. At the same time, the disposable income per capita of urban residents was increased by approximately 12.6%, to approximately RMB28,055 while that of rural residents had risen approximately 13.5% to approximately RMB9,967. Furthermore, the total investment in fixed assets had increased by approximately 25.6% to approximately RMB1.27 trillion. The following diagram illustrates the GDP of Fujian Province from 2007 to 2012.





## INDUSTRY OVERVIEW

According to the Statistics Bureau of Fujian, the total investment in fixed assets of the Fujian Province increased from approximately RMB636.2 billion in 2009 to approximately RMB1,271.0 billion in 2012. The table below sets forth the details of total investment in fixed assets of the Fujian Province from 2007 to 2012.

	2009	2010	2011	2012
Total fixed asset investment (RMB billion)	636.2	827.3	1,011.9	1,271.0
Fixed assets investment in urban area (RMB billion)	568.0	746.0	937.5	1,245.2
Major construction projects completed	125	166	190	236
Floor space of residential buildings completed (10,000 square meters)	1,690.9	1,717.1	1,993.3	1,564.6

*Source:* Statistics Bureau of Fujian Province

### DEVELOPMENT OF THE PRC GUARANTEE INDUSTRY

The difficulties for SMEs in obtaining bank financing in the PRC have spawned the growth of the financing guarantee business. Banks are much less willing to lend to SMEs to avoid risks, especially after the recent financial crisis. Financing guarantee companies act as intermediaries between SMEs and banks. They bridge the gap between the banks' lending requirements and SMEs' borrowing qualifications by providing guarantees to the banks. They also assist banks to control their administrative cost and diversify their operating risks. Furthermore, financing guarantee companies can help to expedite the review and approval process of the loan applications by SMEs. When compared to banks, financing guarantee companies offer more flexibility to borrowers by accepting various types of assets as collateral such as real estate, machines, moveable assets, inventories and accounts receivables.

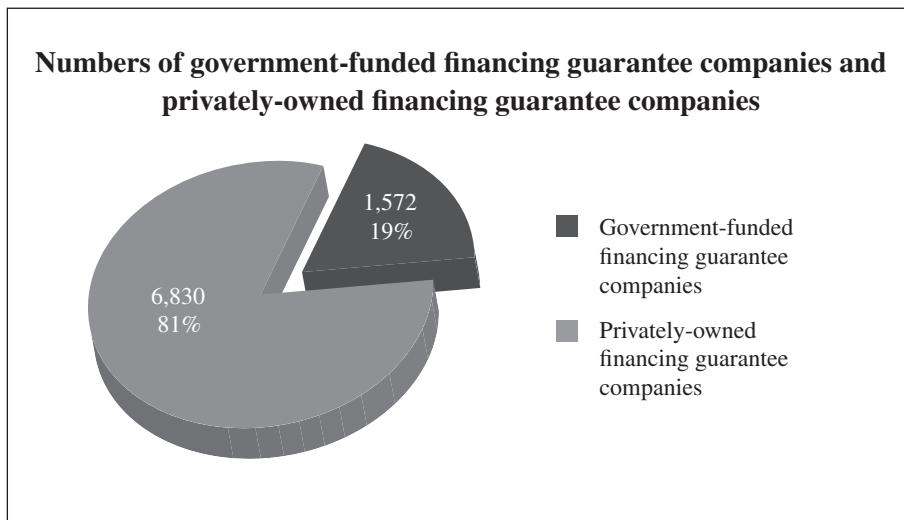
#### 1. Current status

After nearly 10 years of development and integration, the businesses of financing guarantee companies have continued to be an alternative channel for SMEs to obtain financial aids. According to the statistics of the CBRC, as at the end of 2011, there were 8,402 financing guarantee companies in the PRC, representing an approximately 39.3% increase on a year-on-year basis. In 2011, they provided their services to more than 181,000 customers. The total outstanding amount of the guaranteed indebtedness was approximately RMB1,275 billion, representing an approximately 40.5% increase on a year-on-year basis, of which approximately RMB986 billion was attributed to SMEs in 2011. The emergence of financing guarantee companies had, to some extent, alleviated the financing problem of SMEs.

**2. Characteristics of the financing guarantee industry**

- (1) There is a rapid growth in the business and number of financing guarantee companies. Financing guarantee companies in the PRC can be classified into two main categories by their source of funding, namely government-funded financing guarantee companies and privately-owned financing guarantee companies. Government-funded financing guarantee companies are generally independent legal entities and non-profit-oriented. They often focus their business on a certain industry in order to support target industries to promote certain government policy directives. As a result, they are limited in their ability to support a wide range of SMEs in other industries. In contrast, privately-owned financing guarantee companies are generally established as corporate entities by non-state-owned enterprises and/or individuals. They are generally independent legal entities and are profit-oriented. They respond promptly to market needs, customise their product offerings to a wide range of industries and price the risk commercially. Their success also depends on sophisticated risk assessment skills as risk control is an essential element to their business operations.

Even though they are different in various aspects, government-funded financing guarantee companies and privately-owned financing guarantee companies had developed hand in hand in the past ten years. According to the data of CBRC, as of the end of 2011, the total number of PRC financing guarantee companies had reached 8,402, of which 1,572 were state-owned and state-shareholding financing guarantee companies (accounting for approximately 18.7% of the total) and 6,830 were privately-owned financing guaranteed companies (accounting for approximately 81.3% of the total). The pie chart below sets forth the number (and corresponding percentage) of the government-funded financing guarantee companies and privately-owned financing guarantee companies.



- (2) In 2011, the cooperation between banking financial institutions and financing guarantee companies had continued to increase. In order to facilitate the industry development, the CBRC issued 關於促進銀行業金融機構與融資性擔保機構業務合作的通知 (Notice to Promote Business Cooperation between Banking Financial Institutions and Financing Guarantee Companies). As at the end of 2011, the number of national banking financial institutions (including their branches) which had established business cooperation with

## INDUSTRY OVERVIEW

financing guarantee companies had reached 15,997 and the growth rate was approximately 32.6% on a year-on-year basis. Capitalising on the sustained growth of the PRC economy, financing guarantee companies in general have considerably strengthened their core capital and guarantee capacities. The total amount of capital had increased significantly. As at the end of 2011, the total assets of financing guarantee companies in the PRC had reached RMB931.1 billion, representing a 57.2% increase on a year-on-year basis while their total net assets had increased by 63.8%, to RMB785.8 billion. With more capital available, financing guarantee companies could expand their business effectively while maintaining an acceptable level of risk.

- (3) In 2011, the PRC State Council issued 關於促進融資性擔保行業規範發展的意見 (Opinions on Promoting the Standard Development of Financing Guarantee Industry), which laid down clear objectives and policies for the creation of a favourable environment for the sustainable development of the financing guarantee industry. New rules and regulations are established to build a solid foundation for a healthy development of the industry. With the effort of the CBRC, the financing guarantee industry was re-organised and barriers of entry have been raised. Only a number of relatively standardized financing guarantee companies are able to obtain the Financing Guarantee Operation Permit. By actively training supervising units, the status and image of the industry have improved. In addition, with more effective regulations in force, banks are more willing to cooperate with financing guarantee companies which is crucial to the development of the industry.

### FINANCING GUARANTEE INDUSTRY IN FUJIAN PROVINCE

#### 1. Overview

In order to ensure sustainable growth of the industry, FJETC requires that all financing guarantee companies strictly comply with the Interim Measures and its relevant regulations. By setting up municipal financing guarantee associations in cities such as Fuzhou, Xiamen, Ningde, Sanming, Nanping and Longyan, they could further promote and standardise financing guarantee companies in the Fujian Province.

#### 2. Policy supports to financing guarantee companies

To support the development of financing guarantee companies and alleviate the credit problems of SMEs in the Fujian Province, on 19 November 2008, FJETC, 中國人民銀行福州中心支行 (Fuzhou Central Sub-branch of PBOC) and 中國銀行業監督管理委員會福建監管局 (Fujian Supervisory Bureau of CBRC) jointly promulgated 關於進一步促進中小企業信用擔保行業發展的意見 (Opinions on Further Promoting the Development of the SME Credit Guarantee Industry), according to which financing guarantee companies in the Fujian Province that have provided financing guarantee services to small and medium trading and industrial enterprises may apply for 中小企業融資擔保機構風險補助項目 (risk compensation fund for SME financing guarantee companies) if they meet certain requirements. On 14 September 2011, FJETC and FJDOP jointly issued 福建省2010年下半年中小企業融資擔保機構風險補助項目申報指南 (Application Guidelines for Fujian Province SMEs Financing Guarantee Institutions Risk Compensation Programme for the second half of 2010), pursuant to which financing guarantee companies meeting certain criteria may submit an application to FJETC and FJDOP for government subsidy. In addition, on 13 March 2012, FJETC and FJDOP jointly issued 福建省2011年中小企業融資擔保機構風險補助項目申報指南 (Application Guidelines for Fujian Province SMEs

## INDUSTRY OVERVIEW

Financing Guarantee Institutions Risk Compensation Programme 2011). Furthermore, on 26 March 2012, XMEDB and XMBOF jointly issued 廈門市2011年中小企業融資擔保機構風險補償項目申請指南 (Application Guidelines for Xiamen SMEs Financing Guarantee Institutions Risk Compensation Programme 2011).

During the Track Record Period, Differ Guarantee has been awarded four subsidies amounting to an aggregate of RMB3.25 million from the PRC Government, details of which are disclosed in the section headed “Business — Guarantee services — Government subsidies awarded to Differ Guarantee” in this prospectus.

In 2009, the FJETC and Fujian Local Taxation Bureau issued 關於中小企業信用擔保機構免徵營業稅有關問題的通知 (Circular on Issues Regarding the Business Tax Exemption for SME Financing Guarantee Companies). SME financing guarantee companies that meet the following requirements could apply for the business tax exemption:

- a. the SME financing guarantee company shall be duly registered with an independent legal personality and its main business is the provision of financing guarantee service to SMEs;
- b. the SME financing guarantee company has a total paid-up registered capital of more than RMB20 million;
- c. the guarantee fee rate charged by the SME financing guarantee company does not exceed 50% of the lending interest rate charged by a bank during the corresponding period; and
- d. the SME financing guarantee company shall provide the local authorities with information regarding their business conditions and financial statements as required.

Qualified SME financing guarantee companies are exempted from paying business taxes on their guarantee revenues for 3 years. We have made an application for the business tax exemption. As far as our Directors are aware, as at the Latest Practicable Date, all applications made by financing guarantee companies in Xiamen were still being processed and no approval has been granted yet.

### 3. Competition

Financing guarantee companies in the PRC compete with each other in different aspects. One of the most important aspects is paid-up registered capital. The relevant PRC regulations limit the aggregate exposure of guarantees provided by a financing guarantee company for a single customer to a certain percentage of its net assets. Banks' internal guidelines provide for limitations on the amount of exposure to any single financing guarantee company, which is usually based on a certain percentage of such financing guarantee company's paid-up registered capital. Currently, the regulations promulgated by local and national governmental authorities also impose various capital thresholds for financing guarantee companies. Therefore, it is likely that the size of a financing guarantee company's capital base will continue to determine the capacity of its operations as well as its competitive advantages in the financing guarantee industry. In addition, with the PRC playing an increasingly important and influential role in the global market, international capital began to enter the guarantee industry of the PRC and participated in competition in some areas of financing guarantee market. It is likely that foreign capital

## INDUSTRY OVERVIEW

will gradually enter into the local financing guarantee market. With more competition, financing guarantee industry in the PRC will enter a restructuring and integration period and a new market pattern will gradually be established.

According to 廈門市經濟發展局關於融資性擔保機構年度檢查暨換證工作情況的通報 (XMEDB notice on the annual inspection of financing guarantee institutions) dated 26 September 2013 issued by XMEDB, as of 23 September 2013, there were 23 guarantee companies in Xiamen.

According to a news article published on the official website of Quanzhou City People's Government, there were 37 guarantee companies in Quanzhou as of September 2013.

#### **4. Future development of the financing guarantee industry**

After ten years of development, the financing guarantee industry presents a more positive view for its future development, more specifically:

- (1) The PRC Government continues to increase its support to the development of financing guarantee companies. Financing guarantee companies play an important role in assisting SMEs (especially for small and micro-enterprises) in obtaining financings and safeguarding the capital of commercial banks. In view of this, the PRC Government has provided both policy support and financial support to the development of financing guarantee companies.
- (2) While providing various supports to the development of the financing guarantee industry, the statutory requirements on the business operation of financing guarantee companies have become stricter and this will lead to consolidation of this industry. Due to reasons such as lack of unified access requirements, poor unification for business operations, loose internal regulation, lack of risk identification and management control, the financing guarantee industry has not been fully regulated in the past. To tackle these matters, the Interim Measures were promulgated on 8 March 2010, under which the minimum registered capital of financing guarantee companies shall not be less than RMB5 million and financing guarantee companies are prohibited from engaging in business including accepting money deposits, granting loans, being entrusted to grant loans or make investments, etc. As advised by our Directors, with the effective implementation of the Interim Measures and the relevant local implementing rules, it is likely that small and inadequately capitalised financing guarantee companies may either become the acquisition targets of larger financing guarantee companies or be forced to cease business, and those financing guarantee companies that engage in illegal business activities may have to suspend their business operations.
- (3) The relationship between financing guarantee companies and commercial banks will become more coordinated. In recent years, financing guarantee companies have played a more important role between banks and SMEs. With the involvement of financing guarantee companies, banks become the direct beneficiaries as they can expand their businesses to a vast number of SMEs in the PRC which were previously considered as risky customers, but their risks are now diversified by having financing guarantee companies acting as guarantors for the loans to SMEs. As advised by our Directors, after more than ten years of practice, financing guarantee companies have gained recognition and general acceptance by banks. In 2011, the CBRC issued 關於促進銀行業金融機構與融資性擔保機構業務合作的通知 (Notice to Promote Business Cooperation between Banking Financial Institutions and

## INDUSTRY OVERVIEW

Financing Guarantee Companies). Nowadays, financing guarantee companies with larger registered capital, regulated operation, and a high degree of credit will have the advantage in establishing good business relationships with banks. With the acceleration of the reform of PRC commercial banks and the more regulated environment of the financing guarantee industry, both parties are expected to further achieve a higher level of innovation in cooperation.

### **PAWN LOAN BUSINESS IN THE PRC**

Pawn loan providers in the PRC principally provide collateral-backed short-term financing with a short repayment period. The major customers are SMEs and self-employed individuals. A pawn loan is commonly defined or understood to mean a loan provided against the security of the pledge or deposit of personal property such as jewels and other personal chattels. In many jurisdictions around the world, the pawn industry is therefore categorised as the business of lending small amounts of money in exchange for personal property that is deposited as security by the borrower. However, the pawn industry in the PRC is not restricted to the business of providing small loans against the security of pledged personal property. The Pawning Measures and other relevant PRC laws and regulations provide that pawn loan providers may accept mortgages over real property as security for the provision of loans to borrowers. In practice, this means that pawn loan providers in the PRC may, within the limits prescribed by law, lend large amounts of money in exchange for real estate that is mortgaged to the pawn loan provider as security by the borrower. Moreover, in contrast to the common practice in many jurisdictions where pawn loans are strictly non-recourse loans for which the borrower cannot be personally liable, the Pawning Measures provide that where the appraised value of an absolutely pawned item exceeds RMB30,000, it may be disposed of in accordance with relevant provisions of the Guarantee Law or be publicly auctioned by an auction house in accordance with the agreement between the pawn shop and the pawner. In the event the auction proceeds are insufficient to repay the outstanding principal loan amount, accumulated interest and combined expenses (including the cost of the auction or sale), the pawnshop may file a suit against the borrower at the People's Court to recover the shortfall. Pawn loan providers in the PRC are required to obtain the Pawn Operation Permit and Special Industry Permit for the provision of pawn loan, and to comply with the Pawning Measures.

#### **1. Real estate pawn loans**

Real estate is welcomed by pawn loan providers as collateral, mainly due to (i) the valuation of property can easily be obtained from the market, and the value of real estate is less susceptible to short-term market volatility, and (ii) the legal title of real estate can be verified easily, which minimises the risk to the pawn loan provider in the case of default in the repayment of loans by the customer.

#### **2. Movable property pawn loans and property rights pawn loans**

Movable property such as jewels, motor vehicles, paintings, calligraphy and antiques as well as property rights such as listed or non-listed equity rights and warehouse receipt for goods inventory can be used as collaterals in pawn loans. The valuation process of these collaterals can be very different. Nonetheless, pawn loan providers put a lot of their attention on the quality of the collateral itself and on the title of the collateral. Therefore, pawn loan providers usually request the customers to provide documentation showing their ownership of the personal property such as receipts or invoices to verify



## INDUSTRY OVERVIEW

the legality of the source and ownership of the property to be pledged. In addition, pawn loan providers may also request customers to provide a valuation report from independent appraisers which are qualified and recognised by the courts of the PRC.

### DEVELOPMENT OF THE PAWN LOAN INDUSTRY

#### 1. Current status

The pawn loan market has experienced significant growth in recent years. According to the statistics from the MOC, there were approximately 6,084 pawn loan providers in the PRC and the industry employed more than 53,000 workers as at 31 December 2012. The number of pawn loans granted (including renewals) in 2012 was more than 2.37 million. Out of these loans, the average pawn loan amount was approximately RMB117,000.

#### 2. Characteristics of the pawn loan industry in the PRC

There are some significant differences between pawn loan providers and banks and financial institutions:

- (i) pawn loan providers do not grant loans based solely on credit conditions nor review the creditworthiness of borrowers alone, they rather focus more on the legitimacy and value of the collateral held by the borrowers. On the other hand, banks and financial institutions only grant loans after lengthy consideration on the credit conditions and review the creditworthiness of their clients, including asset creditworthiness and ethical creditworthiness, and also by prescribing qualification conditions and determining the loan amount by the deposit amount;
- (ii) the loan application procedures of pawn loan providers are simple, fast and convenient which are most suitable for satisfying urgent or emergency financial needs, whereas the loan application procedures of banks and financial institutions may be lengthy and are not suitable for fulfilling urgent or emergency financial needs; and
- (iii) SMEs have become the major customers. The majority of pawn loan customers are SMEs and individuals. In terms of number of transactions, there are more pawn loan business transactions provided to individual customers. However, in terms of loan amount, most of the pawn loan value flows to SMEs. According to the statistics from the MOC, there were approximately 2.2 million pawn transactions with pawn loan value amounted to approximately RMB221 billion granted to SMEs during 2011.

### PAWN LOAN INDUSTRY IN FUJIAN PROVINCE

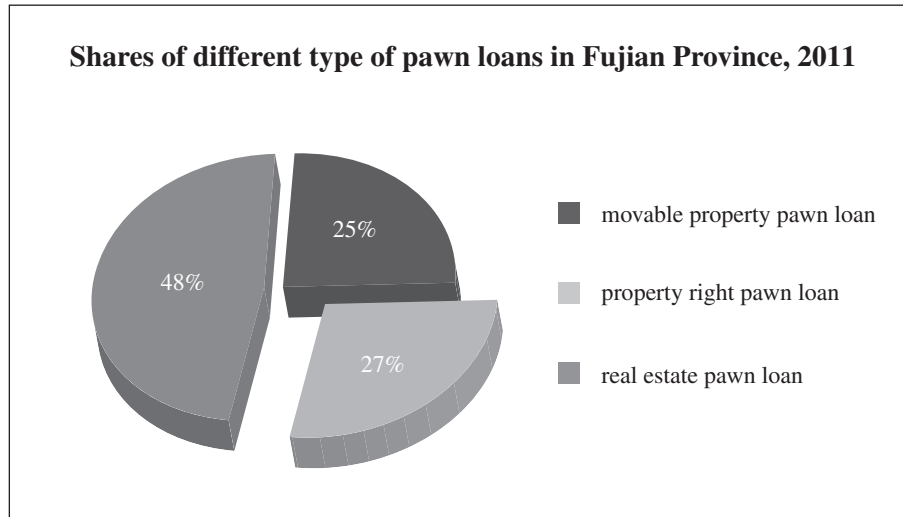
#### 1. Overview

The market size of pawn loan industry in the Fujian Province has grown rapidly. According to reports from FJETC, the number of pawn loan providers in Fujian Province (excluding Xiamen) has reached 179 and has employed almost 1,900 workers. The average registered capital for pawn loan provider increased to approximately RMB17.6 million in 2011, representing an increase of approximately 8.1% from approximately RMB16.3 million in 2010. The number of new pawn loans

## INDUSTRY OVERVIEW

granted in 2011 was more than 63,700 million and the total value of outstanding pawn loans was RMB11.2 billion. Out of these loans, movable property pawn loans, property right pawn loans and real estate pawn loans had accounted for approximately 24.6%, 27.3% and 48.1% respectively. The total value of personal property pawn loans, property right pawn loans and real estate pawn loans had increased by approximately 25.1%, 24.9% and 30.4% respectively.

The diagram below illustrates the shares of different type of pawn loans in the Fujian Province in 2011.



### 2. Policy support to pawn loan companies

In 2005, the implementation of the Pawning Measures transformed the pawn loan industry in the PRC by producing an orderly and healthy environment for existing and new pawn loan providers. In December 2011, the MOC circulated “十二五”期間促進典當業發展的指導意見 (Guidance on the Development of Pawn Loan Industry during the “12th 5-year” period). The guidance stated clearly several targets and development plans which could help pawn loan providers on promoting sincerity operation, standardized management and communication with government departments for the industry. On 5 December 2012, the Regulatory Rules on the Pawn Loan Industry was promulgated by the MOC which further tightened the control on the pawn loan industry. In addition, the enhancement of industry regulation and legal efficiency will benefit the healthy and fast growing of pawn loan industry.

### 3. Competition

According to the Pawning Measures, the maximum pawn loan amount granted by a pawn loan provider for a single real estate backed pawn loan must not exceed 10% of its registered capital. In this regard, the profitability of pawn loan provider is largely restricted by its registered capital. In other words, the higher the registered capital of a pawn loan provider, the more pawn loans the pawn loan provider can grant.



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Although relevant PRC laws and regulations do not prohibit foreign investment in the pawn loan business, in practice, no approval can be granted and no licence can be issued to a foreign-invested enterprise engaging in a pawn loan business, which might to some extent lower the competition in this industry.

According to a news article published on the official website of Quanzhou City People's Government, there were 51 pawn loan providers in Quanzhou as of September 2013.

According to the information published on the website of 石獅市便民服務中心 (Shishi Public Service Centre) which is operated by Shishi City Government, there were 6 pawn loan providers in Shishi as of August 2013.

#### **4. Future development of the pawn loan industry in the PRC**

The pawn loan industry in the PRC is playing an active role in short-term financing by meeting financing demands of SMEs. Pawn loan industry facilitates economic circulation and healthy development of enterprises. It is a supplement to mainstream financing channels. Financial institutions are materially affected by monetary policies and credit policies while it may be beneficial to the pawn loan industry. Under restrictive monetary policy, banks will curtail lending and tend to grant loans only to large and established corporations with good reputation and credit records. SMEs are hard to obtain loans and will turn to pursue short-term financing from pawn loan providers. PBOC raised the deposit reserve ratio and lending rates several times in 2010 and even more frequently in 2011. According to the PBOC, as at the Latest Practicable Date, the deposit reserve ratio is 20% for large financial institutions and the rate for one year term loan is 6.0%. With such tight monetary policy, SMEs will experience difficulties in obtaining funds compared to the past. As such, our Directors believe that the pawn loan industry in the PRC will play a more active role and is expected to grow at a faster pace.

#### **FINANCE LEASE INDUSTRY IN THE PRC**

Typically, a finance lease company buys the assets chosen by clients, who then lease the items. After the maturity of the lease contract, clients usually have the option to gain title to the residual assets. In the PRC, finance lease industry started in the 1980s, and has been under a fast track development phase since 2005. Finance lease businesses involve leasing of assets such as aircrafts, ships and engineering machines. One of the main reasons for the massive expansion in the industry in recent years is that more and more enterprises get to know and accept the idea of this business. Customers could avoid the single large cash outflow for machine purchasing in the beginning. Instead, they get into contracts with these finance lease companies to smooth their cash flow position. The customers no longer demand the ownership title of the capitals or equipment they use in the production.

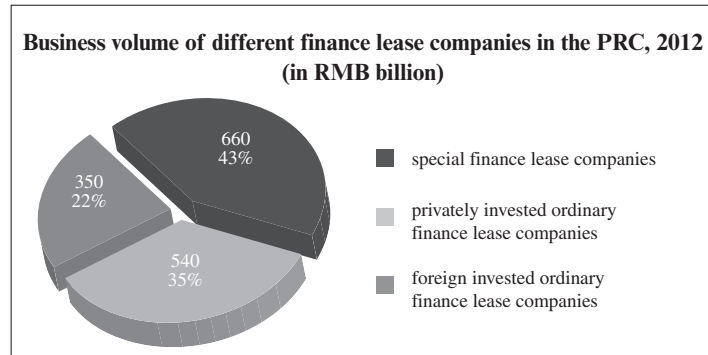
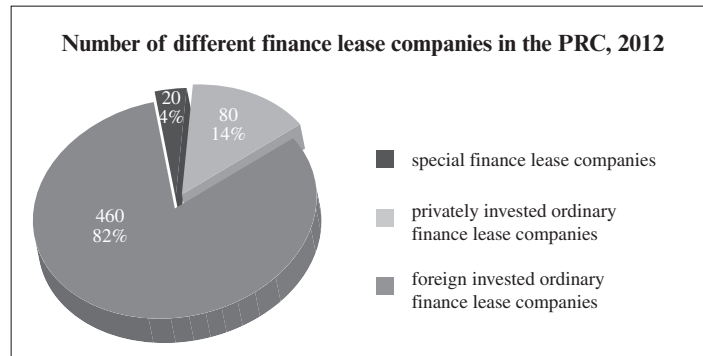
Typically, there are 2 types of finance lease companies in the PRC: ordinary finance lease companies (一般融資租賃) and special finance lease companies (金融租賃). Ordinary finance lease companies are regulated by the MOC while special finance lease companies are regulated by the PBOC. Generally, regulations on special finance lease companies are stricter since they are likely to operate large scale projects with leased equipment of higher values.

# INDUSTRY OVERVIEW

## DEVELOPMENT OF FINANCE LEASE INDUSTRY

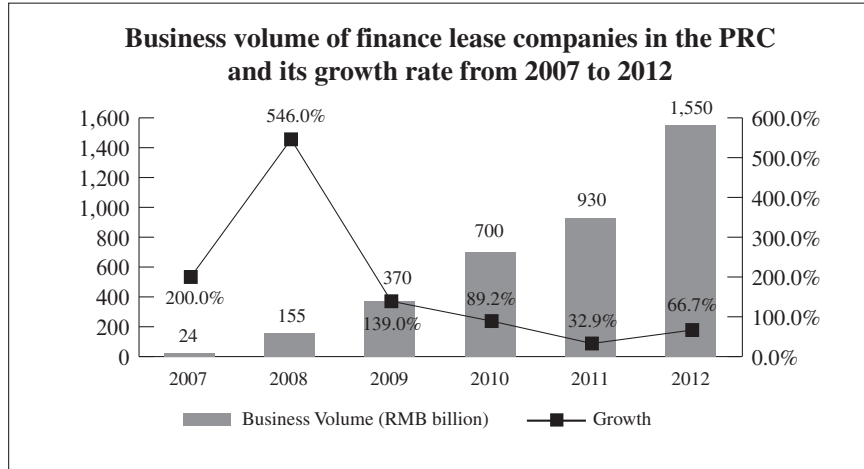
### 1. Current status

According to Chinese Finance Lease Association (中國租賃聯盟), as at the end of 2012, the PRC had approximately 560 finance lease companies, representing approximately 89.2% increase on an year-on-year basis. Out of the 560 finance lease companies, 20 were special finance lease companies, 80 were privately invested ordinary finance lease companies and the remaining 460 were foreign invested ordinary finance lease companies. The aggregate contract balance of finance lease companies had skyrocketed to approximately RMB1,550 billion as at the end of 2012, from approximately RMB24 billion in 2007. The average registered capital for special finance lease companies, privately invested ordinary finance lease companies and foreign invested ordinary finance lease companies in 2012 were approximately RMB3.11 billion, RMB0.47 billion and RMB0.20 billion respectively. The diagrams below illustrate the number of different finance lease companies and the breakdown of business volume attributed to them during 2012.



## INDUSTRY OVERVIEW

The diagrams below illustrate the business volume of finance lease companies in the PRC and its year-on-year growth rates from 2007–2012.



The Chinese Finance Lease Association (中國租賃聯盟) was founded by 42 finance lease companies across the PRC for the purpose of promoting the development of the finance lease industry in the PRC. The establishment of the Chinese Finance Lease Association was submitted to the MOC and the Ministry of Civil Affairs of the PRC in 2006.

### 2. Characteristics of finance lease industry in the PRC

- (i) The major difference between finance lease and a bank loan is that the finance lease company has the ownership title of the leased assets, while bank has the right to claim the pledged assets in case of default. Therefore, the finance lease company is in a better legal position and the non-performing asset ratio of a finance lease company is generally lower than that of a bank.
- (ii) Currently, there is no law imposed specifically to regulate the finance lease industry. The applicable rules are mainly set out by the municipal government or the MOC. There were also a lot of guidance and comments promulgated by the PRC Government. However, these circulars' primary objective is to promote industry growth, rather than standardising and unifying the industry. Therefore, it is far not enough for these rules to constitute a legal system.
- (iii) With the increase in interest rate and required reserve, there is less capital available for finance lease companies to operate their businesses. Besides, the PRC Government aimed to maintain a healthy and sustainable development of the industry. In order to raise more funds to further expand their businesses, finance lease companies has taken several measures to exploit more sources of funding.

In recent years, there have been more and more special finance lease companies participating in the inter-bank lending market. With an interest rate in favour of these companies, they could enhance the flexibility and effectiveness in financing their businesses.

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Finance lease companies have been entering the corporate bond market to raise fund since 2010. Caterpillar, the US-based multinational manufacturer of earthmoving equipment, launched a 2-year RMB1 billion bond in Hong Kong in 2010. The proceeds were used to support their businesses under Caterpillar (China) Financial Leasing Company. Foreign-invested ordinary finance lease companies are taking advantage of Hong Kong's Renminbi market to raise fund. Other foreign invested ordinary finance lease companies and privately invested ordinary finance lease companies were actively preparing themselves to enter the bond market in the near future.

### FINANCE LEASE INDUSTRY IN FUJIAN PROVINCE

#### 1. Policy supports on finance lease companies in Fujian Province

On 15 December 2011, MOC issued the Guiding Opinions on Encouraging the Development of Finance Lease Industry in the 12th Five-Year Period (商務部關於“十二五”期間促進融資租賃業發展的指導意見). The guidance stated clearly several targets and plans which could help in the development of a well-regulated industry under the MOC regime. The guidance also aims to improve the legal environment, the accounting system to ensure the healthy development of finance lease companies. The summary of the guidance is set out as below:

*(i) Encouraging innovative business models*

The PRC Government encourages finance lease companies to focus on their areas of expertise and learn from international peers. With various companies developing their finance lease business in different markets, the industry will grow in a diverse environment. This could also diversify their transaction structures and enhance their ability to withstand financial shock from a particular market.

*(ii) Optimizing the market structure*

The PRC Government encourages further development of the finance lease industry, especially in the mid-west of the PRC. Also, diversification of investors in finance lease companies is encouraged and more support will be given to industrial, engineering and infrastructure companies with respect to their investment in finance lease companies.

*(iii) Supporting of fledgling business areas*

While maintaining traditional finance lease businesses in aircrafts, ships and engineering machines, development of their businesses in rural areas and fledgling areas such as new energy, new materials and bio-technology is encouraged. Finance lease companies are also encouraged to explore business opportunities with SMEs that are in need of financing.

*(iv) Exploring the overseas markets*

The PRC Government encourages finance lease companies to increase international finance lease transactions. MOC will support competitive PRC finance lease companies in their offshore mergers and acquisitions and will promulgate relevant policies to support international finance lease business development in the overseas markets.

## INDUSTRY OVERVIEW

*(v) Diversifying sources of fund*

The PRC Government recommends usage of mid-term and long-term funding sources to mitigate risks in funding. The PRC Government will support finance lease companies in exploring new means of funding such as factoring, bond issues, trusts and funds etc. to reduce funding costs. Stronger cooperation between finance lease companies and banks or trust companies is encouraged. By setting up finance lease investment funds, it is easier for companies to raise fund from individual investors.

*(vi)* The PRC Government will guide finance lease companies to improve their risk management and internal control system and will issue industry reports on a regular basis. The PRC Government will support guarantee companies to develop a new system with finance lease guarantee business. Insurance companies are encouraged to develop new insurance products to support the finance lease industry.

*(vii)* MOC will promulgate further policies and regulations with an aim to standardise, regulate and increase the efficiency of the trading platform of the leasing assets and second-hand assets in order to enhance liquidity of the assets.

### **2. Future development of the finance lease industry**

The nature of finance lease can be thought of an alternative to a bank loan service. Although finance lease has comparative advantage in its flexible mechanism and expert information in the relevant fields, commercial banks in general still have much larger client base, better risk management practices, stronger financial position and they enjoy economies of scale.

With the gradual implementation of the 12th Five-Year Period Plan, the demand for investment in fixed asset and equipment will continue to grow as the policies regarding urbanization, industrialization, upgrading of tradition industries, reform of healthcare and educational system etc. are introduced. This will bring opportunities for the development of the finance lease industry.

## OUR CORPORATE HISTORY

### Introduction

Ms. Shi and Mr. Cai are the ultimate Controlling Shareholders of our Company. Ms. Shi owns indirectly 60% shareholding interest in our Company immediately prior to the Placing and 45% shareholding interest in our Company immediately after the Placing and the Capitalisation Issue (but without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon exercise of the options granted under the Share Option Scheme). Ms. Shi is the spouse of Mr. Hong. Mr. Hong is the chairman of our Company and an executive Director, while Ms. Shi is not involved in the daily operation of our Group's business. Mr. Cai owns indirectly 40% shareholding interest in our Company immediately prior to the Placing and 30% shareholding interest in our Company immediately after the Placing and the Capitalisation Issue (but without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon exercise of the options granted under the Share Option Scheme). Mr. Cai is an executive Director. Please refer to the section headed "Directors, senior management and employees" in this prospectus for further information on Mr. Hong and Mr. Cai.

Ms. Shi, together with her family including Mr. Hong, is engaged in textiles, fashion and apparel business and the property development business in the PRC apart from the business of our Group. She has a wide business and social networks in Fujian Province, which has contributed to the development of our business and the expansion of our customer base in the past. Ms. Shi is not involved in the daily operation of our Group's business.

Mr. Hong and Mr. Cai were acquainted with each other through their business networks in Fujian Province as Mr. Hong lives in Shishi and is engaged in textiles, fashion and apparel business and the property development business apart from the business of our Group while Mr. Cai has previously worked for various departments of the governments of Shishi and Quanzhou from 1980 to 2005.

Through their own business and social networks, Mr. Hong and Mr. Cai identified the growing demand for short to medium-term financing and financing-related solutions by SMEs in Fujian Province. In 2008, Mr. Hong, together with Mr. Cai Jiading (蔡加定), Mr. Cai Xianliang (蔡賢良) and Mr. Cai Jianfeng (蔡劍鋒), invested in Differ Guarantee (then known as 大榮投資擔保有限公司 (Da Rong Investment Guarantee Company Limited)) (as mentioned in further detail in the paragraph headed "Differ Guarantee" below) as they were optimistic about the future prospect of the industry. Their optimistic view about the industry prospect was shared by Ms. Shi (the spouse of Mr. Hong) and Mr. Cai (a brother-in-law of Mr. Cai Jianfeng) and therefore in 2010, Ms. Shi and Mr. Cai decided to establish Differ Holding to engage in the business of provision of short to medium-term financing and financing-related solutions.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following table summarises the details of our Group's principal operating subsidiaries:

Operating subsidiary	Principal business activities	Date of establishment	Founders	Date of becoming a member of our Group
Differ Holding	Provision of entrusted loans and financial consultation services	12 April 2010	Ms. Shi and Mr. Cai <i>(note 1)</i>	Since establishment on 12 April 2010
Differ VC	Provision of entrusted loans	5 May 2010	Differ Holding and Mr. Hong <i>(note 2)</i>	Since establishment on 5 May 2010
Differ Guarantee	Provision of guarantee services	11 June 2007	Certain Independent Third Parties <i>(note 3)</i>	Since acquisition by Differ Holding and Differ VC on 12 July 2010 <i>(note 4)</i>
Differ Pawn	Provision of pawn loans	15 May 2002	Certain Independent Third Parties <i>(note 5)</i>	Since acquisition by Fujian VC on 10 June 2010 <i>(note 6)</i>
Differ Lease	Provision of finance lease	19 April 2012	Differ Hong Kong <i>(note 7)</i>	Since establishment on 19 April 2012

*Notes:*

1. Differ Holding was established by Ms. Shi and Mr. Cai through a trust arrangement, details of which are set out in the paragraph headed "Differ Holding — Trust arrangements" below in this section.
2. Please refer to the paragraph headed "Differ VC" below in this section for further details.
3. Please refer to the paragraph headed "Differ Guarantee — Establishment of Differ Guarantee" below in this section for further details.
4. Please refer to the paragraph headed "Differ Guarantee — Transfer of equity interests to Differ Holding and Differ VC" below in this section for further details.
5. Please refer to the paragraph headed "Differ Pawn — Establishment of Differ Pawn" below in this section for further details.
6. Please refer to the paragraph headed "Differ Pawn — Acquisition by Differ Real Estate" below in this section for further details.
7. Please refer to the paragraph headed "Differ Lease" below in this section for further details.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Apart from the five companies mentioned above, Differ Guarantee acquired Differ Import & Export on 1 February 2013. Differ Import & Export was established on 22 December 2011 and has not carried out any business operations since establishment and up to the Latest Practicable Date. The reasons for and other details of such acquisition are set out in the paragraph headed “Differ Import & Export” below in this section.

Other companies within our Group include our Company, RongXin Company Limited and Differ Hong Kong. Corporate structure charts of our Group are set out in the paragraph headed “Corporate structure” below in this section.

### **Our Company**

For the purpose of Listing, our Company was incorporated on 4 December 2012 in the Cayman Islands as an exempted company with limited liability, which became the ultimate holding company of our Group as a result of the Reorganisation. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” in this section.

### **RongXin Company Limited**

On 6 November 2012, RongXin Company Limited was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each for the purpose of acting as an intermediate holding company of our Group.

### **Differ Hong Kong**

Differ Hong Kong was incorporated in Hong Kong on 22 September 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each for the purpose of acting as an intermediate holding company of our Group.

### **Differ Holding**

#### *Establishment of Differ Holding*

Differ Holding was established in the PRC on 12 April 2010 under the name of 鼎豐控股股份有限公司 (Differ Holding Company Limited) (“**Differ HCL**”). Upon establishment, Differ HCL had an initial registered capital of RMB100 million, which was contributed as to RMB35 million by Mr. Hong, as to RMB30 million by Mr. Cai Yifan (蔡乙帆), as to RMB25 million by Mr. Cai Xianliang (蔡賢良) and as to RMB10 million by Mr. Cai Jiading (蔡加定), representing 35%, 30%, 25% and 10% of the then entire registered capital of Differ HCL respectively. Mr. Hong and Mr. Cai Xianliang held their respective equity interest in Differ Holding on trust for Ms. Shi, while Mr. Cai Yifan and Mr. Cai Jiading held their respective equity interest in Differ Holding on trust for Mr. Cai. Please refer to the paragraph headed “Trust arrangements” below for more information. Through the trust arrangements, Differ Holding was beneficially owned as to 60% by Ms. Shi and as to 40% by Mr. Cai upon establishment.



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### *Trust arrangements*

Before the establishment of Differ HCL, Mr. Hong and Mr. Cai Xianliang respectively entered into a deed of trust with Ms. Shi on 10 April 2010 pursuant to which Ms. Shi entrusted Mr. Hong and Mr. Cai Xianliang to establish Differ HCL and to hold 35% and 25% equity interests in Differ HCL respectively for her by making use of funds provided by her. Pursuant to the deed of trust, Mr. Hong and Mr. Cai Xianliang agreed, among other things, that (i) they would, according to Ms. Shi's instructions, exercise all powers granted to them as the shareholders of Differ HCL by the articles of association of Differ HCL; (ii) they would not deal with their respective interests in Differ HCL without the instruction or consent of Ms. Shi; and (iii) they would follow the instructions of Ms. Shi in dealing with all incomes generated as a result of their respective interests in Differ HCL, including dividends or other income distributions, which shall all belong to Ms. Shi.

In addition, on 10 April 2010, Mr. Cai Yifan and Mr. Cai Jiading also respectively entered into a similar deed of trust with Mr. Cai pursuant to which Mr. Cai entrusted Mr. Cai Yifan and Mr. Cai Jiading to establish Differ HCL and to hold 30% and 10% shareholding interests in Differ HCL respectively for him by making use of funds provided by him. The deeds of trust entered into by Mr. Cai with Mr. Cai Yifan and Mr. Cai Jiading respectively contained provisions governing the rights and obligations of the parties that were similar to those contained in the deeds of trust entered into by Ms. Shi with Mr. Hong and Mr. Cai Xianliang respectively.

On 21 October 2010, Ms. Shi obtained non-permanent residency status in the Macau Special Administrative Region of the PRC. In order to reflect the change of personal information of Ms. Shi, Mr. Hong and Mr. Cai Xianliang respectively entered into a supplemental deed of trust with Ms. Shi on 22 October 2010 pursuant to which nothing in the original deed of trust was altered other than the personal information of Ms. Shi.

Our PRC Legal Adviser is of the view that the above trust arrangements did not violate the PRC laws and regulations and was valid and enforceable.

The reason for the trust arrangement was that Ms. Shi and Mr. Cai considered that Mr. Hong, Mr. Cai Yifan, Mr. Cai Jiading and Mr. Cai Xianliang had wide business and social networks which would be useful for the business development of Differ Holding. Ms. Shi and Mr. Cai considered that Mr. Hong, Mr. Cai Yifan, Mr. Cai Jiading and Mr. Cai Xianliang were better known in the industry and could attract more attention from potential customers if they were presented as the owners of Differ Holding, which could be beneficial to the early stage of the business development of Differ Holding.

### *About Mr. Hong*

Mr. Hong is the spouse of Ms. Shi. Mr. Hong is also an executive Director.

### *About Mr. Cai Yifan*

Mr. Cai Yifan is a brother of Mr. Cai Jianfeng, who is a non-executive Director and a brother-in-law of Mr. Cai.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

In addition, on 6 April 2007, Mr. Cai Yifan borrowed a sum of RMB20 million from Mr. Cai for a period of three years up to April 2010. On 7 April 2008, Mr. Cai Yifan borrowed a further sum of RMB25 million from Mr. Cai for a period of two years up to April 2010. On 8 April 2009, Mr. Cai Yifan borrowed a further sum of RMB10 million from Mr. Cai for a period of one year up to April 2010.

The aggregate amount of the outstanding principal and accrued interests owed by Mr. Cai Yifan to Mr. Cai amounted to approximately RMB68.4 million as at 6 April 2010. On such date, Mr. Cai instructed Mr. Cai Yifan to, in connection with the aforesaid trust arrangement between Mr. Cai and Mr. Cai Yifan, repay such outstanding sum to him by transferring such outstanding sum to Differ HCL for the establishment of Differ HCL and for the contribution to the initial registered capital and the subsequent increases in the registered capital of Differ HCL.

### *About Mr. Cai Jiading*

On 10 April 2007, Mr. Cai Jiading borrowed a sum of RMB16 million from Mr. Cai for a period of three years up to April 2010. The aggregate amount of the outstanding principal and accrued interest owed by Mr. Cai Jiading to Mr. Cai amounted to RMB22.8 million as at 26 March 2010. On such date, Mr. Cai instructed Mr. Cai Jiading to, in connection with the aforesaid trust arrangement between Mr. Cai and Mr. Cai Jiading, repay such outstanding sum to him by transferring such outstanding sum to Differ HCL for the establishment of Differ HCL and for the contribution to the initial registered capital and the subsequent increases in the registered capital of Differ HCL.

In addition, Mr. Cai Jiading had previously been a director of Differ Holding and Differ Guarantee. Also, Mr. Cai Jiading had previously been a shareholder of Differ Guarantee before Differ Guarantee was acquired by us.

### *About Mr. Cai Xianliang*

On 9 April 2007, Mr. Cai Xianliang borrowed a sum of RMB12 million from Mr. Hong for a period of three years up to April 2010. On 1 April 2008, Mr. Cai Xianliang borrowed a further sum of RMB15 million from Mr. Hong for a period of two years up to March 2010. On 26 February 2009, Mr. Cai Xianliang borrowed a further sum of RMB19 million from Mr. Hong for a period of one year up to April 2010.

The aggregate amount of the outstanding principal and interest owed by Mr. Cai Xianliang to Mr. Hong amounted to RMB57 million as at 28 March 2010. On such date, Mr. Hong instructed Mr. Cai Xianliang to repay such outstanding sum to him by transferring such outstanding sum to Ms. Shi, who in turn instructed Mr. Cai Xianliang to, in connection with the aforesaid trust arrangement between Ms. Shi and Mr. Cai Xianliang, transfer such sum to Differ HCL for the establishment of Differ HCL and for the contribution to the initial registered capital and the subsequent increases in the registered capital of Differ HCL.

In addition, Mr. Cai Xianliang had previously been a director of Differ Holding, Differ Guarantee, and Differ Pawn and a legal representative of Fujian VC. Also, Mr. Cai Xianliang had previously been a shareholder of Differ Guarantee before Differ Guarantee was acquired by us.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### *Subsequent changes in Differ HCL*

Subsequent to the establishment of Differ HCL, the registered capital of Differ HCL was increased from RMB100 million to RMB150 million on 25 November 2010. A further increase in the registered capital of Differ HCL from RMB150 million to RMB228 million took place on 20 December 2010. There has been no change in the respective percentage of equity interests of Mr. Hong, Mr. Cai Yifan, Mr. Cai Xianliang and Mr. Cai Jiading in Differ HCL as a result of the aforesaid increases in the registered capital.

On 12 June 2012, the name of Differ HCL was changed to Differ Holding.

### *Transfers of equity interest to Differ Hong Kong*

On 15 June 2012, pursuant to the instructions of Ms. Shi and Mr. Cai, Mr. Hong, Mr. Cai Yifan, Mr. Cai Xianliang and Mr. Cai Jiading respectively entered into an equity transfer agreement with Differ Hong Kong pursuant to which they transferred their respective equity interests in Differ Holding to Differ Hong Kong at an aggregate consideration of RMB228 million (as to RMB79.8 million for the 35% interests held by Mr. Hong, as to RMB68.4 million for the 30% interests held by Mr. Cai Yifan, as to RMB57.0 million for the 25% interests held by Mr. Cai Xianliang, and as to RMB22.8 million for the 10% interests held by Mr. Cai Jiading). The consideration for the aforesaid transfers was determined based on the negotiation between the parties as well as a valuation report prepared by an independent valuer on 15 May 2012 which stated that as at 31 March 2012, the value of the entire equity of Differ Holding was RMB229,626,331.10.

On 9 July 2012, the aforesaid transfers were properly and legally completed. After the aforesaid transfers, Differ Holding became a wholly foreign-owned enterprise and a wholly-owned subsidiary of Differ Hong Kong. The registered capital of Differ Holding remained at RMB228 million. In addition, the abovementioned trust arrangement between Ms. Shi, Mr. Hong and Mr. Cai Xianliang, as well as that between Mr. Cai, Mr. Cai Yifan and Mr. Cai Jiading, were terminated after the completion of the aforesaid transfers.

### *Opinion of our PRC Legal Adviser*

Our PRC Legal Adviser confirmed that (i) Differ Holding is an independent legal entity duly established and is validly existing under PRC law; (ii) the initial registered capital and the subsequent increases in the registered capital of Differ Holding have been fully paid up within the relevant prescribed time limits; and (iii) Differ Holding has obtained all necessary approvals and completed all registrations and filings in connection with its establishment and subsequent changes in its corporate registration information as required by PRC law.

## **Differ Lease**

### *Establishment of Differ Lease*

Differ Lease was established as a wholly foreign-owned enterprise by Differ Hong Kong in the PRC on 19 April 2012 with an initial registered capital of HK\$128 million. Since establishment, Differ Lease has been a wholly-owned subsidiary of Differ Hong Kong.

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The initial registered capital of HK\$128 million was required to be paid-up as to 15% within three months from the date of the issue of the business licence, and as to the remaining 85% within two years from the date of establishment of Differ Lease. Differ Hong Kong has paid up approximately 19% of the registered capital of Differ Lease as at 6 July 2012. We intend to contribute a further HK\$35.6 million of the registered capital of Differ Lease by the end of 2013 by using our own internal resources. Upon Listing, it is expected that the remaining outstanding amount of registered capital of Differ Lease will be HK\$68 million. We intend to fully contribute such amount by applying approximately 44% of the net proceeds (based on the Placing Price of HK\$0.69 per Share being the mid-point of the stated range of the Placing Price) from the Placing.

### *Opinion of our PRC Legal Adviser*

Our PRC Legal Adviser confirmed that (i) Differ Lease is an independent legal entity duly established and validly existing under PRC law; (ii) the first instalment of the initial registered capital of Differ Lease (i.e. 15% of the registered capital) has been fully paid-up within the prescribed time limit; and (iii) Differ Lease has obtained all necessary approvals and completed all registrations and filings in connection with its establishment and subsequent changes in its corporate registration information as required by PRC law.

### **Differ VC**

#### *Establishment of Differ VC*

Differ VC was established as a limited liability company in the PRC on 5 May 2010 with an initial registered capital of RMB30 million, which was contributed as to RMB1.2 million by Mr. Hong and as to RMB28.8 million by Differ Holding, representing 4% and 96% of the then entire registered capital of Differ VC respectively.

#### *Transfer of equity interest by Mr. Hong to Differ Holding*

On 27 May 2010, Mr. Hong entered into an equity transfer agreement with Differ Holding pursuant to which Mr. Hong transferred his 4% equity interest in Differ VC to Differ Holding at a consideration of RMB1.2 million, which was determined based on the negotiation between the parties. On 9 June 2010, such transfer was properly and legally completed. Upon completion of such transfer, Differ VC became a wholly-owned subsidiary of Differ Holding.

### *Opinion of our PRC Legal Adviser*

Our PRC Legal Adviser confirmed that (i) Differ VC is an independent legal entity duly established and is validly existing under PRC law; (ii) the registered capital of Differ VC has been fully paid-up within the prescribed time limit; and (iii) Differ VC has obtained all necessary approvals and completed all registrations and filings in connection with its establishment and subsequent changes in its corporate registration information as required by PRC law.

### Differ Guarantee

#### *Establishment of Differ Guarantee*

Differ Guarantee was established as a limited liability company in the PRC on 11 June 2007 under the name of 福建中昌物流有限公司 (Fujian Zhong Chang Logistics Company Limited) (“**Zhong Chang Logistics**”) by four individuals who were independent third parties. Upon establishment, Zhong Chang Logistics had an initial registered capital of RMB5 million. The original scope of business of Zhong Chang Logistics was the provision of warehouse storage and freight forwarding services.

#### *Acquisition by Mr. Cai Xianliang and Mr. Cai Mingxiao*

On 27 March 2008, Mr. Cai Xianliang (蔡賢良) and Mr. Cai Mingxiao (蔡明曉) respectively entered into equity transfer agreements with the aforesaid four original shareholders pursuant to which Mr. Cai Xianliang and Mr. Cai Mingxiao together acquired the entire equity interests in Zhong Chang Logistics at an aggregate consideration of RMB5 million, which was determined based on the negotiation between the parties. On 2 April 2008, such acquisition was properly and legally completed.

Mr. Cai Mingxiao is an independent third party. In respect of Mr. Cai Xianliang, please refer to the paragraph headed “Differ Holding — About Mr. Cai Xianliang” above in this section. Mr. Cai Mingxiao and Mr. Cai Xianliang acquired Zhong Chang Logistics on their own and such acquisition was not related to our Company, our Directors and our Controlling Shareholders.

Also on 2 April 2008, (i) the name of Zhong Chang Logistics was changed to 大榮投資擔保有限公司 (Da Rong Investment Guarantee Company Limited) (“**Da Rong**”); and (ii) its registered capital was increased from RMB5 million to RMB10 million. After such changes, Da Rong was owned as to 90% by Mr. Cai Xianliang and as to 10% by Mr. Cai Mingxiao.

#### *Further changes in Da Rong*

On 2 September 2008, an equity transfer agreement was entered into between Mr. Cai Mingxiao and Mr. Cai Jiading (蔡加定) pursuant to which Mr. Cai Mingxiao transferred his 10% equity interest in Da Rong to Mr. Cai Jiading at a consideration of RMB1 million. On the same date, Mr. Cai Xianliang entered into an equity transfer agreement with each of Mr. Cai Jiading, Mr. Hong and Mr. Cai Jianfeng (蔡劍鋒) pursuant to which Mr. Cai Xianliang transferred his (i) 2.5% equity interest in Da Rong to Mr. Cai Jiading at a consideration of RMB250,000, (ii) 18.75% equity interest to Mr. Hong at a consideration of RMB1.875 million, and (iii) 37.5% equity interest to Mr. Cai Jianfeng at a consideration of RMB3.75 million. The consideration for the aforesaid transfers was determined based on the negotiation between the parties.

On 9 September 2008, the aforesaid transfers were properly and legally completed. After such transfers, Da Rong was owned by Mr. Cai Jianfeng, Mr. Cai Xianliang, Mr. Hong and Mr. Cai Jiading as to 37.5%, 31.25%, 18.75% and 12.5% respectively.

Also, on 9 September 2008, the name of Da Rong was changed to 福建鼎豐投資有限公司 (Fujian Differ Investment Company Limited) (“**Differ Investment**”).

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*About Mr. Cai Jianfeng, Mr. Cai Xianliang and Mr. Cai Jiading*

Mr. Cai Jianfeng is a non-executive Director and a brother-in-law of Mr. Cai. In respect of Mr. Cai Xianliang, please refer to the paragraph headed “Differ Holding — About Mr. Cai Xianliang” above in this section. In respect of Mr. Cai Jiading, please refer to the paragraph headed “Differ Holding — About Mr. Cai Jiading” above in this section.

*Further changes in Differ Investment*

On 27 November 2008, the registered capital of the Differ Investment was increased from RMB10 million to RMB32 million, of which the additional registered capital of RMB22 million was contributed as to RMB9.325 million by Mr. Hong, as to RMB5.85 million by Mr. Cai Jianfeng, as to RMB4.875 million by Mr. Cai Xianliang, and as to RMB1.95 million by Mr. Cai Jiading. After such changes, Differ Investment was owned by Mr. Hong, Mr. Cai Jianfeng, Mr. Cai Xianliang and Mr. Cai Jiading as to 35%, 30%, 25% and 10% respectively.

On 11 February 2009, the registered capital of Differ Investment was further increased from RMB32 million to RMB54 million, of which the additional registered capital of RMB22 million was contributed as to RMB7.7 million by Mr. Hong, as to RMB6.6 million by Mr. Cai Jianfeng, as to RMB5.5 million by Mr. Cai Xianliang, and as to RMB2.2 million by Mr. Cai Jiading. The respective percentage of equity interest of Mr. Hong, Mr. Cai Jianfeng, Mr. Cai Xianliang and Mr. Cai Jiading in Differ Investment remained unchanged after such increase in registered capital.

On 12 February 2009, the registered capital of the Differ Investment was further increased from RMB54 million to RMB79 million, of which the additional registered capital of RMB25 million was contributed as to RMB8.75 million by Mr. Hong, as to RMB7.5 million by Mr. Cai Jianfeng, as to RMB6.25 million by Mr. Cai Xianliang, and as to RMB2.5 million by Mr. Cai Jiading. The respective percentage of equity interest of Mr. Hong, Mr. Cai Jianfeng, Mr. Cai Xianliang and Mr. Cai Jiading in Differ Investment remained unchanged after such increase in registered capital.

On 2 March 2009, the registered capital of Differ Investment was further increased from RMB79 million to RMB108.8 million, of which the additional registered capital of RMB29.8 million was contributed as to RMB10.43 million by Mr. Hong, as to RMB8.94 million by Mr. Cai Jianfeng, as to RMB7.45 million by Mr. Cai Xianliang, and as to RMB2.98 million by Mr. Cai Jiading. The respective percentage of equity interest of Mr. Hong, Mr. Cai Jianfeng, Mr. Cai Xianliang and Mr. Cai Jiading in Differ Investment remained unchanged after such changes.

On 10 July 2009, the name of Differ Investment was changed to Differ Guarantee.

*Transfer of equity interests to Differ Holding and Differ VC*

On 11 July 2010, Mr. Hong, Mr. Cai Jianfeng, Mr. Cai Xianliang and Mr. Cai Jiading respectively entered into equity transfer agreements with Differ Holding, pursuant to which (i) Mr. Hong transferred his 35% equity interest in Differ Guarantee to Differ Holding at a consideration of RMB38.08 million; (ii) Mr. Cai Jianfeng transferred his 30% equity interest in Differ Guarantee to Differ Holding at a consideration of RMB32.64 million; (iii) Mr. Cai Xianliang transferred his 25% equity interest in Differ Guarantee to Differ Holding at a consideration of RMB27.2 million; and (iv) Mr. Cai Jiading transferred his 5% equity interest in Differ Guarantee to Differ Holding at a consideration of RMB5.44 million. On



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the same date, Mr. Cai Jiading also entered into an equity transfer agreement with Differ VC pursuant to which Mr. Cai Jiading transferred his remaining 5% equity interest in Differ Guarantee to Differ VC at a consideration of RMB5.44 million. The consideration for the aforesaid transfers was determined based on the negotiation between the parties.

On 12 July 2010, the aforesaid transfers were properly and legally completed. After the aforesaid transfers, Differ Guarantee was owned as to 95% by Differ Holding and as to 5% by Differ VC.

On 27 November 2010, Differ Holding and Differ VC entered into an equity transfer agreement, pursuant to which Differ Holding transferred 5% equity interest in Differ Guarantee to Differ VC at a consideration of RMB5.44 million. The consideration for the aforesaid transfer was determined based on the negotiation between the parties. On 29 May 2012, the aforesaid transfer was properly and legally completed. After the aforesaid transfer, Differ Guarantee was owned as to 90% by Differ Holding and as to 10% by Differ VC.

### *Increase in registered capital*

On 17 January 2013, the registered capital of Differ Guarantee was increased from RMB108.8 million to RMB150 million, of which the additional registered capital of RMB41.2 million was contributed as to RMB37.08 million by Differ Holding and as to RMB4.12 million by Differ VC.

### *Obtaining of the Financing Guarantee Operation Permit*

On 28 March 2011, Differ Guarantee obtained the Financing Guarantee Operation Permit from FJETC which was valid from 28 March 2011 to 28 March 2016. The current Financing Guarantee Operation Permit held by Differ Guarantee was granted by XMEDB on 24 January 2013 and is valid until 28 March 2016. The obtaining of the Financing Guarantee Operation Permit for companies engaging in the financing guarantee business was a new regulatory requirement after the promulgation of the Interim Measures in March 2010 and the Xiamen Interim Measures in September 2010. Please refer to the section headed “Regulatory overview — E. The financing guarantee industry” for further details on such requirement.

### *Opinion of our PRC Legal Adviser*

Our PRC Legal Adviser confirmed that (i) Differ Guarantee is an independent legal entity duly established and is validly existing under PRC law; (ii) the initial registered capital and the subsequent increases in the registered capital of Differ Guarantee have been fully paid-up within the relevant prescribed time limits; and (iii) Differ Guarantee has obtained all necessary approvals and completed all registrations and filings in connection with its establishment and subsequent changes in its corporate registration information as required by PRC law.

## **Differ Pawn**

### *Establishment of Differ Pawn*

Differ Pawn was initially established as an urban collective ownership enterprise (城鎮集體所有制企業) under the name of 石獅市金達信典當行 (Shishi Jin Da Xin Pawnshop). On 25 February 2002, FJETC approved the conversion of Shishi Jin Da Xin Pawnshop from an urban collective ownership

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enterprise to a limited liability company and issued the Pawn Operation Permit to the company. Upon completion of the conversion, the company was renamed as Jin Da Xin. On 15 May 2002, Jin Da Xin was officially established after obtaining the business license from 石獅市工商行政管理局 (Shishi Administration for Industry and Commerce). Upon establishment, Jin Da Xin had an initial registered capital of RMB5 million and the shareholders of Jin Da Xin were all independent third parties.

On 25 October 2007, certain changes in the shareholding structure of the company took place. All of the shareholders of Jin Da Xin immediately before and after such changes were independent third parties.

### *Acquisition by Differ Investment and Jing Fu Hui*

On 2 June 2009, Differ Investment (now Differ Guarantee) acquired a 35% equity interest in Jin Da Xin from one of the original shareholders at a consideration of RMB1.75 million. On the same date, 福建京福輝紡織科技有限公司 (Fujian Jing Fu Hui Textile Technology Limited) (“**Jing Fu Hui**”) acquired from another original shareholder a 13% equity interest in Jin Da Xin at a consideration of RMB0.65 million. The consideration for the aforesaid acquisitions was determined based on the negotiation between the parties. Such acquisitions were properly and legally completed on 2 June 2009. After such acquisitions, Differ Pawn was owned as to 35% by Differ Investment (now Differ Guarantee), as to 13% by Jing Fu Hui, and as to 52% by two other independent third parties.

### *About Jin Fu Hui*

At the time of the aforesaid transfer, Ms. Shi was a controlling shareholder of Jin Fu Hui.

### *Acquisition by Differ Real Estate*

On 20 May 2010, 福建鼎豐房地產開發有限公司 (Fujian Differ Real Estate Development Company Limited) (“**Differ Real Estate**”) (now Fujian VC) entered into an equity transfer agreement with each of Jing Fu Hui and the two independent third parties pursuant to which Differ Real Estate acquired an aggregate of 65% equity interest in Differ Pawn from Jing Fu Hui and the two independent third parties at an aggregate consideration of RMB3.25 million, which was determined based on the negotiation between the parties. On 10 June 2010, the acquisition was properly and legally completed.

At the time of the aforesaid transfer, Differ Real Estate was a company within our Group. Please refer to the paragraph headed “Fujian VC” below in this section for details about Differ Real Estate and Fujian VC.

Also, on 10 June 2010, the registered capital of Differ Pawn was increased from RMB5 million to RMB10 million, of which the additional registered capital of RMB5 million was contributed entirely by Differ Guarantee (which had already been renamed from Differ Investment by that time). After such changes, Differ Pawn was owned as to 67.5% by Differ Guarantee and as to 32.5% by Differ Real Estate (now Fujian VC).



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### *Transfer of equity interest by Differ Guarantee to Aidu*

On 7 May 2012, Differ Guarantee and Aidu entered into an equity transfer agreement pursuant to which Differ Guarantee transferred its 67.5% equity interest in Differ Pawn to Aidu at a consideration of RMB6.75 million, which was determined based on the negotiation between the parties. On 16 July 2012, the aforesaid transfer was properly and legally completed. At the time of such transfer, Aidu was owned as to 60% by Mr. Hong and as to 40% by Ms. Cai Danni (蔡丹妮) (Mr. Cai's daughter). On the same date, the registered capital of Differ Pawn was also increased from RMB10 million to RMB30 million, of which the additional registered capital of RMB20 million was contributed as to RMB16.65 million by Aidu and as to RMB3.35 million by Fujian VC (which had already been renamed from Differ Real Estate by that time). After such changes, Differ Pawn was owned as to 78% by Aidu and as to 22% by Fujian VC.

### *Structured Agreements*

For the majority of the time during the Track Record Period (specifically, from 1 January 2011 up to 7 May 2012), Differ Pawn was owned as to 67.5% by Differ Guarantee and as to 32.5% by Fujian VC, both of which were companies within our Group during the period. On 7 May 2012, Fujian VC ceased to be a company within our Group when a change in its shareholding structure took place, as detailed in the paragraph headed "Fujian VC" below in this section. In order for our Group to retain management and control over Differ Pawn since 7 May 2012, the Previous Structured Agreements were entered into by Differ Holding, Differ Pawn, Differ Guarantee and Fujian VC. Under the Previous Structured Agreements, all economic benefits and risks arising from the business, financial and operating activities of Differ Pawn were transferred to Differ Holding.

In addition, as mentioned above, the transfer of 67.5% equity interest in Differ Pawn by Differ Guarantee to Aidu was completed on 16 July 2012. In view of such transfer, the Previous Structured Agreements were terminated on 16 July 2012 with the approval of Differ Holding, and simultaneously replaced by the Structured Agreements entered into among Differ Holding, Differ Pawn and the Differ Pawn Registered Shareholders with the same substantive rights and obligations of the parties thereto.

Further details of the Structured Agreements are set out in the section headed "Structured Agreements" of this prospectus.

### *Opinion of our PRC Legal Adviser*

Our PRC Legal Adviser confirmed that (i) Differ Pawn is an independent legal entity duly established and is validly existing PRC law; and (ii) the initial registered capital and the subsequent increases in the registered capital of Differ Pawn have been fully paid-up within the relevant prescribed time limits.

Our PRC Legal Adviser also advised that prior to the acquisition by Differ Investment and Differ Real Estate, certain registration information of Differ Pawn was not complete. For details, please refer to the section headed "Business — Non-compliances — Registration information of Differ Pawn" in this prospectus. For reasons described therein, our PRC Legal Adviser is of the view that there is a low possibility of any administrative punishments being imposed on Differ Pawn due to the aforesaid incomplete registration information. In addition, our Controlling Shareholders have undertaken to indemnify us for, among other things, any losses or penalties which we may suffer in connection with

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such non-compliance incident. In view of the foregoing, our Directors and our PRC Legal Adviser are of the view that such non-compliance incident, which occurred before Differ Pawn was acquired by Differ Investment and Differ Real Estate, will not have any material and adverse impact on our business operations.

### **Differ Import & Export**

#### *Background and establishment of Differ Import & Export*

Differ Import & Export was acquired by Differ Guarantee on 1 February 2013.

Differ Import & Export was established as a limited liability company in the PRC on 22 December 2011 under the original name of 福建鼎豐置業有限公司 (Fujian Differ Property Company Limited) (“**Differ Property**”). Upon establishment, the initial registered capital of Differ Property was RMB10 million and the entire equity interest of Differ Property was owned as to 60% by Mr. Hong and as to 40% by Ms. Cai Danni (蔡丹妮) (Mr. Cai’s daughter). Since establishment, Differ Property had not commenced any business operations.

#### *Acquisition by Differ Guarantee*

On 8 January 2013, Differ Guarantee entered in an equity transfer agreement with Mr. Hong and Ms. Cai Danni respectively pursuant to which Differ Guarantee acquired their respective equity interest in Differ Property at an aggregate consideration of RMB10 million, which was determined based on the negotiation between the parties. On 1 February 2013, such acquisition was properly and legally completed.

On 1 February 2013, the name of Differ Property was changed to Differ Import & Export and its registered capital was increased to RMB30 million.

Differ Guarantee acquired Differ Import & Export because it is our plan to centralise the disposal of forfeited inventory collateral through Differ Import & Export by selling and exporting the enforced inventory collateral. While we did not experience any default cases during the Track Record Period which required the enforcement of collateral, we believe that it is a prudent strategy to plan for such events.

#### *Opinion of our PRC Legal Adviser*

Our PRC Legal Adviser confirmed that (i) Differ Import & Export is an independent legal entity duly established and validly existing under PRC law; (ii) the initial registered capital and the subsequent increases in the registered capital of Differ Import & Export have been fully paid-up within the relevant prescribed time limits; and (iii) Differ Import & Export has obtained all necessary approvals and completed all registrations and filings in connection with its establishment and subsequent changes in its corporate registration information as required by the applicable PRC laws and regulations.

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### Fujian VC

#### *Background and establishment of Fujian VC*

Fujian VC has once been a company within our Group during the Track Record Period and up to 7 May 2012. Since establishment, Fujian VC has not commenced any business operation other than acting as a holding company.

Fujian VC was established as a limited liability company in the PRC on 19 June 2009 under the original name of 石獅鼎豐房地產開發有限公司 (Shishi Differ Real Estate Limited) (“**Shishi Real Estate**”). Upon establishment, the initial registered capital of Shishi Real Estate was RMB1 million, which was contributed entirely by Differ Investment (now Differ Guarantee).

On 31 July 2009, the name of Shishi Real Estate was changed to Differ Real Estate and its registered capital was increased to RMB12 million. Differ Real Estate remained a wholly-owned subsidiary of Differ Investment (now Differ Guarantee).

On 25 August 2009, the registered capital of Differ Real Estate was further increased to RMB32 million. Differ Real Estate remained a wholly-owned subsidiary of Differ Guarantee (which, by that time, had already been renamed from Differ Investment to Differ Guarantee).

On 27 October 2009, the registered capital of Differ Real Estate was further increased to RMB50 million. Differ Real Estate remained a wholly-owned subsidiary of Differ Guarantee.

On 28 December 2009, Differ Guarantee and Mr. Hong entered into an equity transfer agreement pursuant to which Differ Guarantee transferred a 5% equity interest in Differ Real Estate to Mr. Hong at a consideration of RMB2.5 million, which was determined based on the negotiations between the parties. On 29 December 2009, the transfer was properly and legally completed.

On 20 May 2010, Differ Holding (then known as Differ HCL) entered into an equity transfer agreement respectively with Differ Guarantee and Mr. Hong pursuant to which (i) Differ Guarantee transferred its 95% equity interest in Differ Real Estate to Differ Holding (then known as Differ HCL) at a consideration of RMB47.5 million; and (ii) Mr. Hong transferred his 5% equity interest in Differ Real Estate to Differ Holding at a consideration of RMB2.5 million. The consideration for the aforesaid transfers was determined based on the negotiations between the parties. On 24 June 2010, the aforesaid transfers were properly and legally completed. After such transfers, Differ Real Estate became a wholly-owned subsidiary of Differ Holding (then known as Differ HCL).

On 18 August 2010, the name of Differ Real Estate was changed to Fujian VC.

#### *Disposal of Fujian VC*

On 2 May 2012, Differ Holding (then known as Differ HCL) entered into an equity transfer agreement respectively with Mr. Hong Jianming (洪健銘) and Mr. Wu Zhipai (吳志培) pursuant to which Differ Holding transferred a 51% equity interest in Fujian VC to Mr. Hong Jianming at a consideration of RMB25,525,500 and the remaining 49% equity interest to Mr. Wu Zhipai at a consideration of RMB24,524,500. Such consideration was determined based on the negotiations between

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the parties. On 7 May 2012, the aforesaid transfers were properly and legally completed. Since then, Fujian VC was no longer a company within our Group. Fujian VC is currently one of the Differ Pawn Registered Shareholders and a party to the Structured Agreements.

### *About Mr. Hong Jianming and Mr. Wu Zhipei*

Mr. Hong Jianming is an Independent Third Party. Mr. Wu Zhipei is a cousin of Mr. Ng.

### *Reason for the disposal of Fujian VC*

Immediately before the disposal, (i) Fujian VC (then known as Differ Real Estate) was wholly owned by Differ Holding (then known as Differ HCL); and (ii) Fujian VC was interested in 32.5% of the equity interest in Differ Pawn. Differ Holding became a wholly foreign-owned enterprise on 9 July 2012 after a change in its shareholding structure took place. In anticipation of such change in the shareholding structure of Differ Holding (then known as Differ HCL) and due to the regulatory restriction that foreign-invested enterprises are not able to obtain the Pawn Operation Permit, Differ Holding (then known as Differ HCL) decided to dispose of Fujian VC.

### *Subsequent change in Fujian VC*

Subsequent to the disposal of Fujian VC, on 23 November 2012, Mr. Hong Jianming and Mr. Wu Zhipei respectively entered into an equity transfer agreement with Ms. Cai Danni (蔡丹妮) pursuant to which Mr. Hong Jianming transferred a 49% equity interest in Fujian VC to Ms. Cai Danni at a consideration of RMB24.5 million, while Mr. Wu Zhipei transferred a 50% equity interest in Fujian VC to Ms. Cai Danni at a consideration of RMB25 million. The consideration for the aforesaid transfers was determined based on the negotiation between the parties. The aforesaid transfers were properly and legally completed. After the transfers, Fujian VC was owned as to 99% by Ms. Cai Danni and as to 1% by Mr. Wu Zhipei.

### *Opinion of our PRC Legal Adviser*

Our PRC Legal Adviser confirmed that (i) Fujian VC is an independent legal entity duly established and validly existing under PRC law; (ii) the initial registered capital and the subsequent increases in the registered capital of Fujian VC have been fully paid-up within the relevant prescribed time limits; and (iii) Fujian VC has obtained all necessary approvals and completed all registrations and filings in connection with its establishment and subsequent changes in its corporate registration information as required by PRC law.

## **Quanzhou Guarantee**

### *Background of Quanzhou Guarantee*

During the Track Record Period, 鼎豐擔保(泉州)有限公司 (Differ Guarantee (Quanzhou) Company Limited) (“**Quanzhou Guarantee**”), which was established on 26 August 2008 and deregistered on 16 July 2012, was a member of our Group. Quanzhou Guarantee did not commence any business operations since its establishment.

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Quanzhou Guarantee was established as a limited liability company in the PRC on 26 August 2008 under the name of 石獅市三豐商貿有限責任公司 (Shishi San Feng Trading Company Limited) (“**San Feng**”). Upon establishment, the initial registered capital of San Feng was RMB500,000, which was entirely contributed by an independent third party.

In June 2010, Differ Guarantee acquired the entire shareholding interest in San Feng from the independent third party at a consideration of RMB500,000, which was determined based on the negotiations between the parties. Such acquisition was properly and legally completed on 24 June 2010. On the same date, the name of San Feng was changed to Quanzhou Guarantee and the registered capital of the company was increased to RMB10 million.

On 8 September 2010, the registered capital of Quanzhou Guarantee was further increased to RMB60 million.

On 27 October 2010, Differ Guarantee entered into an equity transfer agreement with Differ Holding pursuant to which Differ Guarantee transferred its entire equity interest in Quanzhou Guarantee to Differ Holding at a consideration of RMB60 million, which was determined based on the negotiation between the parties. On 24 November 2010, such transfer was properly and legally completed. Also, on 24 November 2010, the registered capital of Quanzhou Guarantee was increased from RMB60 million to RMB100 million, where the additional registered capital of RMB40 million was contributed as to RMB10 million by Differ Holding and as to RMB30 million by Aidu. After such changes, Quanzhou Guarantee was owned as to 70% by Differ Holding and as to 30% by Aidu.

On 23 November 2011, the shareholders of Quanzhou Guarantee decided to dissolve and deregister Quanzhou Guarantee as our Group intended to carry out all of our guarantee business under Differ Guarantee. On 16 July 2012, the deregistration of Quanzhou Guarantee was completed.

### *Opinion of our PRC Legal Adviser*

Our PRC Legal Adviser confirmed that Quanzhou Guarantee has been liquidated, dissolved and deregistered in accordance with the relevant PRC laws and regulations.

## REORGANISATION

In contemplation of the Listing, members of our Group have undergone certain restructuring steps whereby a coherent corporate structure of our Group has been established which is suitable for listing on GEM. The Reorganisation involved the following principal steps:

- (1) on 4 December 2012, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 4 December 2012, our Company issued and allotted in nil paid form one Share to Codan Trust Company (Cayman) Limited, which was transferred to Ms. Shi at nil consideration on the same date. On the same date, our Company also issued and allotted in nil paid form another 599 Shares and 400 Shares to Ms. Shi and Mr. Cai respectively;

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (2) on 6 November 2012, RongXin Company Limited was incorporated in BVI for the purpose of acting as the intermediate holding company of our Group with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 6 November 2012, 600 shares and 400 shares of RongXin Company Limited credited as fully paid at par were issued and allotted to Ms. Shi and Mr. Cai respectively;
- (3) on 20 November 2013, RongXin Company Limited acquired 1 share of Differ Hong Kong from Thrive Expand Limited, which represented the entire issued share capital of Differ Hong Kong at a consideration of HK\$1, pursuant to the sale and purchase agreement dated 20 November 2013 and entered into between RongXin Company Limited and Thrive Expand Limited;
- (4) on 26 November 2013, Thrive Expand Limited entered into a deed of novation with Differ Hong Kong and RongXin Company Limited pursuant to which Differ Hong Kong transferred all its liabilities and obligations to RongXin Company Limited and RongXin Company Limited assumed Differ Hong Kong's liabilities and obligations in connection with the outstanding sum in the amount of approximately RMB247,562,000 due from Differ Hong Kong to Thrive Expand Limited;
- (5) on 26 November 2013, Thrive Expand Limited entered into a deed of assignment with Ms. Shi and RongXin Company Limited pursuant to which Thrive Expand Limited assigned and transferred all its rights and obligations to Ms. Shi in connection with the outstanding sum in the amount of approximately RMB148,537,000 due from RongXin Company Limited to Thrive Expand Limited;
- (6) on 26 November 2013, Thrive Expand Limited entered into a deed of assignment with Mr. Cai and RongXin Company Limited pursuant to which Thrive Expand Limited assigned and transferred all its rights and obligations to Mr. Cai in connection with the outstanding sum in the amount of approximately RMB99,025,000 due from RongXin Company Limited to Thrive Expand Limited;
- (7) on 26 November 2013, RongXin Company Limited entered into a deed of capitalisation with Ms. Shi pursuant to which Ms. Shi agreed to subscribe and RongXin Company Limited agreed to allot and issue 60 shares of US\$1.00 each in the share capital of RongXin Company Limited at a subscription price of US\$60 to Ms. Shi to release and discharge RongXin Company Limited from (i) all its obligations, liabilities and debts owing or incurred by RongXin Company Limited to Ms. Shi; and (ii) all claims and demands whatsoever arising out of or in respect of any obligation, liabilities and debts owing or incurred by RongXin Company Limited to Ms. Shi;
- (8) on 26 November 2013, RongXin Company Limited entered into a deed of capitalisation with Mr. Cai pursuant to which Mr. Cai agreed to subscribe and RongXin Company Limited agreed to allot and issue 40 shares of US\$1.00 each in the share capital of RongXin Company Limited at a subscription price of US\$40 to Mr. Cai to release and discharge RongXin Company Limited from (i) all its obligations, liabilities and debts owing or incurred by RongXin Company Limited to Mr. Cai; and (ii) all claims and demands whatsoever arising out of or in respect of any obligations, liabilities and debts owing or incurred by RongXin Company Limited to Mr. Cai;

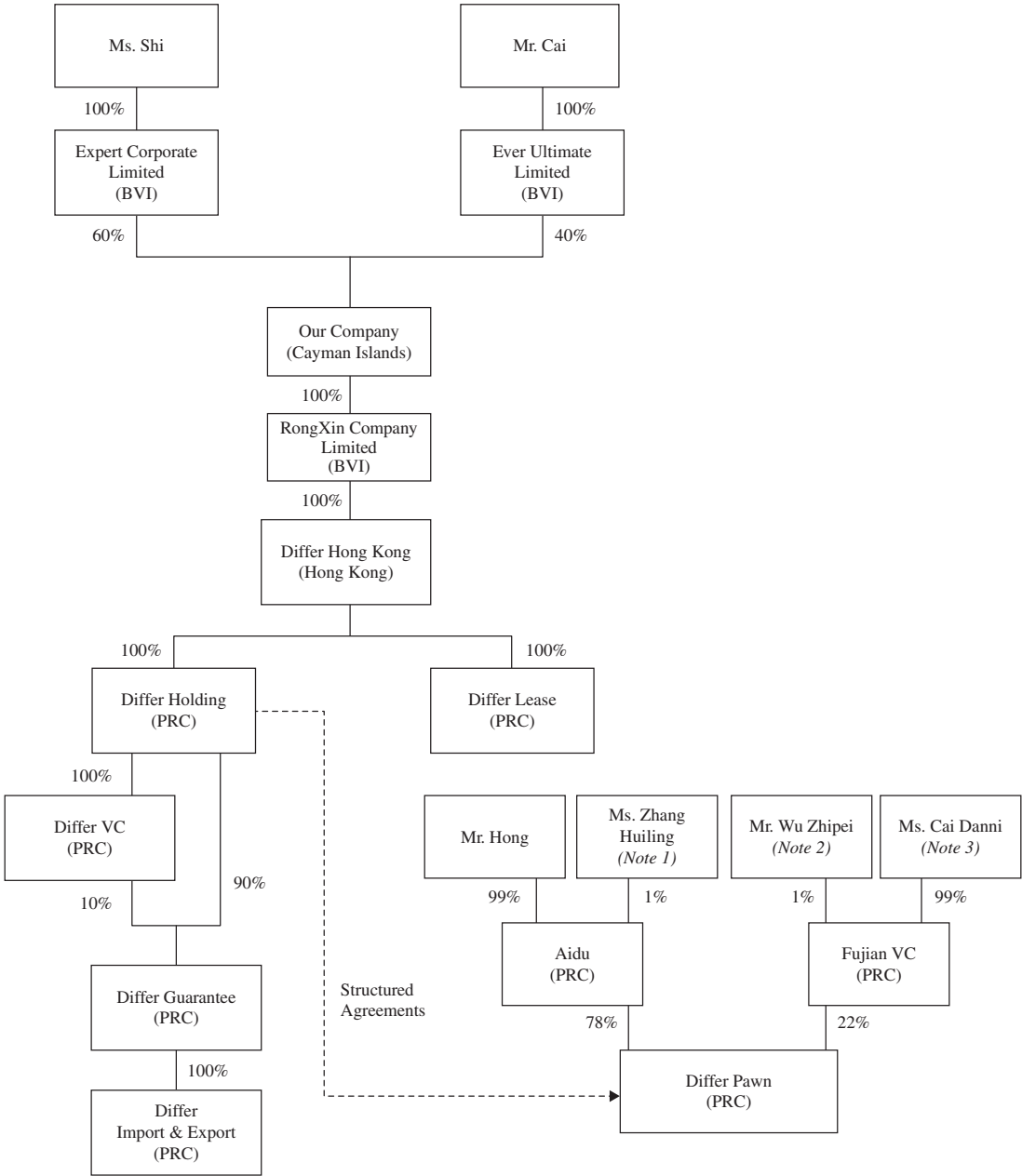
## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (9) on 26 November 2013, Ms. Shi and Mr. Cai transferred their respective nil paid 600 Shares and 400 Shares to Expert Corporate Limited and Ever Ultimate Limited at nil consideration respectively; and
- (10) on 26 November 2013, our Company acquired 660 shares and 440 shares of RongXin Company Limited from Ms. Shi and Mr. Cai respectively, which in aggregate represented the entire issued share capital of RongXin Company Limited, in consideration of (i) the allotment and issue of 60 Shares and 40 Shares credited as fully paid at par to Expert Corporate Limited and Ever Ultimate Limited respectively, at the direction of Ms. Shi and Mr. Cai; and (ii) the crediting as fully paid at par of the nil paid 600 Shares and 400 Shares held by Expert Corporate Limited and Ever Ultimate Limited respectively.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group after the Reorganisation and immediately prior to the Placing and the Capitalisation Issue:

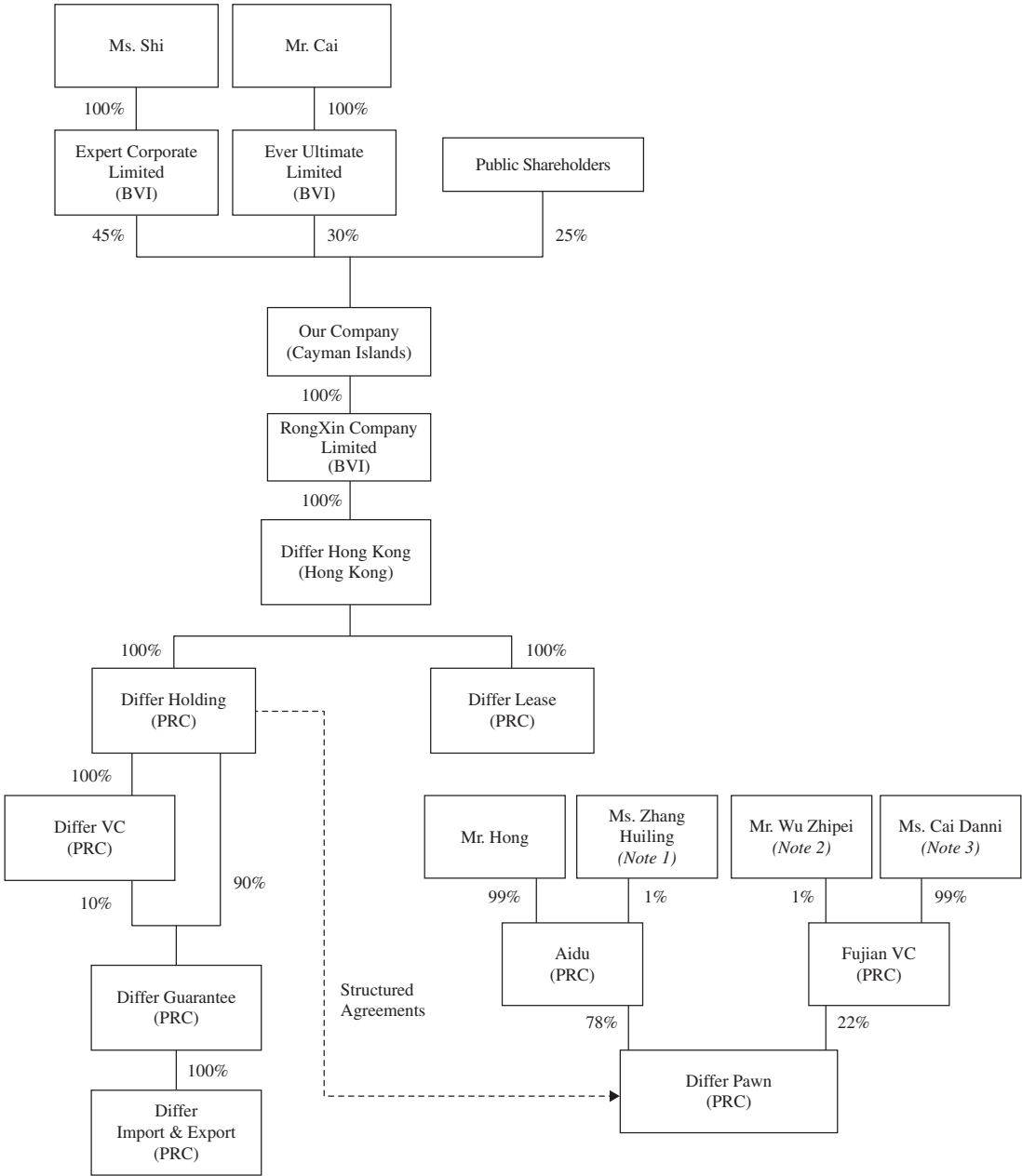


- Notes:
1. Mr. Zhang Huiling is the mother of Mr. Hong.
  2. Mr. Wu Zhipei is a cousin of Mr. Ng.
  3. Ms. Cai Danni is the daughter of Mr. Cai.



# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the Capitalisation Issue and the Placing (assuming that the Over-allotment Option is not exercised and no Shares have been issued pursuant to the exercise of any option which may be granted under the Share Option Scheme):



- Notes:
1. Mr. Zhang Huiling is the mother of Mr. Hong.
  2. Mr. Wu Zhipei is a cousin of Mr. Ng.
  3. Ms. Cai Danni is the daughter of Mr. Cai.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### MAJOR MILESTONES

April 2010	Differ Holding (then known as Differ HCL) was established
May 2010	Differ VC was established
June 2010	Differ Guarantee and Differ Real Estate (now Fujian VC) together acquired the entire equity interest in Differ Pawn
July 2010	Differ Holding and Differ VC together acquired the entire equity interest in Differ Guarantee
March 2011	Differ Guarantee obtained the Financing Guarantee Operation Permit
April 2012	Differ Lease was established
May 2012	the Previous Structured Agreements were entered into
July 2012	Differ Holding became a wholly foreign-owned enterprise and a wholly-owned subsidiary of Differ Hong Kong
July 2012	the Structured Agreements were entered into to replace the Previous Structured Agreements which were terminated on that day
December 2012	our Company was incorporated

## REGULATORY OVERVIEW

*A summary of certain major laws and regulations in relation to our Group's business is set forth below. Information contained in this section should not be construed as a comprehensive summary of laws or regulations applicable to our Group.*

### A. COMPANY ESTABLISHMENT AND FOREIGN INVESTMENT

#### 1. Company Law and the Wholly Foreign-owned Enterprise Law

The establishment, operation and management of corporate entities in the PRC is governed by the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 29 December 1993 and came into effect on 1 July 1994. The Company Law was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. According to the Company Law, companies established in the PRC are either limited liability companies or joint stock limited companies. The Company Law applies to both PRC domestic companies and foreign-invested companies; however where the Company Law is silent on matters related to foreign-invested companies, such matters may be addressed by other PRC laws and regulations.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise 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 and amended on 31 October 2000, and the Rules for the Implementation of the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which was promulgated on 12 December 1990 and amended on 12 April 2001.

#### 2. The Provisions on Guiding Foreign Investment Direction and the Catalogue for the Guidance of Foreign Invested Industries

In 1995, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the 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 Direction (指導外商投資方向暫行規定) (the “**Interim Foreign Investment Provisions**”) and the Catalogue for the Guidance of Foreign Invested Industries (外商投資產業指導目錄) (the “**Foreign Investment Catalogue**”), classifying all foreign investment projects into four categories: encouraged projects, permitted projects, restricted projects and prohibited projects. On 11 February 2002, the State Council promulgated the Provisions on Guiding Foreign Investment Direction (指導外商投資方向規定) (the “**Foreign Investment Provisions**”), re-stating the four categories of foreign investment projects. The Foreign Investment Provisions came into force on 1 April 2002 and the Interim Foreign Investment Provisions were simultaneously repealed. The Foreign Investment Catalogue has been revised several times since it was first promulgated, with the most significant revisions taking place in 1997, 2002, 2004, 2007 and 2011. The version of the Foreign Investment Catalogue currently in effect was jointly promulgated by the National Development and Reform Commission (國家發展和改革委員會) and the MOC on 24 December 2011 and came into effect on 30 January 2012.

## REGULATORY OVERVIEW

The purpose of the Foreign Investment Provisions and the Foreign Investment Catalogue is to direct foreign investment into certain priority industry sectors while restricting or prohibiting investment in 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. 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.

### **B. THE PROPERTY LAW, GUARANTEE LAW, CONTRACT LAW AND BANKRUPTCY LAW**

#### **1. Property Law, Guarantee Law and Contract Law**

The Property Law of the PRC (中華人民共和國物權法) (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 moveable property. “Property right” is defined as the exclusive right enjoyed by the property right holder to directly dominate a given thing according to law, which consists of the right of ownership, the usufruct and the security interest on property. The Property Law stipulates that legal titles to immovables or moveables confer on the title holders the right to possess, use, benefit from and dispose of the immovables or moveables. The title holders may, in accordance with the relevant law, create security interests over the immovables or moveables in favour of their creditors. Likewise, when engaging in financial 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 interests over debtors’ or relevant third parties’ properties as security for the performance of the debtors’ 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, then unless otherwise specified by relevant law, the creditor will enjoy priority of repayment to the extent secured by the relevant property.

Security interests that may be created pursuant to the Property Law include mortgages over immovables (in respect of which the title holder does not pass possession to the creditor) and pledges over moveables (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 kind and amount of the secured debt; the time limit for the debtor to repay the debt; and the name, quantity, quality and condition of the mortgaged or pledged property. Pledge agreements should also specify the time for delivery of the pledged property 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 of the PRC (中華人民共和國擔保法) (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 interests in order to protect

their rights as creditors in transactions with debtors involving finance, business and transportation or processing of goods. In addition to the forms of security under the Property Law, the Guarantee Law also regulates the security in the form of a guarantee. A guarantee is a security by way of creditworthiness of a third person or entity (other than the obligator/debtor of the secured obligation/debt) where, upon the agreement between the guarantor and the creditor, if the obligor/debtor fails to perform its obligation, the guarantor shall perform the obligation or assume financial compensation liability in accordance with the agreement.

The requirements of both the Property Law and the Guarantee Law in respect of the formation, performance and enforcement of contractual obligations are based on the Contract Law of the PRC (中華人民共和國合同法) (the “**Contract Law**”). The Contract Law was promulgated by the National People’s Congress on 15 March 1999 and came into effect on 1 October 1999.

### **2. Enterprise Bankruptcy Law**

The Enterprise Bankruptcy Law of the PRC (中華人民共和國企業破產法) (the “**Bankruptcy Law**”) was promulgated by the National People’s Congress on 27 August 2006 and came into effect on 1 June 2007. The Bankruptcy Law sets out the procedures for enterprise bankruptcy, and seeks to provide a fair resolution for the settlement of debts, safeguard the legitimate rights and interest of creditors and debtors, and maintain market order. The Bankruptcy Law provides that an enterprise will be liquidated if the enterprise cannot pay off its debts as and when they fall due, and the enterprise’s assets are insufficient to paying off all the debts or the enterprise demonstrably lacks the ability to pay off its debts.

Bankruptcy proceedings are governed by the People’s Court in the jurisdiction in which the debtor is domiciled. A debtor facing bankruptcy may file an application with the Court for reorganisation, compromise or bankruptcy. During the period of reorganisation, the debtor may continue to manage his assets and business operations under the supervision of a bankruptcy administrator. Secured creditors are not permitted to enforce their security rights during the period of reorganisation unless there is a possibility of damage to or marked depreciation of the secured assets, in which case the secured creditors may apply with the Court for the enforcement of the security rights. Secured creditors may enforce their security rights over specific secured assets immediately upon the Court’s acceptance of a debtor’s application for compromise.

Creditors may file an application with the Court for the reorganisation or bankruptcy of a debtor. Where an application for bankruptcy is accepted by the Court, a bankruptcy administrator will be appointed, and the debtors or asset holders of the debtor must pay off the debts or deliver all relevant assets to the administrator. Bankruptcy proceedings have binding effect over the debtor’s assets outside the territory of the PRC. Where a debtor is declared bankrupt, the debtor’s assets are deemed bankruptcy property. Creditors must declare their rights within a period, determined by the Court, of 30 days to 3 months from the date the Court accepts the application for bankruptcy. If a creditor fails to declare his creditor’s right within the time limit as specified by the Court and has still not made such declaration prior to the distribution of the debtor’s bankruptcy property in the final installment, the creditor forfeits his right to share in the distribution of the bankruptcy property.

## REGULATORY OVERVIEW

The Bankruptcy Law stipulates that secured creditors enjoy priority of repayment over non-secured creditors in respect of the asset(s) over which security rights were provided. However, in the case that a secured creditor does not enforce his security right over a particular secured asset, or the proceeds from disposition of the secured asset after exercising such right are insufficient to discharge the debt, the secured creditor relinquishes his priority of repayment in respect of any outstanding debt. After the secured debts, the expenses for bankruptcy proceedings and the debts incurred for the common good of creditors have been repaid first, the bankruptcy property shall be liquidated in the following order: wages and subsidies for social security payments in respect of the debtor's employees, employees' other social security premiums and the debtor's outstanding tax payment, and finally non-secured debts.

### C. THE PAWN LOAN INDUSTRY

We engaged in the pawn loan industry, which is subject to the following PRC laws and regulations.

#### 1. The Pawning Measures

In accordance with the Law of the PRC on Commercial Banks (中華人民共和國商業銀行法) as revised in 2003, the Law of the PRC on Regulation of and Supervision over the Banking Industry (中華人民共和國銀行業監督管理法) as revised in 2006 and other relevant laws and regulations, "financial institutions of the banking industry" are defined as the financial institutions that accept deposits from the general public, including, among others, commercial banks, urban credit cooperative unions, rural credit cooperative unions and policy banks, all of which may provide short-term financing services to customers. The CBRC is responsible for approving the establishment of and supervising over the business operation of financial institutions of the banking industry. Pursuant to the Notice on Transfer of Regulatory Responsibilities over the Pawn Industry (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 in 2000, the State Economic and Trade Commission reformed the pawnshop's status from a financial institution previously governed by the PBOC to a special commerce enterprise now governed by the MOC, previously the State Economic and Trade Commission. The Pawning Measures (典當管理辦法) was then jointly issued by the MOC and the Ministry of Public Security on 9 February 2005 and came into effect on 1 April 2005. As a result, pawnshops may be distinguished from financial institutions of the banking industry in the PRC, not only on the basis that pawnshops do not accept deposits from the general public, but also because they come under a separate legal and supervisory regime.

The Pawning Measures define "pawning" as an act whereby (i) a pawner pledges its movable property or property right, or mortgages its real estate to a pawnshop as a pawned item; (ii) on the basis of the value of the pawned item, the pawner pays a certain percentage of expense to the pawnshop in exchange for the loan secured by the pawned item; and (iii) within a pre-determined period, the pawner repays the principal of the loan and interest calculated thereon to discharge the pledge or mortgage and accordingly redeem the pawned item.

A pawnshop is a legal person established in accordance with the Pawning Measures and the Company Law. Pawnshops come under the supervision and administration of the competent commerce authorities and public security bureaus. A pawnshop must have a minimum registered

## REGULATORY OVERVIEW

capital of RMB3 million; or RMB5 million in the case that it provides loans secured by mortgage of real estates; or RMB10 million in the case that it provides loans secured by pledge of property rights. In each case, the minimum registered capital must be contributed in the form of cash.

In accordance with the Pawning Measures, it is incumbent on a pawnshop to establish and implement procedures for the safe operation of pawn loan business. Such procedures include (i) the proper maintenance of paperwork for the receipt, preservation and redemption of pawned items; (ii) the careful inspection and safeguarding of pawned items; (iii) the system for assisting government investigations of suspected crimes; (iv) the system for reporting suspicious persons or circumstances to the relevant authorities; (v) the engagement of security personnel; (vi) the installation of video equipment within its business premises; and (vii) the installation of safes and vaults adequate for the safe and secure preservation of pawned items.

A pawnshop with registered capital of no less than RMB15 million, operating history of more than three years, and net profits and no record of unlawful business operation over the most recent two years may set up branches across provinces (autonomous regions or municipalities directly under the central government). For each of its branches, the pawnshop must provide a working capital of no less than RMB5 million, and the total working capital provided to all branches may not exceed 50% of the registered capital of the pawnshop.

According to the Pawning Measures, an application to establish a new pawnshop or a branch of an existing pawnshop must be submitted to competent commerce authority at the city level and thereafter be examined by relevant commerce authority at the provincial level and finally be approved by the MOC before the MOC can issue the requisite Pawn Operation Permit. However, since September 2012, the relevant commerce authorities at the provincial level have been authorized by the State Council to approve the establishment of a new pawnshop or a branch of an existing pawnshop. Within ten working days as of receiving the Pawn Operation Permit, the applicant must apply for a Special Industry Permit with the competent Public Security Bureau at the county level by providing, among other things, floor plans and architecture structure drawings of the pawnshop's business premises and warehouses, and the layout illustrating the installation places of video equipment, safes, vaults and security surveillance equipment. Within ten working days as of receiving the Special Industry Permit, the applicant must apply for registration and receive a Business Licence with the competent Administration for Industry and Commerce.

The Pawning Measures provides that a pawnshop may engage in (i) granting loans to pledgors who pledge their movable properties or property rights, (ii) granting loans to mortgagors who mortgage their real estates which are located in the province or region within the jurisdiction of the pawnshop's registration, or projects under-construction that have obtained Housing Presale Permit (商品房預售許可證), (iii) sale of absolutely pawned items subject to the value limit (限額內絕當物品) where the value limit is RMB30,000 based on appraised value, (iv) appraisal, valuation and related consulting services, and (v) other pawn business approved by the MOC. A pawnshop is not permitted to (i) accept mortgages of moveable properties, (ii) raise funds and/or solicit deposits in any form, (iii) extend credit loans, or (iv) operate any other business not approved by the MOC. Furthermore, a pawnshop is prohibited from (i) borrowing money from entities and persons other than commercial banks, (ii) inter-borrowing with other pawnshops in any



## REGULATORY OVERVIEW

form, (iii) receiving loans in excess of permitted amounts from commercial banks, or (iv) engaging in external investments. Where relevant laws of the PRC require the registration of pawned items, including mortgaged real estates or pledged automobiles, such registration must be duly completed.

The appraised value of a pawned item and the amount of pawn loan secured by the pawned item should be determined through consultation between the pawner and the pawnshop. Where the parties are unable to agree on the amount of pawn loan secured by a real estate, a qualified real estate evaluation agency may be retained and the value determined by such an agency may be taken as reference to the amount of pawn loan. The maximum term of a pawn loan is 6 months, which may be extended for a period not exceeding 6 months at one time by agreement between the parties. The maximum amount of a single pawn loan secured by real estate may not exceed RMB1 million in the case that a pawnshop's registered capital is less than RMB10 million. Where a pawnshop has a registered capital of RMB10 million or more, the maximum amount of a single pawn loan secured by real estate may not exceed 10% of the registered capital. The total outstanding amount of pawn loans provided by a pawnshop to any one legal person or natural person may not exceed 25% of its registered capital. The total outstanding amount of pawn loans secured by property rights may not exceed 50% of its registered capital; whereas the total outstanding amount of pawn loans secured by real estates may not exceed the registered capital of the pawnshop. The Pawning Measures provides that the interest rate of a pawn loan may not exceed the statutory interest rate for a six-month loan published by the PBOC as discounted by the term of the pawn loan. The interest may not be withheld in advance. The comprehensive charges of a pawn loan include various service and administration fees, the monthly rate of which may not exceed 4.2% of the amount of the pawn loan if secured by moveable property, 2.7% if secured by real estate, and 2.4% if secured by property right. The comprehensive charges do not include the consultation fee and the principal of a pawn loan.

The pawned items will be deemed forfeited if, within five days as of the expiration of the pawn term, the pawner has not redeemed the pawned items or extended the pawn term. Where the pawned items are redeemed after the expiration of the pawn term (or extended pawn term), in addition to repayment of the principal, accumulated interest and comprehensive charges of the pawn loan, the pawner shall also make up the interest of the pawn loan and relevant expenses that are calculated with reference to the level of penalty interest of overdue loans as prescribed by the PBOC, the charging standards formulated by the pawnshop and the overdue days. The Pawning Measures does not prescribe any threshold for the calculation of penalty interest and relevant expenses that may be charged in the case the pawned items are forfeited.

Where the appraised value of an absolutely pawned item does not exceed RMB30,000, the pawnshop may dispose of or otherwise sell the property at its own risk. An absolutely pawned item with appraised value of over RMB30,000 may be disposed of in accordance with relevant provisions of the Guarantee Law, which provides that the pledged/mortgaged property may be sold, including by auction, to a third party according to an agreement between the pledgor/mortgagor and pledgee/mortgagee. Where no agreement can be reached, the pledgee/mortgagee may file a suit against the pledgor/mortgagor at the People's Court. The Pawning Measures further provides that the pawnshop and the pawner may agree in advance to have the absolutely pawned items publicly auctioned by an auction house after they are forfeited. In such a case, any amount generated from the auction that is in excess of the outstanding principal, accumulated interest and



## REGULATORY OVERVIEW

relevant expenses (including the costs of the auction) must be returned to the pawner. In the event the auction proceeds are insufficient to repay those amounts, the pawnshop may file a suit against the pawner at the People's Court to recover the shortfall.

### 2. The Regulatory Rules on the Pawn Loan Industry

The Regulatory Rules on the Pawn Loan Industry (典當行業監管規定) was promulgated by the MOC on 5 December 2012 and came into effect on the same date. The Regulatory Rules on the Pawn Loan Industry tightens the control on the pawn loan industry and requires that competent commerce authorities at all levels strengthen supervision by way of on-site inspection, interviewing the principals and top executives of pawnshops, etc.

The major regulatory requirements for entering the pawn loan industry includes: (i) the legal person shareholders of a pawnshop should be in the relative controlling status, aggregate shares of which shall account for more than 1/2 of the total shares, or the largest shareholder is a legal person holding more than 1/3 of the total shares; (ii) the natural person shareholders of a pawnshop, if any, shall be Chinese citizens over 18 years old with good credit and no records of crimes; and (iii) the legitimacy of sources of capital shall be strictly verified by commerce authorities and using borrowed funds or illegal funds to make capital contribution is prohibited. The legal sources of capital are restricted to: (i) registered capital approved by relevant commerce authorities; (ii) operating surplus of the pawnshop; and (iii) loans obtained from commercial banks in accordance with the Pawning Measures.

A pawnshop may increase its registered capital at an interval of at least 1 year, and the newly entered shareholders shall also meet the qualifications as required for shareholders establishing the pawnshop. Enterprises with operating history of less than 3 years or having no profit in the latest 2 years should be strictly examined before they enter the pawn loan industry. The commerce authorities at the provincial level are responsible for conducting annual inspection over pawnshops.

## D. THE ENTRUSTED LOAN INDUSTRY

We engaged in the entrusted loan industry, which is subject to the following PRC laws and regulations.

### 1. The General Rules

The General Rules was promulgated by the PBOC on 28 June 1996 and came into effect on 1 August 1996. The General Rules defines a "loan provider" as a PRC-funded financial institution established within the territory of the PRC that are engaging in loan business. One type of loans defined and regulated in the General Rules is entrusted loans. Entrusted loans are loans funded by government departments, enterprises and institutions or individuals (the "**Capital Provider**"), disbursed, supervised and recovered by financial institutions as loan providers (the "**Loan Provider**") on behalf thereof according to the loan object, purpose, amount, term, and interest rate determined by the Capital Provider. The term "specified borrower" (確定的貸款對象) describes the party specified by the Capital Provider as the person who will receive the amount of an entrusted loan (the "**Loan Recipient**"). The General Rules does not contain any restriction or prohibition on the provision of entrusted loans to a specified borrower who is a related party to the Capital Provider. While the Loan Provider exercises supervision over and receives repayment from

## REGULATORY OVERVIEW

the Loan Recipient, the Loan Provider does not assume any risk of default in repayment by the Loan Recipient. In accordance with the General Rules and relevant judicial interpretation from the Supreme People's Court of the PRC, in an entrusted loan arrangement, the relationship between the Loan Provider and the Capital Provider is that of an entrusted party and an entrusting party, and the relationship between the Loan Provider and the Loan Recipient is that of a lender and a borrower. No direct creditor/debtor relationship exists between the Capital Provider and the Loan Recipient. The General Rules requires that Loan Providers must be authorised by the PBOC, hold the Financial Institution Legal Person Licence (金融機構法人許可證) or Financial Institution Business Licence (金融機構營業許可證) issued by the PBOC, and register with the administrations for industry and commerce (工商行政管理部門). The General Rules further stipulates that enterprises which are not authorised and registered as Loan Providers may not engage in intercompany loan businesses or the provision of loans through unauthorised means in violation of the laws of the PRC. An intercompany loan is a loan provided directly from one company to another where the loan provider is not authorized and registered as Loan Provider. The General Rules provides that the PBOC may impose sanctions on an intercompany loan provider and enforce a penalty of up to 5 times the illegal gains.

### E. THE FINANCING GUARANTEE INDUSTRY

We engaged in the financing guarantee industry, which is subject to the following PRC laws and regulations.

#### 1. The Interim Measures

In accordance with the Interim Measures which was promulgated by the CBRC, the National Development and Reform Commission, the MOC and four other authorities of the PRC on 8 March 2010, the establishment of a financing guarantee company or a branch thereof is subject to the approval and issuance of a Financing Guarantee Operation Permit by relevant regulatory authority. The Interim Measures governs financing guarantee companies engaging in corporate credit guarantee services and requires that if a financing guarantee company provides other guarantee services such as performance guarantee services and the related consultation services, it is required to obtain the relevant authority's approval.

Pursuant to the Interim Measures, a financing guarantee company is subject to the following major restrictions and regulatory requirements: (i) the registered capital of a financing guarantee company shall be no less than RMB5 million, which must be fully paid-up and contributed by cash, and local governments are authorised to promulgate stricter requirement on the minimum registered capital; (ii) the guarantee fees that may be collected by a financing guarantee company may be determined through negotiations between it and its customer based on the level of risk involved in the transaction, but the relevant regulations of the PRC shall not be violated (according to Opinions on Strengthening the Development of SME Credit Guarantee System (關於加強中小企業信用擔保體系建設的意見) the guarantee fee rate that may be charged by a financing guarantee company providing guarantee services to SMEs shall be determined by reference to 50% of the bank's lending interest rate during the same period, subject to an upward or downward adjustment of 30–50% based on the level of risk involved in the transaction; (iii) the outstanding financing guarantee amount of a financing guarantee company shall not exceed ten times of its net assets, while that provided by it to a single customer shall not exceed 10% of its net assets and that

## REGULATORY OVERVIEW

provided to a single customer and the affiliated parties thereof shall not exceed 15% of its net assets; (iv) it shall report the use of its capital to the regulatory authority on a quarterly basis, and shall hire an auditor to conduct annual audit and submit the audit report to the regulatory authority in a timely manner; (v) it shall establish a guarantee assessment system, post-remedy and disposal system, risk alert mechanism and emergency response mechanism in conformity with the principle of prudent operation, and formulate highly standardized operating rules so as to enhance the risk assessment and management of guaranteed projects; (vi) it is prohibited from conducting such business activities as taking deposits, granting loans, providing entrusted loans and making entrusted investment; (vii) it is prohibited from providing guarantee in favour of its parent company or subsidiaries; and (viii) it is required to set aside 50% of the income generated from guarantee fees of the year as reserve for non-matured obligations (未到期責任準備金) and set aside no less than 1% of the balance of the outstanding guaranteed amount as of the end of the year as guarantee indemnity reserve (擔保賠償準備金). If the guarantee indemnity reserve accumulates to 10% of the balance of the guaranteed liabilities of the year, it shall be set aside on the basis of the difference in accordance with separate measures implemented by the relevant regulatory authorities.

### 2. Implementing rules

In order to facilitate the implementation of the Interim Measures in Xiamen, the local governments of Xiamen promulgated the Xiamen Interim Measures on 22 September 2010 and the Xiamen Measures for Administration and Supervision on the Financing Guarantee Companies (the “Xiamen Measures”) on 6 December 2012. The provisions of the Xiamen Interim Measures and the Xiamen Measures are not materially different from those of the Interim Measures, save as the following requirements: (i) the local regulatory body in Xiamen is the XMEDB; (ii) the minimum registered capital of a financing guarantee company is RMB100 million; (iii) a financing guarantee company shall have no less than five professionals that are familiar with guarantee businesses.

### 3. 融資性擔保業務監管部際聯席會議融資擔保發(2012)1號 (Issue No. (2012)1 of the Inter-Ministerial Joint Council for the Supervision of Financing Guarantee Business) (the “Issue”)

The Issue is applicable to all financing guarantee companies in the PRC. The Issue discourages financing guarantee companies from accepting cash deposit from customers as counter-guarantee and regulates the management of the cash deposit if accepted.

As confirmed by the Group, Differ Guarantee does not accept any cash deposit from its customers as counter-guarantee during the Track Record Period.

### 4. Guiding Notice on the Examination and Approval of Foreign Invested Guarantee Companies (外商投資擔保業審批指引) (the “Guiding Notice”)

Our PRC Legal Adviser has advised that the content of the Guiding Notice mainly includes the application procedures, requirements and documents for the issuance of the certificate for foreign invested guarantee company in the PRC.

## REGULATORY OVERVIEW

Our PRC Legal Adviser has advised that the Guiding Notice was promulgated to regulate the approval and administration of financing guarantee companies which are directly established by foreign investors, and therefore the Guiding Notice is only applicable to those financing guarantee companies of which the immediate shareholders are foreign investors. As the immediate shareholders of Differ Guarantee (namely, Differ VC and Differ Holding) are companies established in the PRC, our PRC Legal Adviser is of the opinion that notwithstanding that Differ Guarantee is ultimately owned by our Company which was incorporated in the Cayman Islands, Differ Guarantee would not be treated as foreign invested financing guarantee enterprise for the enforcement of the Guiding Notice, and that Differ Guarantee is not subject to the Guiding Notice.

### F. THE FINANCE LEASE INDUSTRY

We engaged in the finance lease industry, which is subject to the following PRC laws and regulations.

#### 1. The Administrative Measures on Foreign Investment in the Lease Business

According to the Administrative Measures on Foreign Investment in the Lease Business (外商投資租賃業管理辦法), which was promulgated by the MOC on 3 February 2005 and came into effect on 5 March 2005, the total assets of the foreign investors in a foreign-invested lease enterprise or a foreign-invested finance lease enterprise shall be no less than USD5 million. A foreign-invested finance lease enterprise must have a minimum registered capital of USD10 million and employ specialised staff and senior management possessing appropriate qualifications and a minimum of three years' relevant professional experience. Where the enterprise takes the form of a limited liability company, the term of operation of the company will generally not exceed 30 years. For the establishment of a foreign-invested finance lease enterprise, preliminary application has to be made to and accepted by the relevant commerce authorities at the provincial level and thereafter be submitted to the MOC for approval. The Certificate of Approval for Establishment of Enterprises with Foreign Investment in the PRC (外商投資企業批准證書) will be issued by the MOC if the application is approved. However, since July 2010, in order to facilitate the establishment of foreign-invested finance lease enterprises, the relevant commerce authorities at the provincial level have been authorized by the State Council to issue the Certificate of Approval for Establishment of Enterprises with Foreign Investment in the PRC (外商投資企業批准證書) to a foreign-invested finance lease enterprise meeting certain requirements.

### G. REAL ESTATE LAWS

#### 1. Measures for the Administration of Real Estate

The Law of the PRC on the Administration of Urban Real Estate (中華人民共和國城市房地產管理法) (the “**Urban Real Estate Law**”) was promulgated by the Standing Committee of the National People's Congress on 5 July 1994, came into effect on 1 January 1995, and then was amended on 30 August 2007. The Urban Real Estate Law is formulated to strengthen the administration of urban real estate, maintain the order of real estate market, protect the legitimate rights and interests of real estate owners and promote the sustained development of real estate industry. The “transactions of real estate” are defined in the Urban Real Estate Law as including the transfer of real estate, mortgage of real estate and leasing of buildings. When a real estate is transferred or mortgaged, the ownership of the buildings and the land-use rights to the underlying

## REGULATORY OVERVIEW

land are transferred or mortgaged at the same time. Accordingly, The Urban Real Estate Law provides that a mortgage may be created on the ownership of a lawfully obtained building together with the land-use right to the land occupied by the building. The Certificate of Land-Use Right (土地使用權證書) and the Certificate of Building Ownership (房屋所有權證書) 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. A mortgage over real estate must be registered with relevant authority designated by the local government at or above the county level. Where the ownership of a building and the land-use right have been obtained from disposal of mortgaged real estate pursuant to the mortgage agreement, the transfer of ownership must be registered in accordance with the Urban Real Estate Law.

### 2. Administrative Measures for the Leasing of Commodity House

The Administrative Measures for the Leasing of Commodity House (商品房屋租賃管理辦法) (the “**Commodity House Leasing Measures**”) was promulgated by the Ministry of Housing and Urban-rural Development (住房和城鄉建設部) on 1 December 2010 and came into effect on 1 February 2011. The Commodity House Leasing Measures applies to the leasing of commodity houses on state-owned land in the urban planning areas and the supervision and administration thereof. Pursuant to the Commodity 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 lease term, the lease contract shall continue to take effect even if the leased house is transferred to others by reason of donation, division of property, inheritance or sale; within 30 days after the execution of the lease contract, the lessor and the lessee shall record the leasing with competent house administration authority where the leased house is located.

## H. RULES ON FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

### 1. The Regulations on Foreign Currency Administration and other regulations

The principal regulation governing foreign currency exchange in the PRC is the Regulations of the PRC on Foreign Currency Administration (中華人民共和國外匯管理條例), which was promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008 respectively. Under these rules, RMB is freely convertible 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 the SAFE has been obtained. Under the Regulations on Foreign Currency Administration, foreign-invested enterprises in the PRC may purchase foreign currencies without the approval of the SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign currencies (subject to a cap approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from the SAFE.

## REGULATORY OVERVIEW

The PRC foreign exchange regulations also regulate the use of foreign currencies by foreign-invested enterprises that are converted into RMB funds for capital expenditure purposes. Under the existing applicable rules, RMB funds which are converted by foreign-invested enterprises for capital expenditure purposes are not permitted to be used for investments in stocks, granting of entrusted loans, repayment of borrowings between enterprises or repayment of bank loans obtained by it which are on-lent to third parties. Foreign-invested enterprises that are not in the real estate industry are not permitted to use such RMB funds so converted for acquiring real estates that are not for self-use purposes.

### 2. SAFE Registration

Pursuant to the SAFE Circular No. 75 issued on 21 October 2005, (i) PRC residents should register with the local branch of the SAFE before establishing or controlling a privately-held overseas special purpose vehicle (the “**Overseas SPV**”) for the purpose of overseas equity financing (including convertible debt financing); (ii) 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 resident shall register his or her interest in the Overseas SPV and the change thereof with the local branch of the SAFE; and (iii) when the Overseas SPV undergoes such material capital alteration as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register with the local branch of the SAFE. Under the SAFE Circular No. 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.

Our beneficial owners, namely Ms. Shi and Mr. Cai, are not “PRC residents” as defined in the SAFE Circular No. 75, so they are not required to register with the local branch of the SAFE under the SAFE Circular No. 75.

### 3. Regulation on Dividend Distribution

The principal laws and regulations governing the distribution of dividends paid by wholly foreign-owned enterprises in the PRC include (i) the Company Law; (ii) the WFOE Law; and (iii) the Implementation Rules of the WFOE Law. Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may distribute 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, as certain reserve funds until the accumulated reserve funds reach and remain above 50% of their registered capital. These reserves are not distributable as cash dividends. Under the relevant PRC laws, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

## I. REGULATION ON OVERSEAS LISTING

On 8 August 2006, the MOC, the SAFE and four other authorities jointly adopted the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors (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 and was amended on 22 June 2009. The M&A Rules provides that an Overseas SPV established for listing purposes and



## REGULATORY OVERVIEW

controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the China Securities Regulatory Commission (中國證券監督管理委員會) (the “CSRC”) prior to the listing and trading of its securities on an overseas stock exchange. In the event of M&A by a PRC company or individual, in the name of a company legitimately established or controlled by it outside the PRC, of a domestic company affiliated thereto, the M&A shall be submitted to the MOC for examination and approval. The parties concerned shall not evade the above requirements through domestic investment by a foreign-invested enterprise or any other means.

Since the beneficial owners of Differ Hong Kong are not PRC individuals at the time of the acquisition of Differ Holding by Differ Hong Kong, the approval of the MOC is not required to conduct the acquisition.

### J. LABOUR LAWS

#### 1. The Labour Contract Law

The Labour Contract Law of the PRC (中華人民共和國勞動合同法) was promulgated by the Standing Committee of the National People’s Congress on 29 June 2007 and came into effect on 1 January 2008. The Labour Contract Law is enacted to define the rights and obligations of parties to a labour contract, including matters with respect to the establishment, performance and termination of a labour contract. Under the Labour Contract Law, (i) an employer must pay an employee two times his salary for each month in circumstance where it fails to enter into a written labour contract with the employee for more than a month but less than a year; where such period exceeds one year, the parties are deemed to have entered into a unfixed-term labour contract; (ii) where an employee has been working for an employer for a consecutive period of 10 years or more, a unfixed-term labour contract shall be concluded, unless the employee requests the conclusion of a fixed-term labour contract; (iii) employees must adhere to the regulations concerning commercial secrets and non-competition; (iv) the amount of compensation an employer may seek from an employee for breach of the agreed service term may not exceed the training expenses paid by the employer; (v) an employee may have his labour contract terminated if the employer fails to pay social insurance premiums for the employee in accordance with law; (vi) employers who collect money or property from employees in the name of guarantee or in other names may be fined a maximum of RMB2,000 for each employee; and (vii) an employer who fails to pay an employee’s salary on time and in full as stipulated in the labour contract must, in addition to his full salary, pay additional compensation to the employee at a rate of not less than 50 percent but not more than 100 percent of the amount payable.

#### 2. 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 policy support, fair employment, employment service and management, and vocational education and training. More particularly, the Law on Employment Promotion (i) states explicitly that employment discrimination should be eliminated, and the employees discriminated by acts in violation of the provisions may file a lawsuit with the People’s Court; (ii) provides that public employment service agencies established by the People’s Government at the county level or above should provide free services to employees, including

## REGULATORY OVERVIEW

consultation of employment policies and regulations, vocational training, and price guidance for market wages; (iii) perfects an employment and unemployment registration system, stipulating that employers must complete employment registration with public employment service agencies after employees have been recruited; while employees who are individual operators or engaged in unfixed jobs may register with community public employment service agencies, and shall be entitled to applicable support policies upon registration.

### K. SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

#### 1. Social Insurance

According to the Interim Regulations on Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), which was promulgated and came into effect on 22 January 1999, enterprises are required to pay basic pension insurance, basic medical insurance and unemployment insurance (collectively referred to as “**social insurance**”) for their employees. The enterprises shall, within 30 days from the date of their establishment, apply for social insurance registration with the local social insurance agencies based on their business licenses, registration certificates or other relevant certificates. After verification, the Social Insurance Registration Certificates (社會保險登記證) will be issued to them by the social insurance agencies. Furthermore, these enterprises shall, on a monthly basis, report to the social insurance agencies the amount of social insurance premiums payable and, after assessment by the social insurance agencies, pay their social insurance premiums within the prescribed time limit.

Furthermore, pursuant to the Regulations on Work-Related Injury Insurances (工傷保險條例), which was revised on 8 December 2010 and came into effect on 1 January 2011, employers are required to purchase work-related injury insurance for their employees. Pursuant to the Provisional Measures on Maternity Insurance for Enterprise Employees (企業職工生育保險試行辦法), which were promulgated on 14 December 1994 and came into effect on 1 January 1995, employers are required to purchase maternity insurance for their employees.

The Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and came into effect on 1 July 2011, requires that employers within the PRC shall pay social insurance premiums, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. According to this law, rural residents working in urban cities and foreigners working in the PRC shall also participate in social insurance.

#### 2. Housing Provident Fund

According to the Regulations on Management of Housing Provident Fund (住房公積金管理條例), which became effective on 3 April 1999 and was amended on 24 March 2002, enterprises in the PRC must register with the housing provident fund management centre, maintain housing provident fund accounts with designated banks for their employees, and deposit into the fund an amount not less than 5% of each employee’s average monthly salary in the previous year.



## **L. TAXATION**

### **1. Income Tax**

According to the EIT Law which was promulgated by the National People's Congress on 16 March 2007 and came into effect on 1 January 2008, and the Implementation Regulations of the EIT Law (中華人民共和國企業所得稅法實施條例) which was promulgated on 6 December 2007 and came into effect on 1 January 2008, the income tax rate for both domestic and foreign-invested enterprises is 25%.

### **2. Business Tax**

Pursuant to the Interim Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) which was last amended on 10 November 2008 and took effect on 1 January 2009, and its Implementation Regulations which was last amended on 28 October 2011, all entities or individuals providing services as prescribed in these regulations, transferring intangible assets or selling immovable properties within the territory of the PRC are required to pay business tax. The amount of business tax payable is calculated as turnover multiplied by the prescribed tax rates. The rate of business tax for those engaging in the finance and insurance industry, transfer of intangible assets and sale of immovable properties is 5%.

### **3. Value-added Tax**

Pursuant to the Interim Regulations of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例) which was last amended on 10 November 2008 and took effect on 1 January 2009, and its Implementation Regulations which was last amended on 28 October 2011, value-added tax ("VAT") is levied on the supply of goods, the provision of repair, processing and replacement services, and on imports at the standard rates of 13% or 17%.

On 16 November 2011, the Ministry of Finance and the SAT jointly issued the Notice for the Introduction of the Pilot Scheme to Convert Business Tax to VAT (財政部、國家稅務總局關於印發《營業稅改徵增值稅試點方案》的通知) ("Circular 110") and Notice for Converting from Business Tax to VAT in the Transportation Industry and Certain Modern Service Sectors in Shanghai (財政部、國家稅務總局關於在上海市開展交通運輸業和部份現代服務業營業稅改徵增值稅試點的通知) ("Circular 111"), which set out the general plan and detailed implementation rules of the VAT pilot program in Shanghai. Pursuant to Circular 110 and Circular 111, VAT payers are either general VAT payers or small-scale VAT payers, with different tax rates and calculation methods. A tax payer is required to apply for the general VAT payer status if its annual turnover from providing the taxable services is above RMB5 million. The VAT rate for leasing of movable and tangible assets is 17%, for transportation service is 11%, and for other modern service (including consultation service) is 6%. Entities and individuals providing taxable services with annual turnover less than RMB5 million may be treated as small-scale VAT payers. Small-scale VAT payers shall pay VAT at 3% on the sales amount for their taxable services, regardless of the type of services provided by them.

On 31 July 2012, the Ministry of Finance and the SAT further issued the Notice for Converting from Business Tax to VAT in the Transportation Industry and Certain Modern Service Sectors in Eight Provinces including Beijing (財政部、國家稅務總局關於在北京等8省市開展交

通運輸業和部份現代服務業營業稅改徵增值稅試點的通知) (“Circular 71”) to expand the pilot VAT reform to Beijing, Tianjin, Jiangsu, Zhejiang (including Ningbo), Anhui, Fujian (including Xiamen), Hubei and Guangdong (including Shenzhen). Pursuant to Circular 71, the implementation rules applicable in each of the above expanded locations are the same as in Shanghai. As a result of the pilot VAT reform, the consultation service provided by Differ Holding and the finance lease service provided by Differ Lease are subject to VAT instead of business tax from 1 February 2013 and 1 January 2013 respectively.

#### 4. Urban Maintenance and Construction Tax and Education Surtax

Pursuant to the Interim Regulations of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例) which was promulgated on 8 February 1985 and took effect from 1 January 1985, and Circular of the SAT on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知) which was promulgated on 12 March 1994 and took effect from 1 January 1994, any unit or individual subject to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. The amount of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax actually paid by a taxpayer, and shall be paid simultaneously with payment thereof. The rates of urban maintenance and construction tax shall be 7% for a taxpayer in city, 5% for a taxpayer in county or town and 1% for a taxpayer in places other than a city, county or town.

In accordance with the Interim Provisions on the Collection of Educational Surtax (徵收教育費附加的暫行規定) which was last revised on 20 August 2005 and took effect on 1 October 2005, any unit or individual subject to consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with this Provisions. The rate of educational surtax is 3%, based on the amount of consumption tax, value-added tax and business tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with the payment of consumption tax, value-added tax and business tax.

## REGULATORY OVERVIEW

### M. SUMMARY OF KEY REGULATORY LIMITS ON EXPOSURES

The following table summarises the key regulatory limits on exposures in relation to the various business segment of our Group as mentioned above:

Business segment	Key regulatory requirements	Types of collaterals that we have accepted and the value of such collaterals as at the end of each year/ period during the Track Record Period	Value of collaterals RMB'000
Guarantee	<ul style="list-style-type: none"> <li>● The outstanding financing guarantee amount of a financing guarantee company shall not exceed 10 times of its net assets.</li> </ul>	● Real estate	
		As at	
		31 December 2011	250,746
	<ul style="list-style-type: none"> <li>● The outstanding financing guarantee amount provided to a single customer shall not exceed 10% of the net assets of the financing guarantee company.</li> </ul>	31 December 2012	378,286
		31 July 2013	311,890
	<ul style="list-style-type: none"> <li>● The outstanding financing guarantee amount provided to a single customer and its affiliated parties shall not exceed 15% of the net assets of the financing guarantee company.</li> </ul>	● Inventories	
		As at	
		31 December 2011	215,689
	<ul style="list-style-type: none"> <li>● A financing guarantee company is required to set aside 50% of the income generated from guarantee fees of the year as reserve for non-matured obligations (未到期責任準備金).</li> </ul>	31 December 2012	393,963
		31 July 2013	606,172
	<ul style="list-style-type: none"> <li>● A financing guarantee company is required to set aside no less than 1% of the balance of the outstanding guaranteed amount as of the end of the year as guarantee indemnity reserve (擔保賠償準備金).</li> </ul>	● Machinery	
		As at	
		31 December 2011	31,562
	31 December 2012	74,591	
	31 July 2013	123,171	
	● Motor vehicles		
	As at		
	31 December 2011	1,773	
	31 December 2012	9,431	
	31 July 2013	9,040	
	● Property rights		
	As at		
	31 December 2011	—	
	31 December 2012	167,599	
	31 July 2013	2,050	

## REGULATORY OVERVIEW

<b>Business segment</b>	<b>Key regulatory requirements</b>	<b>Types of collaterals that we have accepted and the value of such collaterals as at the end of each year/ period during the Track Record Period</b>																														
Pawn loan	<ul style="list-style-type: none"> <li>● Where a pawnshop has a registered capital of RMB10 million or more, the maximum amount of a single pawn loan secured by real estate may not exceed 10% of its registered capital.</li> <li>● The total outstanding amount of pawn loans provided by a pawnshop to any one legal person or natural person may not exceed 25% of its registered capital.</li> <li>● The total outstanding amount of pawn loans secured by property rights may not exceed 50% of the registered capital.</li> <li>● The total outstanding amount of pawn loans secured by real estates may not exceed the registered capital.</li> </ul>	<ul style="list-style-type: none"> <li>● Real estate <table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: right;"><b>As at</b></td> <td style="text-align: right;"><b>Value of collaterals</b></td> </tr> <tr> <td></td> <td style="text-align: right;"><i>RMB'000</i></td> </tr> <tr> <td style="text-align: right;">31 December 2011</td> <td style="text-align: right;">20,428</td> </tr> <tr> <td style="text-align: right;">31 December 2012</td> <td style="text-align: right;">14,698</td> </tr> <tr> <td style="text-align: right;">31 July 2013</td> <td style="text-align: right;">29,308</td> </tr> </table> </li> <li>● Movable property <table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: right;"><b>As at</b></td> <td style="text-align: right;"><b>Value of collaterals</b></td> </tr> <tr> <td></td> <td style="text-align: right;"><i>RMB'000</i></td> </tr> <tr> <td style="text-align: right;">31 December 2011</td> <td style="text-align: right;">1,255</td> </tr> <tr> <td style="text-align: right;">31 December 2012</td> <td style="text-align: right;">22,886</td> </tr> <tr> <td style="text-align: right;">31 July 2013</td> <td style="text-align: right;">14,600</td> </tr> </table> </li> <li>● Property rights <table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: right;"><b>As at</b></td> <td style="text-align: right;"><b>Value of collaterals</b></td> </tr> <tr> <td></td> <td style="text-align: right;"><i>RMB'000</i></td> </tr> <tr> <td style="text-align: right;">31 December 2011</td> <td style="text-align: right;">—</td> </tr> <tr> <td style="text-align: right;">31 December 2012</td> <td style="text-align: right;">8,873</td> </tr> <tr> <td style="text-align: right;">31 July 2013</td> <td style="text-align: right;">14,500</td> </tr> </table> </li> </ul>	<b>As at</b>	<b>Value of collaterals</b>		<i>RMB'000</i>	31 December 2011	20,428	31 December 2012	14,698	31 July 2013	29,308	<b>As at</b>	<b>Value of collaterals</b>		<i>RMB'000</i>	31 December 2011	1,255	31 December 2012	22,886	31 July 2013	14,600	<b>As at</b>	<b>Value of collaterals</b>		<i>RMB'000</i>	31 December 2011	—	31 December 2012	8,873	31 July 2013	14,500
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31 December 2012	8,873																															
31 July 2013	14,500																															
Entrusted loan	<ul style="list-style-type: none"> <li>● Our PRC Legal Adviser advised that the relevant PRC laws do not restrict the maximum amount of entrusted loans that may be provided by us.</li> </ul>	<ul style="list-style-type: none"> <li>● Real estate <table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: right;"><b>As at</b></td> <td style="text-align: right;"><b>Value of collaterals</b></td> </tr> <tr> <td></td> <td style="text-align: right;"><i>RMB'000</i></td> </tr> <tr> <td style="text-align: right;">31 December 2011</td> <td style="text-align: right;">358,222</td> </tr> <tr> <td style="text-align: right;">31 December 2012</td> <td style="text-align: right;">175,729</td> </tr> <tr> <td style="text-align: right;">31 July 2013</td> <td style="text-align: right;">207,564</td> </tr> </table> </li> <li>● Inventories <table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: right;"><b>As at</b></td> <td style="text-align: right;"><b>Value of collaterals</b></td> </tr> <tr> <td></td> <td style="text-align: right;"><i>RMB'000</i></td> </tr> <tr> <td style="text-align: right;">31 December 2011</td> <td style="text-align: right;">—</td> </tr> <tr> <td style="text-align: right;">31 December 2012</td> <td style="text-align: right;">32,414</td> </tr> <tr> <td style="text-align: right;">31 July 2013</td> <td style="text-align: right;">—</td> </tr> </table> </li> </ul>	<b>As at</b>	<b>Value of collaterals</b>		<i>RMB'000</i>	31 December 2011	358,222	31 December 2012	175,729	31 July 2013	207,564	<b>As at</b>	<b>Value of collaterals</b>		<i>RMB'000</i>	31 December 2011	—	31 December 2012	32,414	31 July 2013	—										
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31 December 2011	—																															
31 December 2012	32,414																															
31 July 2013	—																															

## REGULATORY OVERVIEW

<b>Business segment</b>	<b>Key regulatory requirements</b>	<b>Types of collaterals that we have accepted and the value of such collaterals as at the end of each year/ period during the Track Record Period</b>
Finance lease	<ul style="list-style-type: none"><li>• The terms of a finance lease transaction are not subject to any regulatory requirements. However, the aggregate value of risky assets of a finance lease company (i.e. the total assets of a finance lease company minus certain specified items such as cash, bank balances and investments in national debts) shall not exceed 10 times of its net asset value.</li></ul>	Not applicable

### **N. REGULATORY COMPLIANCE**

Our PRC Legal Adviser has confirmed that our PRC subsidiaries are lawfully established and validly existing companies. During the Track Record Period, our PRC subsidiaries have duly completed registration with the relevant company registration authorities, obtained approvals and all requisite licenses from competent government authorities and passed all annual inspections, in each case in accordance with relevant laws relating to our business operations. Save as disclosed in the section headed “Business” of this prospectus, we have been in compliance with relevant laws relating to our business operations. Further, our PRC Legal Adviser is of the view that our on-going operations are lawful and are in accordance with relevant regulatory rules and requirements.

## STRUCTURED AGREEMENTS

### Background

The pawn loan business currently carried out by Differ Pawn is regulated by, amongst others, the Pawning Measures. According to article 71 of the Pawning Measures, rules and regulations governing the investment by foreign investors in pawn loan business in the PRC shall be separately promulgated by the MOC and other relevant authorities<sup>(note)</sup>. As at the Latest Practicable Date, no such rules and regulations had been announced by the authorities. According to the Administrative Licensing Law of the PRC (中華人民共和國行政許可法), administrative licensing regimes may only be set up and implemented where there are statutory laws setting out relevant procedures, conditions and scope of administrative power. Therefore, no approval can be granted and no licence can be issued to a foreign-invested enterprise if there are no statutory laws governing the investment by foreign investors in pawn loan business. Our PRC Legal Adviser has advised that other than the above and the requirements related to the obtaining of Pawn Operation Permit and Special Industry Permit as mentioned in the section headed “Regulatory overview — The pawn loan industry”, our Group is not subject to any other qualification requirement to operate our pawn loan business in the PRC.

On 31 January 2013, the Sponsor has obtained the verbal confirmation from Quanzhou Economic and Trade Commission (泉州市經濟貿易委員會) that under the current circumstances, foreign-invested enterprises, including Differ Holding, would not be able to obtain the Pawn Operation Permit in Quanzhou, and that Quanzhou Economic and Trade Commission has no objection to our implementation of the Structured Agreements. As advised by our PRC Legal Adviser, Quanzhou Economic and Trade Commission is competent to give such confirmation. According to 福建省經濟貿易委員會關於委託泉州市開展典當行審批工作的通知閩經貿綜合(2013)422號 (FJETC Notice No. (2013) 422 regarding the commencement of approval of pawnshop in Quanzhou) issued by FJETC on 7 June 2013, Quanzhou Economic and Trade Commission has been authorized by FJETC to examine and approve the establishment of new pawnshops or branches of existing pawnshops in Quanzhou. As such, our PRC Legal Adviser is of the opinion that Quanzhou Economic and Trade Commission is the competent authority to approve the issuance of a Pawn Operation Permit in Quanzhou, and therefore the confirmation given by Quanzhou Economic and Trade Commission will not be subject to revocation by other higher regulatory authorities. In addition, since Shishi is a part of Quanzhou, and Quanzhou Economic and Trade Commission is a higher regulatory authority than Shishi Economic Bureau, our PRC Legal Adviser is of the opinion that there is no need for our Company to further obtain the assurance from Shishi Economic Bureau on the adoption of the Structured Agreements in respect of its pawn loan operations in Shishi.

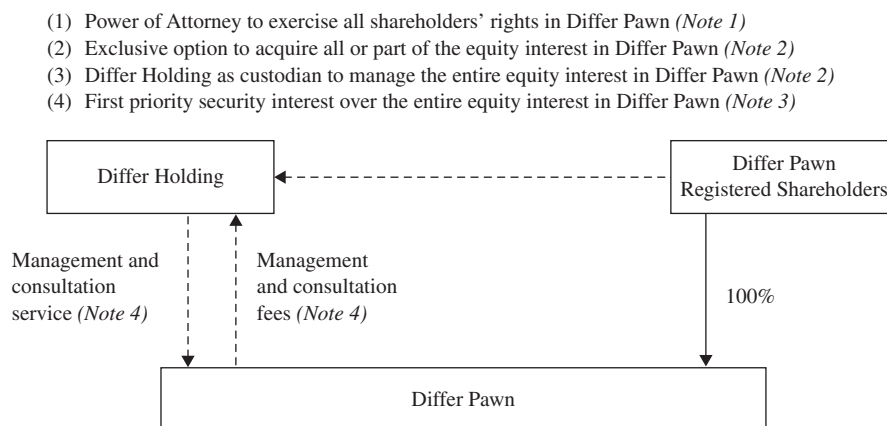
The Structured Agreements were entered into in order to enable our Group to manage the business of Differ Pawn in the PRC, under which all the business, financial and operating activities of Differ Pawn are managed by Differ Holding and all economic benefits and risks arising from the business, financial and operating activities of Differ Pawn are transferred to Differ Holding by means of management and consultation fees payable by Differ Pawn to Differ Holding. Differ Pawn only engages in pawn loan business, and the entrusted loan and financial consultation business were carried out by Differ Holding. Accordingly, only our pawn loan business, which is a business in practice not permitted for foreign investment in the PRC, is and will be carried out under the Structured Agreements.

*Note:* As advised by our PRC Legal Adviser, there is no definition of “other relevant authorities” under the Pawning Measures. Our PRC Legal Adviser has advised that under the current regulatory system, the authorities governing foreign investment in pawn loan business in the PRC are the MOC and its local counterparts. As of the Latest Practical Date, our PRC Legal Adviser is not aware of any “other relevant authorities” which have promulgated or will promulgate any specific rules and regulations for the establishment of foreign-invested pawnshops.

# STRUCTURED AGREEMENTS

## Arrangement under the Structured Agreements

The following simplified diagram illustrates the flow of economic benefits from Differ Pawn to Differ Holding stipulated under the Structured Agreements:



### Notes:

1. Please refer to the section headed “Structured Agreements — Power of Attorney” in this prospectus for further details.
2. Please refer to the section headed “Structured Agreements — Exclusive Option and Equity Custodian Agreement” in this prospectus for further details.
3. Please refer to the section headed “Structured Agreements — Equity Pledge Agreement” in this prospectus for further details.
4. Please refer to the section headed “Structured Agreements — Exclusive Management and Consulting Services Agreement” in this prospectus for further details.
5. “—————” denotes direct legal and beneficial ownership in the equity interest and “-----” denotes contractual relationship.

Differ Holding, Differ Pawn, Differ Guarantee and Fujian VC (Differ Guarantee and Fujian VC being the then immediate shareholders of Differ Pawn holding, in aggregate, the entire equity interest of Differ Pawn) entered into the Previous Structured Agreements on 7 May 2012. Following the completion of the equity transfer and registered capital increase of Differ Pawn in July 2012, the Previous Structured Agreements were terminated on 16 July 2012 upon approval of Differ Holding, and replaced simultaneously by the Structured Agreements entered into among Differ Holding, Differ Pawn, Aidu and Fujian VC (Aidu and Fujian VC being the immediate shareholders of Differ Pawn holding, in aggregate, the entire equity interest of Differ Pawn after the equity transfer and registered capital increase) with the same substantive rights and obligations of the parties thereto.

## Differ Pawn Registered Shareholders

As at the Latest Practicable Date, the Differ Pawn Registered Shareholders are Aidu (interested in 78% in Differ Pawn) and Fujian VC (interested in 22% in Differ Pawn).

## STRUCTURED AGREEMENTS

As at the Latest Practicable Date, Aidu was owned as to 99% by Mr. Hong and as to 1% by Ms. Zhang Huiling (張惠玲) (Mr. Hong's mother), and Aidu's principal business is the design, manufacturing and sales of apparel and fashion accessories.

As at the Latest Practicable Date, Fujian VC was owned as to 99% by Ms. Cai Danni (蔡丹妮) (Mr. Cai's daughter) and as to 1% by Mr. Wu Zhipei (Mr. Ng's cousin), and Fujian VC has not commenced any business operation other than acting as a holding company.

There are arrangements in place under the Structured Agreements to address the potential conflicts of interest that the Differ Pawn Registered Shareholders may have with the Group. Specifically, the Equity Pledge Agreement, the Exclusive Option and Equity Custodian Agreement, and the Power of Attorney are designed to address such potential conflicts of interest. For instance, under the Power of Attorney, the directors of Differ Holding (including their successors) or its nominee(s) shall exercise all shareholders' rights in Differ Pawn; while under the Exclusive Option and Equity Custodian Agreements, Differ Pawn and the Differ Pawn Registered Shareholders shall not engage in any transactions which will materially affect the assets, business, rights, operation or management of Differ Pawn without prior consent from Differ Holding.

### **Operation of the Structured Agreements**

According to the Structured Agreements, the Differ Pawn Registered Shareholders have granted an exclusive and irrevocable option to Differ Holding or its nominee(s) to acquire all or part of the equity interest in Differ Pawn as permitted by the then PRC laws and regulations. We have the intention to acquire Differ Pawn or the pawn loan business it is carrying on when PRC laws and regulations allow the operation of such business by foreign-invested enterprises. When Differ Holding or its nominee(s) exercise the option and acquire all of the equity interest in Differ Pawn, the Structured Agreements will be terminated. Our PRC Legal Adviser confirmed that it is sufficient for the Differ Pawn Registered Shareholders (but not tracing to the ultimate beneficial owners of the corporate shareholders of Differ Pawn) to enter into the Structured Agreements. Subject to compliance with the PRC laws, Differ Holding or its nominee(s) may exercise the option mentioned above at any time and in any manner at their sole discretion.

We will unwind the Structured Agreements as soon as the relevant PRC laws allow us to operate our pawn loan business without the Structured Agreements. Pursuant to a confirmation letter dated 26 November 2013, the Differ Pawn Registered Shareholders have undertaken that, subject to the relevant laws and regulations, they will return to Differ Holding or its nominee(s) any consideration they receive in the event that Differ Holding or its nominee(s) acquires the equity interest in Differ Pawn when unwinding the Structured Agreements.



## STRUCTURED AGREEMENTS

The Structured Agreements, taken as a whole, enable the financial results of Differ Pawn and the economic benefits of its business to flow into Differ Holding. In addition, all the directors, general manager and senior management staff of Differ Pawn (except those elected by the employee representatives <sup>(note)</sup>) are nominated by Differ Holding. Through its control over and supervision of the directors, general manager and senior management of Differ Pawn, Differ Holding is able to effectively manage the business, financial and operating activities of Differ Pawn so as to obtain benefits from its activities and to ensure due implementation of the Structured Agreements. The Structured Agreements also enable Differ Holding to, if and when permitted by PRC law, acquire the equity interests in Differ Pawn in accordance with PRC law. Our Directors are of the view that, notwithstanding the lack of equity ownership in Differ Pawn, Differ Holding, through the Structured Agreements, is exposed to variable returns from its involvement with Differ Pawn and has the ability to affect those returns through its power over Differ Pawn. On this basis, our Group is regarded as a continuing entity resulting from these Structured Agreements such that the financial position and operating results of Differ Pawn are included in our Group's consolidated financial statements.

### **Exclusive Management and Consulting Services Agreement**

- Differ Pawn agreed to engage Differ Holding on an exclusive and irrevocable basis to provide management and consultation services in connection with its operations, including but not limited to assisting in formulating the company management mode and operation plans, assisting in formulating market development plans, providing market information and customer source information, conducting specific market research and investigation, providing staff training, assisting in establishing sales channel, providing management, financial or other services in relation to Differ Pawn's operations, assisting in locating suitable fund-raising channels for Differ Pawn's operational capital needs, assisting in provision of customer maintenance and management and assisting in provision to the clients of Differ Pawn of feasible fund-raising solutions and procuring the implementation of such solutions;
- unless Differ Holding consents in writing in advance, Differ Pawn shall not directly or indirectly accept management and consultation services provided by any third party or establish cooperative relationship with any third party in respect of the management and consultation services;
- the board of directors of Differ Pawn shall be nominated by Differ Holding, and Differ Pawn shall cause those directors to elect the candidate recommended by Differ Holding as the chairman;
- Differ Holding shall be solely responsible for the selection of Differ Pawn's senior management and employees, its finance, management and daily operations, and Differ Pawn shall comply with all directions and opinions from Differ Holding; and

*Note:* As advised by our PRC Legal Adviser, in accordance with the Company Law of the PRC, Differ Pawn may, at its sole discretion, decide whether to include employee representative in its board of directors. If Differ Pawn chooses to do so, such employee representative must be elected by employees through general meeting of employees or other forms of democratic elections, and there is no minimum or maximum limit on the number of employee representative in the board of directors of Differ Pawn as such number is entirely at the discretion of Differ Pawn. Nevertheless, Differ Pawn currently has not included any employee representative as its director and has no intention to include any employee representative as its directors in the future. In addition, as advised by our PRC Legal Adviser, Differ Pawn may decide whether to establish a board of supervisors. If Differ Pawn chooses to do so, at least one-third of the members of the board of supervisors shall be employee representatives elected by employees through general meeting of employees or other forms of democratic elections. Nevertheless, Differ Pawn currently does not have a board of supervisors.

## STRUCTURED AGREEMENTS

- the management and consultation fees payable by Differ Pawn to Differ Holding shall be equivalent to the total revenue of Differ Pawn less all the related costs, expenses and taxes. Differ Holding shall be entitled to appoint its employees or external auditors to audit the financial conditions of Differ Pawn when it considers necessary.

The current Exclusive Management and Consulting Services Agreement is effective from 16 July 2012 and will remain effective during their respective term of operation of Differ Pawn and Differ Holding unless the parties agree to terminate the agreement prior to its expiration.

### **Equity Pledge Agreements**

- the Differ Pawn Registered Shareholders have granted to Differ Holding a first priority security interest over all their respective direct equity interest in Differ Pawn for guaranteeing the performance of obligations of the Differ Pawn Registered Shareholders and Differ Pawn under the Exclusive Management and Consulting Services Agreement and the Exclusive Option and Equity Custodian Agreements, such obligations include, among others, payment of management and consultation fees for the management and consultation service, interests, compensation etc.;
- during the term of the pledges, Differ Holding shall be entitled to all dividends or distribution in any other forms derived from the pledged equity interests and to exercise its right to deal with the pledged equity interests in a manner permitted by the relevant PRC laws if Differ Pawn and/or the Differ Pawn Registered Shareholders cannot fully perform their respective obligations under the Exclusive Management and Consulting Services Agreement, Power of Attorney, and/or the Exclusive Option and Equity Custodian Agreement; and
- during the term of the Equity Pledge Agreements, the Differ Pawn Registered Shareholders shall not transfer, create or permit the existence of other security interest over the pledged equity interests in Differ Pawn without the prior written consent of Differ Holding.

The current Equity Pledge Agreements is effective from the date on which the pledges have been registered in Differ Pawn's register of members while the pledges created thereunder shall become effective upon such pledges having been duly registered with relevant administration for industry and commerce, and will remain effective until the fulfillment, expiration or termination of all of the Exclusive Management and Consulting Services Agreement, Power of Attorney, and the Exclusive Option and Equity Custodian Agreement. The pledges from the two Differ Pawn Registered Shareholders, Aidu and Fujian VC, under the Equity Pledge Agreements have been registered in Differ Pawn's register of members, and were duly registered with the Shishi Administration for Industry and Commerce (石獅市工商行政管理局) on 26 February 2013 and 27 February 2013 respectively.

### **Exclusive Option and Equity Custodian Agreement**

- the Differ Pawn Registered Shareholders granted an exclusive and irrevocable option to Differ Holding or its nominee(s) to acquire all or part of their respective equity interest in Differ Pawn, at nil consideration or the minimum amount as permitted by the applicable PRC laws and regulations, during the term of the Exclusive Option and Equity Custodian Agreement. The Differ Pawn Registered Shareholders further covenant that if such minimum amount is required to be paid by Differ Holding or its nominee(s) as consideration for the acquisition of the equity interest of Differ Pawn, such amount would be waived by the Differ Pawn Registered Shareholders subject to

## STRUCTURED AGREEMENTS

compliance with the then PRC laws and hence there should not be any cash outflow or adverse financial impact on our Group. If such option is exercised in full by Differ Holding or its nominee(s), our Group will directly hold the entire equity interest of Differ Pawn;

- subject to compliance with the PRC laws, Differ Holding or its nominee(s) may exercise the option mentioned above at any time and in any manner at their sole discretion;
- during the term of the Exclusive Option and Equity Custodian Agreement, the Differ Pawn Registered Shareholders shall not, among other matters, transfer, pledge or grant a custodian right over such equity interest in Differ Pawn to any third parties without the prior written consent of Differ Holding;
- the Differ Pawn Registered Shareholders irrevocably granted a right to Differ Holding or its nominee(s) to manage the entire equity interest in Differ Pawn as custodian during the term of the Exclusive Option and Equity Custodian Agreement;
- Differ Pawn and the Differ Pawn Registered Shareholders covenanted that, among others:
  - (a) the directors of Differ Holding (including their successors) or its nominee(s) shall exercise all shareholders' right in Differ Pawn, further details are set out in the paragraph headed "Power of Attorney" below;
  - (b) Differ Holding or its nominee(s) shall have the exclusive right to nominate or appoint directors, general manager and other senior management staff of Differ Pawn (except those elected by the employee representatives);
- During the term of the Exclusive Option and Equity Custodian Agreements, Differ Pawn and the Differ Pawn Registered Shareholders shall not engage in any transactions which will materially affect the assets, business, rights, operation or management of Differ Pawn without prior consent from Differ Holding, including but not limited to the following:
  - (a) to amend the articles of association of Differ Pawn;
  - (b) to increase or reduce the registered capital of Differ Pawn; and
  - (c) during the term of the Exclusive Option and Equity Custodian Agreement, Differ Pawn and/or the Differ Pawn Registered Shareholders shall not transfer, mortgage, pledge or otherwise dispose the assets of Differ Pawn.
- in case of liquidation or dissolution of Differ Pawn, Differ Holding or its nominee(s) shall have the right to appoint a liquidator to manage the assets of Differ Pawn as permitted by the PRC laws and regulations.

There is no consideration to be paid to Differ Holding or its nominee(s) for the management of the equity interest in Differ Pawn as custodian under the Exclusive Option and Equity Custodian Agreement.

## STRUCTURED AGREEMENTS

The current Exclusive Option and Equity Custodian Agreement is effective from 16 July 2012, and will expire on the date on which all the equity interests in Differ Pawn are transferred to Differ Holding or its nominee(s) or the parties reach a written agreement to terminate the agreement, whichever is earlier.

### **Power of Attorney**

Pursuant to the Power of Attorney, among other matters, Differ Holding (including its successors) or its nominee(s) were authorised by the Differ Pawn Registered Shareholders to exercise their respective shareholders' rights in Differ Pawn, including the rights to attend and vote in shareholders' meeting, to sign and file minutes and other documents with the relevant government authorities, to elect and change the directors and supervisors who are not elected by the employee representatives, to decide the increase or reduction of the registered capital and to receive or decline the dividends or other distribution on behalf of the Differ Pawn Registered Shareholders.

The Power of Attorney is effective from 16 July 2012, and will remain effective during the term when the equity interests in Differ Pawn are owned by the Differ Pawn Registered Shareholders.

### **Dispute resolution**

Each of the Structured Agreements is governed by the PRC laws and provides for the resolution of disputes through arbitration at Beijing in accordance with the arbitration rules of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會), and that the arbitrators may award remedies in rem over the shares or assets of Differ Pawn, such as injunctive relief for the conduct of business or to compel the transfer of assets or order the winding up of Differ Pawn in arbitration. They also provide that courts of competent jurisdiction have the power to grant interim remedies (such as property preservation and evidence preservation) in support of the arbitration pending formation of the arbitral tribunal generally. However, our PRC Legal Adviser has advised that the tribunal has no power to grant such kind of injunctive relief or winding up order of Differ Pawn under the PRC laws. If we are not able to obtain such injunctive relief or winding up order from the tribunal, we may not be able to prevent Differ Pawn and/or the Differ Pawn Registered Shareholders from ceasing business, transferring assets or harming the interests of Differ Holding before the tribunal delivers an arbitral award.

### **Succession**

As advised by our PRC Legal Adviser, the provisions set out in the Structured Agreements are also binding on the successors of Differ Pawn Registered Shareholders. Any breach by the successors thereof would be deemed to be a breach of the Structured Agreements. In particular, in the event of any bankruptcy of the Differ Pawn Registered Shareholders, the Structured Agreements shall become binding on the Differ Pawn Registered Shareholders' assignees or successors to which the rights and obligations thereunder are transferred or assigned by way of auctions, novation, restructuring, inheritance, assignment, transfer or other bankruptcy proceedings. Therefore, our PRC Legal Adviser is of the view that Differ Holding can enforce its right under the Structured Agreements against the successors of the Differ Pawn Registered Shareholders (including, among other things, in the event of any bankruptcy of the Differ Pawn Registered Shareholders).

## STRUCTURED AGREEMENTS

### Legality of the Structured Agreements

Differ Holding's right to enforce the pledges on the equity interest in Differ Pawn under the Equity Pledge Agreements and its option to acquire the equity interest in Differ Pawn under the Exclusive Option and Equity Custodian Agreement were confined to be carried out in a manner as permitted by the relevant PRC laws. Further, the pledges created under the Equity Pledge Agreements shall only become effective upon such pledges having been duly registered in Differ Pawn's register of members and having been duly registered with the relevant administration for industry and commerce. Based on the above, our PRC Legal Adviser is of the opinion that the Structured Agreements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations.

Our PRC Legal Adviser is also of the opinion that:

- (a) each of Differ Pawn, Differ Holding and the Differ Pawn Registered Shareholders is an independent legal entity which is duly established and validly existing, and has the power and capacity to enter into the Structured Agreements;
- (b) each of the Structured Agreements is legal, valid and binding on the parties thereto;
- (c) each of the Structured Agreements complies with the provisions of the articles of association of the parties thereto;
- (d) except for the registration of the pledges under the Equity Pledge Agreements, the Structured Agreements do not require any approvals from the PRC governmental authorities;
- (e) the Structured Agreements as a whole do not violate the current PRC laws and regulations; and
- (f) the Structured Agreements are enforceable under PRC laws and regulations, except for the clauses regarding dispute resolution and the appointment of liquidator. For details, please refer to the following paragraph. Please also refer to the paragraph "The PRC Government may determine that the Structured Agreements are not in compliance with applicable PRC laws, rules, regulations or policies" under the section "Risk Factors — Risks relating to the Structured Agreements" in this prospectus for the potential resulting impacts.

In respect of the abovementioned clauses that are not enforceable under the PRC laws and regulations:

- (i) Clauses regarding dispute resolution

The dispute resolution clauses of the Structured Agreements provide for the resolution of disputes through arbitration in accordance with the arbitration rules of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) and that the arbitrators may award remedies in rem over the shares or assets of Differ Pawn, injunctive relief (e.g., for the conduct of business or to compel the transfer of assets) or order the winding up of Differ Pawn in arbitration. As advised by our PRC Legal Adviser, the tribunal has no power to grant such kind of injunctive relief or winding up order under the PRC laws. Thus, in case of dispute, Differ Holding, not being a registered shareholder of Differ Pawn, is

## STRUCTURED AGREEMENTS

not legally entitled to prevent the Differ Pawn Registered Shareholders and/or Differ Pawn from ceasing business, transferring assets or harming the interests of Differ Holding before the tribunal renders an arbitral award. However, since all of the ultimate shareholders of the Differ Pawn Registered Shareholders have undertaken to compensate the losses actually incurred by Differ Holding, the financial conditions of Differ Holding will not be adversely affected ultimately.

(ii) Clauses regarding appointment of liquidator

The Structured Agreements also provide Differ Holding with a right to appoint a liquidator to manage the assets of Differ Pawn in the event of liquidation of Differ Pawn and prohibit the Differ Pawn Registered Shareholders and/or Differ Pawn from transferring, mortgaging, pledging or otherwise deal with the assets of Differ Pawn during the term of the Exclusive Option and Equity Custodian Agreement. As advised by our PRC Legal Adviser, the right of appointment of a liquidator may not be enforceable under the PRC laws and regulations. In accordance with the existing PRC Company Law, the liquidators of a limited liability company shall be consisted of its registered shareholders, and the liquidators of a joint stock limited company shall be consisted of its directors or the persons appointed by the shareholder's meeting. Nevertheless, the Differ Pawn Registered Shareholders have undertaken to return to Differ Holding any proceeds they receive upon the liquidation of Differ Pawn in accordance with the PRC laws in the event that Differ Holding is not able to appoint a liquidator as stipulated in the Structured Agreements. Therefore, there will not be any adverse impact on the economic interests of Differ Holding under the Structured Agreements.

As of the Latest Practicable Date, we have not encountered any interference or encumbrance from any PRC governmental authority in operating our pawn loan business pursuant to the Structured Agreements.

Our PRC Legal Adviser also advised that no confirmation on the validity and legality of the Structured Agreements was required to be obtained from any authority in the PRC. Nevertheless, the Sponsor has obtained the verbal confirmation from Quanzhou Economic and Trade Commission on 31 January 2013 that Quanzhou Economic and Trade Commission has no objection to the implementation of the Structured Agreements. Taking the abovementioned into account, our Directors are of the view that the Structured Agreements are not likely to be challenged by the relevant authorities in the PRC. The Sponsor concurred with such view of our Directors. We are also advised by our PRC Legal Adviser that the transfer of business, financial and operating activities, and economic benefits from Differ Pawn to Differ Holding, and the pledging of the entire equity interest in Differ Pawn to Differ Holding under the Structured Agreements would not be deemed as a breach of Article 18 of the Pawning Measures.

Article 18 of the Pawning Measures provides that (a) approval of the competent commercial department at the provincial level is required if a pawnshop intends to change its entity name or registered capital (except where the registered capital amounts to over RMB50 million after the intended change) or legal representative, or relocate its domicile to another place within the same city (prefecture, autonomous prefecture, or autonomous league, as the case may be), or transfer shares (except where accumulatively over 50% of its shares are transferred to any party other than the existing shareholders), the competent commercial department at the provincial level shall report to the Ministry of Commerce



## STRUCTURED AGREEMENTS

for record-filing within twenty (20) days after approval, and the Ministry of Commerce shall collectively issue new Pawn Operation Permits in June and December each year to pawnshops that have undergone such changes; (b) where a pawnshop intends to divide, merge or consolidate, move its domicile to another city (prefecture, autonomous prefecture or autonomous league, as the case may be), transfer accumulatively over 50% of its shares to any party other than the existing shareholders, or where the registered capital thereof amounts to over RMB50 million after the intended change, the pawnshop shall, with consent of the competent commercial department at the provincial level, report to the Ministry of Commerce for approval and issuance of a new Pawn Operation Permit; and (c) the applicant shall apply for a new Special Industry Permit and business license in accordance with relevant provisions under the Pawning Measures after having obtained the Pawn Operation Permit.

Since there is no specific requirement on the approval of the pledge of equity interest in a pawnshop, our PRC Legal Adviser is of the opinion that the pledge of the entire equity interest in Differ Pawn to Differ Holding under the Structured Agreements shall not be deemed as a breach of Article 18 of the Pawning Measures.

On 3 February 2011, the General Office of State Council issued 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 (Notice on Establishing a Security Review System for Acquisition of Domestic Enterprises by Foreign Investors), (“**Circular 6**”). Under Circular 6, acquisitions by foreign investors of PRC enterprises would be subject to security review. Those enterprises included (i) domestic military and defense industry enterprises, key and sensitive military facilities enterprises and other institutions related to national security; and (ii) domestic enterprises which are relevant to national safety and related to important agricultural products, significant energy and resources, critical infrastructure, important transportation services, key technologies and major equipment manufacturing. The acquisition of those enterprises should be subject to security review when the actual control over the enterprises may be transferred to the foreign investors as a result of the acquisition.

On 25 August 2011, the MOC issued 商務部實施外國投資者併購境內企業安全審查制度的規定 商務部公告2011年第53號 (Measures on Security Review System of Foreign Investors Merging and Acquiring Domestic Enterprises MOC Announcement No. 53 of 2011) (“**Announcement 53**”) which states that foreign investors shall make an application to MOC for security review when they acquire domestic enterprises as stipulated under Circular 6. Further, Announcement 53 states that foreign investors shall not use any method to circumvent the security review, including but not limited to the use of authorization agreement and trust agreement, multiple layer of re-investment schemes, lease agreement, lending, control agreement or offshore transactions.

As advised by our PRC Legal Adviser, pawn loan services are not covered by Circular 6 and therefore the above security review is not applicable to our Group, and no approvals from the MOC and/or the CSRC are required for the Structured Agreements adopted by the Group.

Given that the Structured Agreements will constitute continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, further details of which was disclosed in the section headed “Notifiable transactions and connected transactions” in this prospectus.

## STRUCTURED AGREEMENTS

### *Recent press articles in relation to variable interest entities (“VIE”)*

In early June 2013, it is reported in certain press articles in the PRC that the PRC Supreme Court invalidated certain agreements which were intended to circumvent PRC government’s investment restriction in contravention of the Contract Law and the General Principles of Civil Laws. It is also reported that Shanghai Branch of the China International Economic and Trade Arbitration Commission has, since 2010, invalidated at least one VIE structure in two different cases because such structure was “concealing illegal intentions with lawful form”.

In relation to such press articles, the PRC Legal Adviser has advised that:

- (i) as of the Latest Practicable Date, the PRC Government has not explicitly disapproved the use of VIE structure in the pawn loan industry;
- (ii) the agreement invalidated by the PRC Supreme Court as reported in the press article is not a typical VIE structure, nor is the PRC a common law country where decisions made by higher courts are binding on lower courts; and
- (iii) the conclusions of such press articles appear to be mainly drawn from superficial similarities between different cases, rather than based on any published regulations, and are thus of very limited legal value.

In relation to the Structured Agreements entered into by the Group, the PRC Legal Adviser has taken into account the following considerations:

- (i) According to the Catalogue for the Guidance of Foreign Investment Industries last amended in 2011 and taking effect as of January 30, 2012, the pawn loan industry falls within the permitted category for foreign investment, rather than under the restricted or prohibited category. The Pawning Measures also provides that rules and regulations governing the investment by foreign investors in pawn loan business in the PRC shall be separately promulgated by the Ministry of Commerce and other relevant authorities. However, no such rules and regulations has been announced by any authorities so far, thus in practice no approval has been granted and no licence has been issued to any foreign-invested enterprise proposing to engage in pawn loan businesses. The Structured Agreements are entered into by the Group due to the absence of relevant rules and regulations governing foreign investment in the pawn loan industry rather than to circumvent any statutory foreign investment restrictions in the PRC. Taken as a whole, the Structured Agreements do not involve any illegal intentions nor do they contravene any mandatory provisions of existing laws and regulations and therefore they do not fall within the circumstances of “以合法形式掩蓋非法目的” (concealing illegal intentions with a lawful form) or “違反法律、行政法規的強制性規定” (contravening mandatory provisions of existing laws and administrative regulations) as stipulated in section 52 of the Contract Law.
- (ii) The Structured Agreements were entered into among Differ Holding, Differ Pawn and Differ Pawn Registered Shareholders voluntarily and freely to protect their respective legitimate commercial interests and do not violate any social and public interests. The Structured Agreements do not, therefore, fall within any of the other circumstances as stipulated in Section 52 of the Contract Law and the General Principles of Civil Law that may invalidate a



## STRUCTURED AGREEMENTS

contract, namely, (i) entering into a contract by means of fraud or coercion to impair the interest of the state; (ii) conspiracy between the parties to a contract causing damage to the interests of the state, of the collective organization or of a third party; or (iii) violating social and public interests.

Based on the foregoing, our PRC Legal Adviser is of the opinion that the Structured Agreements do not, collectively or individually, breach any applicable rules, regulations and laws of the PRC (including without limitation Section 52 of the Contract Law).

### **Further measures in place to safeguard the Group's interest under the Structured Agreements**

Other than the Equity Pledge Agreements, the following measures are in place to ensure that the Differ Pawn Registered Shareholders discharge their obligations under the Structured Agreements and that the Group's economic interest in the assets and businesses of Differ Pawn under the Structured Agreements are safeguarded:

- (i) First, under the Exclusive Management and Consulting Services Agreement and the Power of Attorney, all of the directors, general manager and senior management of Differ Pawn (except for those elected by the employee representatives) are nominated or selected by Differ Holding, and Differ Holding (including its successors) or its nominee(s) is authorised to exercise all the shareholders' rights in Differ Pawn. Through its control over the directors, general manager and senior management of Differ Pawn and its exercise of all the shareholders' rights in Differ Pawn, Differ Holding is able to ensure due implementation of the Structured Agreements.
- (ii) Second, all of the immediate shareholders of the Differ Pawn Registered Shareholders have further executed a confirmation letter (the "Confirmation Letter") respectively on 3 July 2013 stating that, they have no objection to the provisions and validity of the Structured Agreements, and they will cause the Differ Pawn Registered Shareholders to duly perform their obligations under the Structured Agreements and not to amend or terminate the same for any reason (except as explicitly agreed by Differ Holding in writing). They also undertake not to initiate any legal actions against the Company, its subsidiaries and shareholders in relation to the Structured Agreement, not to dispose their respective equity interest in the respective Differ Pawn Registered Shareholders during the term of the Structured Agreements (except as explicitly agreed by Differ Holding in writing), and not to commence the bankruptcy, liquidation or dissolution procedure against the Differ Pawn Registered Shareholders or lead to the revocation of the business licenses thereof. In the event of any violation of the aforesaid confirmation and undertaking given by them, they shall compensate all the losses actually incurred by Differ Holding.

### **Differ Holding's available resources to discharge its responsibilities under the Structured Agreements**

As disclosed above, under the Exclusive Management and Consulting Services Agreement, Differ Pawn agreed to engage Differ Holding on an exclusive and irrevocable basis to provide management and consultation services in connection with its operations, including but not limited to assisting in formulating the company management mode and operation plans, assisting in formulating market development plans, providing market information and customer source information, conducting specific

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market research and investigation, providing staff training, assisting in establishing sales channel, providing management, financial or other services in relation to Differ Pawn's operations, assisting in locating suitable fund-raising channels for Differ Pawn's operational capital needs, assisting in provision of customer maintenance and management and assisting in provision to the clients of Differ Pawn of feasible fund-raising solutions and procuring the implementation of such solutions. In connection with the provision of such management and consultation services by Differ Holding to Differ Pawn, the Group has the following measures in place to ensure that Differ Holding has the necessary resources for the provision of such services to Differ Pawn:

- (i) The Directors consider that the Group has attracted and retained capable staffs to serve the Group. In particular, the Group has entered into a service contract or employment contract with each of the executive Directors and senior management. In addition, the Group provides compensation packages to its employees that commensurate with their respective responsibilities and contributions to the Group. The Group also ensures that relevant industry expertise and knowledge, for example, those in relation to the performance of due diligence on customers and collaterals, as well as industry network and connections, are shared among different departments within the Group, including Differ Holding and Differ Pawn. These have enabled Differ Holding to assist Differ Pawn in formulating the management mode and operation plans, formulating market development plans, identifying market information and sources of customers, conducting market research and investigation, providing staff training, establishing sales channel, and providing management services in relation to Differ Pawn's operation.
  
- (ii) We recruited staff with finance, accounting and/or legal backgrounds for positions involved in our due diligence and approval procedures. Promotion of staff to manager grade is subject to satisfactory performance and the passing of internal appraisals. We also provide internal trainings to our employees involved in the pre-approval due diligence procedures, the approval process, and the post-approval monitoring procedures. Such trainings focus on our operating procedures, risk management and compliance matters. Trainings related to business operations and risk management were organised internally and monitored by the risk management department and business department. Trainings on compliance matters were provided by our legal and compliance department. These have allowed Differ Holding to assist Differ Pawn in locating suitable fund-raising channels for Differ Pawn's operational capital needs, assisting in provision of customer maintenance and management and assisting in provision to clients of Differ Pawn of feasible fund-raising solutions and procuring the implementation of such solutions.

### **Fairness and reasonableness of the management and consultation fees under the Exclusive Management and Consulting Services Agreement**

The Exclusive Management and Consulting Services Agreement were entered into among Differ Holding, the Differ Pawn Registered Shareholders and Differ Pawn voluntarily based on arm's length negotiation, pursuant to which Differ Pawn engages Differ Holding on an exclusive basis to provide various management and consultation services for its entire operations. In return, Differ Holding charges management and consultation fees for the services rendered. Having considered (i) the scope of services provided by Differ Holding to Differ Pawn, including, without limitation, assisting in formulating the company management mode and operation plans, assisting in formulating market development plans,

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providing market information and customer source information, conducting specific market research and investigation, providing staff training, assisting in establishing sales channel, providing management, financial or other services in relation to Differ Pawn's operations, assisting in locating suitable fund-raising channels for Differ Pawn's operational capital needs, assisting in provision of customer maintenance and management and assisting in provision to the clients of Differ Pawn of feasible fund-raising solutions and procuring the implementation of such solutions; and (ii) the existing available resources of Differ Holding as described in the preceding paragraph, the Directors consider that the management and consultation fees being equivalent to the total revenue of Differ Pawn less all the related costs, expenses and taxes are fair and reasonable.

### **Loss sharing**

If Differ Pawn incurs a loss, such loss will be consolidated into the Group's financial statements as if Differ Pawn was a subsidiary of Differ Holding under the applicable accounting principles. For details, please refer to the paragraph headed "Accounting aspects of the Structured Agreements" below.

Nevertheless, none of the agreements constituting the Structured Agreements provides that Differ Holding is obligated to share the losses of Differ Pawn or provide financial support to Differ Pawn. Further, Differ Pawn is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, Differ Holding, as the primary beneficiary of Differ Pawn, is not expressly required to share the losses of Differ Pawn or provide financial support to Differ Pawn.

### **Undertakings by the Differ Pawn Registered Shareholders and their respective ultimate shareholders**

The Differ Pawn Registered Shareholders have respectively executed a letter of undertaking on 2 July 2013, pursuant to which the Differ Pawn Registered Shareholders have undertaken to return to Differ Holding or any subsidiaries of the Company any proceeds they receive upon the liquidation of Differ Pawn in accordance with the PRC laws in the event that Differ Holding is not able to appoint a liquidator as stipulated in the Structured Agreements.

In addition, Mr. Hong, Ms. Zhang Huiling, Mr. Wu Zhipei and Ms. Cai Danni have respectively executed a Confirmation Letter on 3 July 2013, pursuant to which they have undertaken not to initiate any legal proceedings against the Company, its subsidiaries and shareholders in relation to the Structured Agreements.

### **Termination clauses of the Structured Agreements**

The termination clauses of each of the Structured Agreements are set out as follows:

(i) **Exclusive Management and Consulting Services Agreement**

The Exclusive Management and Consulting Services Agreement will remain effective during their respective term of operation of Differ Pawn and Differ Holding unless the parties agree to terminate the agreement prior to its expiration.

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(ii) Equity Pledge Agreement

The Equity Pledge Agreement will remain effective until the full performance, expiration or termination of all of the Exclusive Management and Consulting Services Agreement, Power of Attorney, and the Exclusive Option and Equity Custodian Agreement.

(iii) Exclusive Option and Equity Custodian Agreement

The Exclusive Option and Equity Custodian Agreement will expire on the date on which all the equity interests in Differ Pawn are transferred to Differ Holding or its nominee(s) or the parties reach a written agreement to terminate the agreement, whichever is earlier.

(iv) Power of Attorney

The Power of Attorney will remain effective during the term when the equity interests in Differ Pawn are owned by the Differ Pawn Registered Shareholders.

According to the termination clause of each of the Structured Agreements, under no circumstances or conditions the Structured Agreements may be unilaterally terminated by the parties prior to their expiry.

### **Commercial rationale for entering into the Structured Agreements**

The pawn loan business currently carried out by Differ Pawn is regulated by, amongst others, the Pawning Measures. According to article 71 of the Pawning Measures, rules and regulations governing the investment by foreign investors in pawn loan business in the PRC shall be separately promulgated by the MOC and other relevant authorities. As at the Latest Practicable Date, no such rules and regulations had been announced by the authorities. According to the Administrative Licensing Law of the PRC (中華人民共和國行政許可法), administrative licensing regimes may only be set up and implemented where there are statutory laws setting out relevant procedures, conditions and scope of administrative power. Therefore, no approval can be granted and no licence can be issued to a foreign-invested enterprise if there are no statutory laws governing the investment by foreign investors in pawn loan business.

The Structured Agreements were entered into in order to enable our Group to control the business of Differ Pawn in the PRC, under which all the activities of Differ Pawn are controlled by Differ Holding so that the returns arising from the involvement of Differ Holding with Differ Pawn are transferred to Differ Holding by means of management and consultation fees payable by Differ Pawn to Differ Holding.

The Exclusive Management and Consulting Services Agreement were entered into among Differ Holding, the Differ Pawn Registered Shareholders and Differ Pawn voluntarily based on arm's length negotiation, pursuant to which Differ Pawn engages Differ Holding on an exclusive basis to provide various management and consultation services for its entire operations. In return, Differ Holding charges management and consultation fees for the services rendered and such fees shall be equivalent to the total revenue of Differ Pawn less all the related costs, expenses and taxes. Having considered (i) the scope of services provided by Differ Holding to Differ Pawn, including, without limitation, assisting in formulating the company management mode and operation plans, assisting in formulating market

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development plans, providing market information and customer source information, conducting specific market research and investigation, providing staff training, assisting in establishing sales channel, providing management, financial or other services in relation to Differ Pawn's operations, assisting in locating suitable fundraising channels for Differ Pawn's operational capital needs, assisting in provision of customer maintenance and management and assisting in provision to the clients of Differ Pawn of feasible fundraising solutions and procuring the implementation of such solutions; and (ii) the existing available resources of Differ Holding to discharge its responsibilities under the Structured Agreements as described under the section headed "Structured Agreements — Differ Holding's available resources to discharge its responsibilities under the Structured Agreements" in this prospectus, our Directors consider that the management and consultation fees being equivalent to the total revenue of Differ Pawn less all the related costs, expenses and taxes are fair and reasonable.

Notwithstanding the recent press articles in relation to the invalidation of certain VIE structure by the PRC Supreme Court as disclosed above under the paragraph headed "Legality of the Structured Agreements — Recent press articles in relation to variable interest entities ("VIE")", the Directors consider that (i) as advised by our PRC Legal Adviser, the Structured Agreements are legal and valid and are unlikely to be challenged by the relevant government authorities in the PRC notwithstanding the aforesaid press articles; and (ii) entering into the Structured Agreements enables our Group to provide pawn loan services in addition to our other short to medium-term financing and financing-related solutions, and thereby enhances our ability to accommodate the different financing needs of different customers.

Based on all of the above, our Directors consider that it is in the best interest of the Company and the Shareholders as a whole to enter into the Structured Agreements.

### **Accounting aspects of the Structured Agreements**

#### *Consolidation of financial results of Differ Pawn*

According to HKFRS 10, a subsidiary is an entity that is controlled by another entity. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

#### *Power over the investee*

Under the Exclusive Management and Consulting Services Agreement, the board of directors and senior management of Differ Pawn should be nominated and elected by Differ Holding. Accordingly, financial and operating policies of Differ Pawn are effectively managed by Differ Holding.

Pursuant to the Equity Pledge Agreements, the Differ Pawn Registered Shareholders pledged their respective equity interests in Differ Pawn to Differ Holding. The Differ Pawn Registered Shareholders further covenanted that they shall not transfer their equity interest in Differ Pawn without the prior written consent of Differ Holding.

The Exclusive Option and Equity Custodian Agreement provides Differ Holding or its nominee(s) an exclusive and irrevocable option to acquire all or part of the equity interests in Differ Pawn held by the Differ Pawn Registered Shareholders as permitted by the then PRC laws and regulations.

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### *Exposure, or rights, to variable returns from its involvement with the investee*

Under the Exclusive Management and Consulting Services Agreement, Differ Holding should be entitled to management and consultation fees which represented the total revenue less all the related costs, expenses and taxes payable by Differ Pawn. In addition, Differ Holding should be entitled to all dividends or distribution from Differ Pawn pursuant to the Equity Pledge Agreements.

Differ Pawn, as a separate legal entity, owns its assets directly, and Differ Holding is not directly entitled to share the assets of Differ Pawn under the Structured Agreements. However, the Structured Agreements prohibit the Differ Pawn Registered Shareholders and/or Differ Pawn from transferring, mortgaging, pledging or otherwise disposing of the assets of Differ Pawn without the prior written consent of Differ Holding.

### *The ability to use its power over the investee to affect the amount of the investor's returns*

Under the Power of Attorney, Differ Holding or its nominee(s), including its directors (and their successors) were authorised by each of the Differ Pawn Registered Shareholders to exercise their respective shareholders' rights in Differ Pawn including the rights to elect and change the directors and supervisors who are not elected by the employee representatives, the rights to decide the increase or reduction of the registered capital of Differ Pawn and the rights to receive or decline the dividends or other distribution on behalf of the Differ Pawn Registered Shareholders.

Through the Structured Agreements taken as a whole, our Directors considered that Differ Pawn is regarded as a subsidiary of Differ Holding. Accordingly, the financial results (profits or losses) of Differ Pawn can be consolidated into our Group's financial statements as if it was our Group's subsidiary.

The accounting treatment regarding Differ Pawn is consistent with the description of "group reorganisation and basis of presentation" and "subsidiaries" as set out in notes 2 and 5 respectively to the Accountants' Report in Appendix I to this Prospectus, in which the reporting accountants have expressed an opinion on the financial information of the Group as a whole.

# BUSINESS

## BUSINESS OVERVIEW

### Introduction

We are a service provider of short to medium-term financing and financing-related solutions in Fujian Province and are principally engaged in the following five business activities:

<b>Principal business activities</b>	<b>Business model</b>
(i) The provision of financing guarantee services	We guarantee the payment of the indebtedness of our customers to a bank or other financial institution which provides financial assistance to our customers and in return, our customers pay us a guarantee fee which is calculated as a certain percentage of the indebtedness so guaranteed by us.
(ii) The provision of pawn loans	We provide short-term loans to our customers who pledge their assets to us. The loan amount is usually capped at a certain percentage of the appraised value of the asset pledged to us by our customers. In return, our customers pay us monthly interest as well as monthly comprehensive fee, both which are calculated as a percentage of the loan amount.
(iii) The provision of financial consultation services	We offer advices to our customers regarding different methods and sources of financing suitable to and available to them, assist our customers in obtaining financing, and charge our customers a consultation fee.
(iv) The provision of entrusted loans	We entrust a bank to lend our own funds to our customers on a short-term basis, the amount of which is usually capped at a certain percentage of the appraised value of the collateral provided to us by our customers or their related party(ies) and in return, our customers pay us through the bank monthly interest which is calculated as a certain percentage of the loan amount.
(v) The provision of finance lease services	We purchase certain assets from our customers (or supplier designated by our customer) in cash at the beginning and lease them back to our customers immediately afterwards in return for a series of monthly rental payments over a pre-agreed lease period as well as an up-front handling fee.

We are headquartered in Xiamen and we also operate two branch offices located in Quanzhou and Shishi respectively as well as a pawn shop outlet located in Shishi, details of which are set out in the section headed “Business — Property interests” below.

## BUSINESS

During the Track Record Period, the amounts of revenue contributed by each of our five business activities are as follows:

	Year ended 31 December 2011		Year ended 31 December 2012		Seven months ended 31 July 2012		Seven months ended 31 July 2013	
	Revenue RMB'000	%	Revenue RMB'000	%	Revenue RMB'000	%	Revenue RMB'000	%
Guarantee services	6,710	31.6	8,449	15.0	4,421	17.0	8,359	21.4
Pawn loans	1,642	7.7	6,016	10.7	1,827	7.0	7,014	18.0
Financial consultation services	7,647	36.0	19,094	33.8	9,105	35.1	8,396	21.5
Entrusted loans	5,245	24.7	22,365	39.6	10,640	40.9	12,066	31.0
Finance lease	—	—	492	0.9	—	—	3,137	8.1
<b>Total</b>	<b>21,244</b>	<b>100.0</b>	<b>56,416</b>	<b>100.0</b>	<b>25,993</b>	<b>100.0</b>	<b>38,972</b>	<b>100.0</b>

The number of customers for each type of our business activities during the Track Record Period is set out below:

	Year ended 31 December 2011		Year ended 31 December 2012		Seven months ended 31 July 2012		Seven months ended 31 July 2013	
	Number of customers	%	Number of customers	%	Number of customers	%	Number of customers	%
Guarantee services	81	69.2	100	58.5	75	59.5	101	74.8
Pawn loans	22	18.8	33	19.3	25	19.8	14	10.4
Financial consultation services	9	7.7	27	15.8	20	15.9	10	7.4
Entrusted loans	5	4.3	10	5.8	6	4.8	5	3.7
Finance lease	—	—	1	0.6	—	—	5	3.7
<b>Total (note)</b>	<b>117</b>	<b>100.0</b>	<b>171</b>	<b>100.0</b>	<b>126</b>	<b>100.0</b>	<b>135</b>	<b>100.0</b>

*Note:* Some of our customers were customers of more than one type of services offered by us and were counted twice in the total number of customers. For details of such customers, please refer to the paragraph headed "Customers" below in this section.



## BUSINESS

### Special licences required for our business

Apart from the business licences required to be obtained by our PRC subsidiaries, some of our business activities are subject to special licensing regimes in the PRC. A summary of such special licences required for our business activities is set out in the table below:

Principal business activities	Special licences required	Licences granted by	Licences granted to	Date of our current licence	Period of validity
Financing guarantee services	Financing Guarantee Operation Permit	XMEDB	Differ Guarantee	24 January 2013	Up to 28 March 2016
Pawn loans	Pawn Operation Permit	FJETC	Differ Pawn	31 January 2013	Six years
	Special Industry Permit	石獅市公安局 (Shishi Public Security Bureau)	Differ Pawn	19 November 2012	Not specified
Financial consultation	Not required	—	—	—	—
Entrusted loans	Not required	—	—	—	—
Finance lease	Not required ( <i>Note</i> )	—	—	—	—

*Note:* While our finance lease business is not subject to any special licensing regime in the PRC, the establishment of a wholly foreign-owned enterprise engaging in the finance lease business in Xiamen is required to be approved by 廈門市投資促進局 (Xiamen Investment Promotion Bureau) (“**XMIPB**”). On 10 April 2012, XMIPB issued its written approval for the establishment of Differ Lease by Differ Hong Kong.

### GUARANTEE SERVICES

#### Business model

##### *Financing guarantee*

In respect of our financing guarantee service, we act as the guarantor for our customers in order to facilitate our customers in obtaining bank financing. As the guarantor, we assume the risk of default in repayment by our customer, i.e., we may be required by the bank to repay our customer’s borrowings in the event of default on the part of our customer, and our potential liability under the guarantee would be the aggregate amount owed by our customer to the bank.

As part of the guarantee arrangement, in some of our financing guarantee transactions, the bank generally requires us to provide collateral by placing a cash deposit in the amount equivalent to a certain percentage of the principal amount of the loan granted by the bank to our customer. During the Track Record Period, such percentage typically ranged from 10% to 20%. During the Track Record Period and up to the Latest Practicable Date, there was no unfavourable change in the security deposit requirement on our Group.

## BUSINESS

By acting as the guarantor for our customers, we charge our customers a guarantee fee calculated as a certain percentage of the principal amount of the loan granted by the bank to our customer. During the Track Record Period, such percentage, on an annualised basis, ranged from 1.0% to 4.8% per year for the year ended 31 December 2011, from 1.0% to 3.6% per year for the year ended 31 December 2012 and from 1.5% to 3.5% per year for the seven months ended 31 July 2013.

In addition to the guarantee fee, we also charge our customers a one-off assessment fee (also called a service fee in some cases) for reviewing the relevant information and documents provided by our customers and assessing our customers' applications. Such assessment fee (or service fee) is calculated as a certain percentage of the amount of financing approved by the lending bank and categorised under the revenue from guarantee services. Such percentage ranged from 0.05% to 0.6% during the Track Record Period. Our customers are required to pay us part of such assessment fee upon entering into a service agreement with us. Such amount is calculated as either a fixed percentage of the proposed loan amount or a fixed amount specified in the service agreement. During the Track Record Period, the assessment fee we charged ranged from RMB800 to RMB16,000 per application. Such one-off assessment fee charged on guarantee service customers is grouped as income from "Guarantee services" in accordance with HKAS18.14 issued by the HKICPA.

### *Other guarantee services*

Apart from financing guarantee, during the Track Record Period, there were 4 transactions where we provided procedural preservative guarantee service to our customers, and 1 transaction where we provided counter-guarantee service to a connected person of our Company.

In the 4 procedural preservative guarantee transactions, we guarantee the payment of the compensation which our customer may become liable to pay to the opposite party in a civil proceeding against whom an application for a property preservation order (財產保全令) (i.e. an order to seal up, detain and/or freeze property) has been made by our customer to, and granted by, a PRC court if our customer is subsequently adjudged by the PRC court to have no valid grounds for making such application. In return, our customer pays us a guarantee fee which is calculated as a percentage (which ranged from 0.8% to 1.5% during the Track Record Period) of the value of the property subject to the property preservation order. The 4 transactions were entered into in 2012. As at 31 July 2013, the civil proceedings related to 2 of the 4 procedural preservative guarantee transactions had been concluded.

In respect of the counter-guarantee transaction, we acted as the counter-guarantor for a customer, namely, 鼎豐商業管理有限公司 (Differ Commercial Management Company Limited) (which is beneficially owned as to 60% by Ms. Shi and as to 40% by Mr. Cai), in favour of a bank in Quanzhou in order to facilitate the customer in obtaining certain performance guarantee services from the bank. For further details of the transaction, please refer to the section headed "Notifiable transactions and connected transactions — Connected transactions in our ordinary usual course of business during the Track Record Period — Note 4" in this prospectus.

## BUSINESS

### Counter-guarantee measures

In providing our financing guarantee services, we require our customers to give counter-guarantees to us. Counter-guarantee refers to (a) collaterals provided by our customers or their related party(ies) in favour of Differ Guarantee in order to secure our guarantee services, which include properties, machinery, motor vehicles, inventories and property rights; and (b) personal guarantee(s) from our individual customers and the owners of our corporate customers and their respective spouse and other related persons, as well as corporate guarantee(s) from our customers' related entities. It is our policy to require sufficient collaterals from our financing guarantee customers such that the respective value of the collateral is greater than the amount guaranteed by us.

In respect of our other guarantee services (i.e. the 4 procedural preservative guarantee transactions and the one counter-guarantee transaction), we did not require our customers to provide collaterals. For the 4 procedural preservative guarantee transactions, our in-house lawyers in our legal and compliance department had made thorough assessment on the relevant civil proceedings and we had fully satisfied ourselves that our customer had valid grounds for making an application for the property preservation order. In addition, we had obtained personal guarantees from our customer's related party(ies) and/or our customer had agreed to compensate us in full for any amount that we are required to pay to the opposite party under our guarantee. As such, we believed that our risk exposure was minimal. For the counter-guarantee transaction, the transaction has been early terminated in April 2013.

During the Track Record Period, we have accepted different types of collaterals for our financing guarantee business. The following table sets out the breakdown of the types and the values of collaterals in respect of our financing guarantee services as at the end of each of the Track Record Period:

	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013	
	Value of collateral		Value of collateral		Value of collateral	
	<i>RMB'000</i>	<i>Approximate</i> %	<i>RMB'000</i>	<i>Approximate</i> %	<i>RMB'000</i>	<i>Approximate</i> %
Real estate	250,746	50.2	378,286	36.9	311,890	29.6
Inventories	215,689	43.2	393,963	38.5	606,172	57.6
Machinery	31,562	6.3	74,591	7.3	123,171	11.7
Motor vehicles	1,773	0.3	9,431	0.9	9,040	0.9
Property rights	—	—	167,599	16.4	2,050	0.2
<b>Total (A)</b>	<b><u>499,770</u></b>	<b><u>100.0</u></b>	<b><u>1,023,870</u></b>	<b><u>100.0</u></b>	<b><u>1,052,323</u></b>	<b><u>100.0</u></b>
<b>Outstanding financing guarantee amount (B)</b> <i>(RMB'000)</i>	<b><u>246,590</u></b>		<b><u>408,310</u></b>		<b><u>484,100</u></b>	
<b>Loan-to-value ratio (B/A)</b>	<b><u>49.3%</u></b>		<b><u>39.9%</u></b>		<b><u>46.0%</u></b>	

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Please refer to the section headed “Business — Internal control and risk management — Loan-to-value ratio” below for our target loan-to-value ratio for different types of collaterals. As at 31 December 2011, 2012 and 31 July 2013, our average loan-to-value ratios in respect of our financing guarantee business were approximately 49.3%, 39.9% and 46.0% respectively.

For details of our procedures in respect of our due diligence on the collaterals, please refer to the paragraph headed “Business — Internal control and risk management — Approval procedures” in this prospectus.

As an additional comfort, we also require our customers and/or related party(ies) of our customers to act as the counter-guarantors, i.e. to provide personal/corporate guarantee to us. For the salient terms of a typical counter-guarantee letter, please refer to the paragraphs headed “Business — Guarantee services — Agreements for our financing guarantee business — Counter-guarantee letter” below in this section.

### Key operating statistics

The amounts of revenue generated from our guarantee services during the Track Record Period are set out in the table below:

Type of guarantee service	Year ended 31 December 2011		Year ended 31 December 2012		Seven months ended 31 July 2012		Seven months ended 31 July 2013	
	Revenue		Revenue		Revenue		Revenue	
	<i>RMB'000</i>	<i>Approximate %</i>	<i>RMB'000</i>	<i>Approximate %</i>	<i>RMB'000</i>	<i>Approximate %</i>	<i>RMB'000</i>	<i>Approximate %</i>
Financing guarantee	6,710	100.0	7,493	88.7	3,706	83.8	8,218	98.3
Procedural preservative guarantee	—	—	757	9.0	715	16.2	65	0.8
Counter-guarantee	—	—	199	2.3	—	—	76	0.9
<b>Total</b>	<b>6,710</b>	<b>100.0</b>	<b>8,449</b>	<b>100.0</b>	<b>4,421</b>	<b>100.0</b>	<b>8,359</b>	<b>100.0</b>

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The following table sets out the key operating statistics of our financing guarantee service business during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
Number of outstanding contracts as at the end of the year/period	47	72	63	79
Number of guarantee contracts with revenue contribution for the year/period	99	113	82	115
Number of new contracts granted during the year/period	39	70	35	43
Range of amount guaranteed by us per new contract (RMB'000)	1,000–10,000	710–10,000	710–10,000	1,500–15,000
Average amount guaranteed by us per new contract (RMB'000)	5,669	5,762	5,820	6,429
Total amount guaranteed by us in respect of the new contracts (RMB'000)	221,080	403,360	203,710	276,450
Range of the relevant loan period for our new contracts (months)	7–24	10–24	10–12	7–36
Average of the relevant loan period for our new contracts (months)	12.7	12.5	12.0	12.6
Range of guarantee fee rate charged for new contracts (% of the guaranteed amount per year)	1.0%–3.6%	1.0%–3.5%	1.0%–3.0%	1.6%–3.0%

In respect of our guarantee business including financing guarantee, procedural preservative guarantee and counter-guarantee, we did not experience any default or overdue cases and we had not been required to perform our guarantee obligations during the Track Record Period.

The following table sets out our outstanding financing guarantee amounts as at the end of each year/period during the Track Record Period and such balances were not accounted for as the Group's liabilities in the Group's consolidated statements of financial position:

	As at 31 December 2011 RMB'000	As at 31 December 2012 RMB'000	As at 31 July 2013 RMB'000
Outstanding financing guarantee amount	246,590	408,310	484,100

After Listing, we will disclose prominently (i.e. not only in a note to the accounts) in our interim and annual reports (i) the amount of our total exposure to financing guarantees and (ii) whether we have been asked to honour our financing guarantee obligations.

**Cooperation agreements with banks**

Differ Guarantee entered into a number of cooperation agreements with various cooperating banks pursuant to which the banks agree that Differ Guarantee may act as the guarantor for the bank's borrower customers within a specified period of time.

During the Track Record Period, certain cooperating bank did not require us to enter into any cooperation agreements. Instead, we entered into an agreement and placed a pledged deposit with such bank for each guarantee transaction. As such, such bank considered it unnecessary to enter into any cooperation agreement.

During the Track Record Period, we have maintained cooperation relationship with the following banks in respect of our financing guarantee business:

- (i) Bank of China, Xiamen Branch
- (ii) Bank of China, Quanzhou Branch
- (iii) China Construction Bank, Xiamen Branch
- (iv) China Construction Bank, Shishi Branch
- (v) China Merchants Bank, Xiamen Branch
- (vi) Xiamen Bank, Xiamen Branch
- (vii) Xiamen Bank, Quanzhou Branch
- (viii) Minsheng Bank, Quanzhou Branch

During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any early termination of cooperation relationship with banks.

The salient terms of a typical cooperation agreement entered into between Differ Guarantee and a cooperating bank include:

- (i) the parties agree that Differ Guarantee will act as the guarantor for the bank's borrower customers to guarantee the performance of the repayment obligation of such borrowers;
- (ii) a separate guarantee agreement shall be entered into for each guarantee transaction;
- (iii) in some cooperation agreements, a certain minimum amount of initial pledged deposit shall be provided by Differ Guarantee after entering into the cooperation agreement and maintained at the bank throughout the cooperation period, while in other cooperation agreements, no initial pledged deposit is required at the beginning and Differ Guarantee is only required to provide pledged deposit for each guarantee transaction;
- (iv) in the event that a borrower defaults on their debt guaranteed by Differ Guarantee, the bank is entitled to debit the outstanding amount owed by the defaulted borrower from the pledged deposit placed by Differ Guarantee;

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- (v) in some cooperation agreements, the maximum guarantee limit applicable to the guarantees issued by us to the bank's borrower customers is also specified;
- (vi) Differ Guarantee shall provide the bank with its financial statements on a regular basis; and
- (vii) the cooperation agreement is valid for a certain specified period of time.

### **Agreements for our financing guarantee business**

The following agreements are involved in a typical financing guarantee transaction:

<b>Agreement</b>	<b>Parties to the agreement</b>
A guarantee agreement with our customer	(i) Our customer, as the party requesting for our guarantee service; and (ii) Differ Guarantee, as the party accepting the request for the provision of guarantee service
A service agreement	(i) Differ Guarantee, as the service provider; and (ii) Our customer, as the user of our service
A counter-guarantee letter	Issued by each counter-guarantor to Differ Guarantee providing personal/corporate guarantee in favour of Differ Guarantee
A pledge agreement	(i) Our customer or related party(ies) of our customer providing the collateral, as the pledgor; and (ii) Differ Guarantee, as the pledgee
A loan agreement	(i) Our customer, as the borrower; and (ii) The lending bank, as the lender
A guarantee agreement with the lending bank	(i) Differ Guarantee, as the guarantor; and (ii) The lending bank, as the party to whom the guarantee is made

### *Guarantee agreement with our customers*

The salient terms of a typical guarantee agreement entered into between Differ Guarantee and our financing guarantee customers include:

- (i) Differ Guarantee agrees to act as the guarantor of our customer in respect of a certain specified loan agreement proposed to be entered into between our customer and a lending bank;
- (ii) our customer shall pay Differ Guarantee a guarantee fee calculated as a certain specified percentage of the proposed loan principal amount to be guaranteed by Differ Guarantee and such guarantee fee is payable upon the entering into of the relevant loan agreement between our customer and the lending bank; and
- (iii) if Differ Guarantee is required by the bank to perform its payment obligation as the guarantor, Differ Guarantee shall be entitled to recover the full amount from our customer.

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### *Service agreement*

The salient terms of a typical service agreement entered into between Differ Guarantee and our financing guarantee customer include:

- (i) Differ Guarantee agrees to assist our customer in obtaining bank financings;
- (ii) our customer shall pay an assessment fee (also called a service fee in some agreements) calculated as a certain specified percentage (ranging from 0.05% to 0.6% during the Track Record Period) of the final loan amount as approved by the lending bank;
- (iii) our customer is required to pay to us part of such assessment fee (or service fee) upon entering into a service agreement with us. Such amount is calculated as either a fixed percentage of the proposed loan amount or a fixed amount specified in the service agreement;
- (iv) the part payment of the assessment fee (or service fee) mentioned in (iii) above is non-refundable even if the bank finally decides not to approve the loan application.

### *Counter-guarantee letter*

The salient terms of a typical counter-guarantee letter issued by a counter-guarantor to Differ Guarantee include:

- (i) the counter-guarantor agrees to provide personal or corporate guarantee in favour of Differ Guarantee for securing the guarantee service provided by Differ Guarantee;
- (ii) the guarantee provided by the counter-guarantor shall cover the full amount required to be paid by Differ Guarantee to the bank under the guarantee agreement entered into between Differ Guarantee and the bank; and
- (iii) the guarantee period shall be a two-year period commencing from the date on which Differ Guarantee is required by the bank to perform its payment obligation under the guarantee agreement entered into between Differ Guarantee and the bank.

### *Pledge agreement*

The salient terms of a typical pledge agreement include:

- (i) the pledgor (i.e. our customer or a related party of our customer providing the collateral) agrees to pledge certain collateral in favour of the pledgee (i.e. Differ Guarantee) for the particular guarantee transaction; and
- (ii) the collateral shall be used to cover the full amount required to be paid by Differ Guarantee to the bank under the guarantee agreement entered into between Differ Guarantee and the bank.



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### *Loan agreement*

A loan agreement is entered into between our customer (as the borrower) and the bank (as the lender) after the final approval of the loan by the bank to our customer. We are not a party to the loan agreement. The loan agreement sets out the detailed terms and conditions of the loan granted by the lending bank to our customer, including the amount of the financing, interest rate and loan period.

### *Guarantee agreement with the lending bank*

The salient terms of a typical guarantee agreement entered into between Differ Guarantee and the lending bank in a guarantee transaction include:

- (i) the guarantor (i.e. Differ Guarantee) agrees to guarantee the performance of the repayment obligation of the borrower (i.e. our financing guarantee customer) and such guarantee shall cover the loan principal, interest (including penalty interest), default fees, damages in connection with the default, and all costs associated with the recovery of the loan;
- (ii) the guarantee period shall be a two-year period commencing from the due date of the relevant loan granted by the bank to the borrower; and
- (iii) the guarantor shall perform its payment obligation as the guarantor of the borrower if the borrower fails to make a scheduled payment on a due date.

As disclosed above, in respect of a typical counter-guarantee letter and a typical guarantee agreement with the lending bank, the guarantee period shall be two years commencing from the due date of the relevant loan granted by the lending bank to the borrower. Our Directors confirm that the aforesaid guarantee period of two years is in line with the market practice. Our PRC Legal Adviser is of the opinion that after the guarantee period of two years, the Group will not have any further liability to any party involved in the transaction.

### **Our guarantee customers**

For our financing guarantee business, our target customers include SMEs as well as individuals in the Fujian Province who have short to medium-term financing needs. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, we had 81, 100 and 101 guarantee customers respectively, which included both SMEs and individuals in Fujian Province.

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Some of our customers approached a bank first and the bank then referred the customer to us, while some customers approached us first and we then recommended a bank to them. Our sources of customers mainly include (i) referrals from third parties (such as banks); (ii) customers acquired through our own sales networks; (iii) walk-in customers; and (iv) repeat customers. An analysis of the source of our guarantee customers during the Track Record Period is set out in the table below:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
New customers who were referred to us by third parties	17	21	13	14
New customers acquired through our own sales networks	13	21	10	12
New walk-in customers	1	1	1	1
Repeat customers	50	57	51	74
<b>Total</b>	81	100	75	101

### Key regulatory requirements applicable to our guarantee business

The following table highlights the key regulatory requirements relevant to our guarantee business. For further details of such requirements as well as information on other requirements relevant to our guarantee business, please refer to the section headed “Regulatory overview — E. The financing guarantee industry” in this prospectus.

Key requirements	Compliance status			
The registered capital of a financing guarantee company in Xiamen shall be no less than RMB100 million.	We complied with such requirement during the Track Record Period:	Year ended 31 December 2011 <i>RMB million</i>	Year ended 31 December 2012 <i>RMB million</i>	Seven months ended 31 July 2013 <i>RMB million</i>
	Registered capital of Differ Guarantee	108.8	108.8	108.8 and 150.0 ( <i>note</i> )

*Note:* The registered capital of Differ Guarantee was increased from RMB108.8 million to RMB150 million on 17 January 2013.

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<b>Key requirements</b>	<b>Compliance status</b>				
The outstanding financing guarantee amount of a financing guarantee company shall not exceed 10 times of its net assets.	We complied with such requirement during the Track Record Period:		<b>As at</b>	<b>As at</b>	<b>As at</b>
			<b>31 December</b>	<b>31 December</b>	<b>31 July</b>
			<b>2011</b>	<b>2012</b>	<b>2013</b>
			<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	Outstanding financing guarantee amount (A)	246.6	408.3	484.1	
	Net assets of Differ Guarantee as at the end of the year/ period based on the PRC books of accounts (B)	109.8	110.8	156.2	
	A/B (times)	2.25	3.69	3.10	
The outstanding financing guarantee amount provided to a single customer shall not exceed 10% of the net assets of the financing guarantee company.	We complied with such requirement during the Track Record Period:		<b>Year ended</b>	<b>Year ended</b>	<b>Seven months</b>
			<b>31 December</b>	<b>31 December</b>	<b>ended 31</b>
			<b>2011</b>	<b>2012</b>	<b>July 2013</b>
			<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	Maximum outstanding financing guarantee amount to a single customer (A)	10.0	10.0	15.0	
	Net assets of Differ Guarantee as at the end of the year/ period based on the PRC books of accounts (B)	109.8	110.8	156.2	
	A/B (%)	9.1%	9.0%	9.6%	

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<b>Key requirements</b>	<b>Compliance status</b>			
<p>The outstanding financing guarantee amount provided to a single customer and its affiliated parties shall not exceed 15% of the net assets of the financing guarantee company.</p>	<p>We complied with such requirement during the Track Record Period:</p>			<b>Seven months ended 31 July 2013</b>
		<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2012</b>	
		<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<p>Maximum outstanding financing guarantee amount to a single customer and its affiliated parties (A)</p>	10.0	10.0	15.0
	<p>Net assets of Differ Guarantee as at the end of the year/ period based on the PRC books of accounts (B)</p>	109.8	110.8	156.2
	<p>A/B (%)</p>	9.1%	9.0%	9.6%
<p>The guarantee fee rate that may be charged by a financing guarantee company providing guarantee services to SMEs shall be determined by reference to 50% of the bank's lending interest rate during the same period, subject to an upward or downward adjustment of 30%-50% based on the level of risk involved in the transaction.</p>	<p>We complied with such requirement during the Track Record Period:</p>			<b>Seven months ended 31 July 2013</b>
		<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2012</b>	
		<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<p>Maximum guarantee fee rate charged for new contracts</p>	3.6%	3.5%	3.0%
	<p>Maximum allowed guarantee fee rate (based on 50% of the statutory interest rate published by the PBOC, plus 50% upward adjustment)</p>	4.9%	4.5%	4.5%

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### Key requirements

A financing guarantee company is required to set aside 50% of the income generated from guarantee fees of the year as reserve for non-matured obligations (未到期責任準備金).

### Compliance status

We complied with such requirement during the Track Record Period:

	<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2012</b>	<b>Seven months ended 31 July 2013</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Income generated from guarantee fees based on the PRC books of accounts (A)	6.4	11.0	9.6
Reserve for non-matured obligations b/f	3.2	3.2	5.5
Provision/(Reversal) for non-matured obligations reserve	—	2.3	(0.7)
Amount set aside as reserve for non-matured obligations as at the end of the year/period based on the PRC books of accounts* (B)	3.2	5.5	4.8
B/A (%)	50.0%	50.0%	50.0%

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Key requirements	Compliance status			
A financing guarantee company is required to set aside no less than 1% of the balance of the outstanding guaranteed amount as of the end of the year as guarantee indemnity reserve (擔保賠償準備金).	We complied with such requirement during the Track Record Period:	<b>As at</b>	<b>As at</b>	<b>As at</b>
		<b>31 December</b>	<b>31 December</b>	<b>31 July</b>
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	Balance of outstanding guaranteed amount (A)	246.6	408.3	484.1
	Guarantee indemnity reserve b/f	3.4	6.4	10.5
	Provision for guarantee indemnity reserve (B)	3.0	4.1	4.8
	Amount set aside as guarantee indemnity reserve as at the end of the year/period based on the PRC books of accounts*	6.4	10.5	15.3
B/A (%)	1.2%	1.0%	1.0%	

\* Please refer to the paragraph headed “Reserve for non-matured obligations (未到期責任準備金), guarantee indemnity reserve (擔保賠償準備金), and the profitability of Differ Guarantee in its PRC books of accounts” below for further information.

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### Reserve for non-matured obligations (未到期責任準備金), guarantee indemnity reserve (擔保賠償準備金), and the profitability of Differ Guarantee in its PRC books of accounts

Pursuant to the PRC books of accounts of Differ Guarantee, Differ Guarantee recorded only limited profits during the Track Record Period:

	Year ended 31 December 2011 <i>RMB million</i>	Year ended 31 December 2012 <i>RMB million</i>	Seven months ended 31 July 2013 <i>RMB million</i>
Differ Guarantee's net profit based on the PRC books of accounts	0.8	1.0	2.7

Differ Guarantee's net profit was limited in its PRC books of accounts because, as disclosed in the tables above under the paragraph headed "Key regulatory requirements applicable to our guarantee business", Differ Guarantee is required to set aside certain amount as reserve for non-matured obligation (未到期責任準備金) and guarantee indemnity reserve (擔保賠償準備金) (together, the "Reserves") pursuant to the Interim Measures as mentioned in the section headed "Regulatory overview" in this prospectus, and such amounts that were set aside were charged to profit or loss in the PRC books of accounts of Differ Guarantee in accordance with the applicable accounting standards in the PRC.

The following table illustrates the relevant amounts:

#### *Reserves set aside by Differ Guarantee*

	Year ended 31 December 2011 <i>RMB million</i>	Year ended 31 December 2012 <i>RMB million</i>	Seven months ended 31 July 2013 <i>RMB million</i>
Differ Guarantee's net profit based on its PRC books of accounts	0.8	1.0	2.7
Provision/(Reversal) for non-matured obligations reserve (A)	—	2.3	(0.7)
Provision for guarantee indemnity reserve (B)	3.0	4.1	4.8
Notional income tax effect (A)+(B)* 25%	(0.8)	(1.6)	(1.0)
Differ Guarantee's net profit in its PRC books of accounts if all such amounts that were set aside were reversed	3.0	5.8	5.8

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The amounts were set aside as Reserves to ensure that Differ Guarantee had sufficient funds to repay the bank or other financial institutions for any defaulted loans, related interest and penalties. It is not an obligation for Differ Guarantee to actually pay the amounts to any government authorities, banks or other financial institutions until the occurrence of a default event. During the Track Record Period, Differ Guarantee has been in compliance with such requirements and made adequate provision in its PRC books of accounts, resulting in its limited profits in its PRC books of accounts. As illustrated in the above table headed “Reserves set aside by Differ Guarantee”, as at 31 December 2011, 2012 and 31 July 2013, the total amounts set aside as Reserves were RMB9.6 million, RMB16.0 million and RMB20.1 million respectively and such amounts were not distributable.

### *Hong Kong Financial Reporting Standards*

As defined in HKAS 39 “Financial instruments: recognition and measurement”, a financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

According to HKAS 37 “Provision, contingent liabilities and contingent assets”, provisions should be recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle an entity’s present obligation as a result of a past event.

Therefore, in respect of the financial guarantees issued by Differ Guarantee, provisions are recognised if and when it becomes probable that the holders of the financial guarantees will call upon Differ Guarantee under the financial guarantee in the case of default by our guarantee customers and the amount is based on the exposure which is the maximum guarantee amounts less the estimated fair value of the collateral.

When assessing whether a provision is required for each of the Track Record Periods for our financial guarantees, our Directors considered the financial position, repayment history and subsequent settlement of individual customers, the fair value of collateral held by us for each of the financial guarantee contracts, etc. Our Directors are of the view that the default risk of the guarantees issued by Differ Guarantee to its customers is low after evaluating the probability of default. Thus, when preparing the financial information in accordance with Hong Kong Financial Reporting Standards, no provision was considered necessary and the provision made in the PRC books of accounts was reversed.

### **Pricing strategies**

By acting as the guarantor for our financing guarantee customers, we charge our customers a guarantee fee calculated as a certain percentage of the amount guaranteed by us for each year of guarantee. Such percentage is determined mainly based on our overall risk assessment on a case-by-case basis and the prevailing condition of the credit market, subject to the limit prescribed by the relevant PRC laws and regulations.

During the Track Record Period, our financing guarantee fee rate ranged from 1.0% to 4.8% for the year ended 31 December 2011, from 1.0% to 3.6% for the year ended 31 December 2012 and from 1.5% to 3.5% per year for the seven months ended 31 July 2013.



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In addition to the guarantee fee, we also charge our customers a one-off assessment fee (also called a service fee in some cases) for compiling the relevant information and documents provided by our customers and assessing our customers' applications. Such assessment fee (or service fee) is calculated as a certain percentage of the amount of financing approved by the lending bank and categorised under the revenue from guarantee services. Such percentage ranged from 0.05% to 0.6% during the Track Record Period. During the Track Record Period, the assessment fee we charged ranged from RMB800 to RMB16,000 per application.

### Government subsidies awarded to Differ Guarantee

During the Track Record Period, Differ Guarantee was granted four subsidies amounting to an aggregate of RMB3.25 million from the PRC Government. Such subsidies were booked as our other income in our financial statements. The table below summarises the particulars of the four subsidies:

<b>Subsidy granted by</b>	<b>Amount of subsidy (RMB)</b>
FJETC and FJDOF	210,000
XMEDB and XMBOF	570,000
FJETC and FJDOF	900,000
XMEDB and XMBOF	1,566,600

The abovementioned four subsidies were granted pursuant to four subsidy programmes announced in September 2011, March 2012, March 2012 and April 2013 respectively. The aim of the subsidy programmes was mainly to facilitate the development of financing guarantee industry and financing guarantee companies in Fujian Province. The amount of subsidy was determined with reference to, among other factors, the annual amount of guarantees provided by the applicant to its customers.

The condition imposed on the four subsidies awarded to us was that the subsidies shall be used for supplementing our guarantee indemnity reserve or for compensating our loss in the event that we were required to perform our guarantee obligations under our financing guarantee services. We have applied the subsidies as our guarantee indemnity reserve accordingly. For details of our guarantee indemnity reserve during the Track Record Period, please refer to the paragraph headed "Business — Guarantee services — Key regulatory requirements applicable to our guarantee business" above.

The aforementioned subsidy programmes are one-off in nature. There is no assurance that the PRC Government will continue to implement similar subsidy programmes in the future. Please refer to the paragraph headed "There may be changes in the subsidy programmes such that Differ Guarantee may not be able to obtain subsidy from the PRC Government in the future" under the section headed "Risk factors" in this prospectus for the relevant risk associated.

### Operating procedures

Please refer to the section headed "Business — Internal control and risk management — Approval procedures" below for our operating and approval procedures in respect of our guarantee, pawn loan, entrusted loan and finance lease businesses.

**Recent collapse of a large number of guarantee companies in the PRC**

According to certain internet articles, in the PRC, certain commercial banks have recently reduced their cooperation with financing guarantee companies or tightened its security deposit requirement, from the original 10%–15% to 20%, resulting in liquidity problems amongst financing guarantee companies. Also, due to the tightening of the lending policies by several PRC banks in 2011, those banks started to refuse to grant new financing to borrowers guaranteed by privately-owned financing guarantee companies, and some guarantee companies faced liquidity problems amid growing loan defaults by their customers resulting in them having to honour the guarantees provided to their customers.

During the Track Record Period, the security deposit requirement required by our Group's cooperating banks typically ranged from 10% to 20%. As at 31 July 2013, our Group's outstanding financing guarantee amount was approximately RMB484,100,000 while our Group's restricted bank deposits (i.e. the security cash deposits placed with our Group's cooperating banks) amounted to approximately RMB93,545,000, representing an average security deposit ratio of approximately 19.3%. Our Directors confirmed that during the Track Record Period (i.e. from 1 January 2011 to 31 July 2013) and up to the Latest Practicable Date, there was no unfavourable change in the security deposit requirement on our Group. Therefore, our Directors do not anticipate any material adverse change in our Group's business, financial or working capital position even if banks require a security deposit ratio of 20% as our Group has maintained an average security deposit ratio close to 20% with our cooperating banks.

Our Directors consider that the major reason for the closure of the majority of the financing guarantee companies was due to the new regulatory requirement for companies engaging in the financing guarantee business to obtain the Financing Guarantee Operation Permit which became effective in late 2010. Further details of which are set out in the paragraph headed "E. The financing guarantee industry" in the section headed "Regulatory overview" in this prospectus. Our Directors understood from the relevant government authority in Xiamen that with the new rules and regulations in place, only those financing guarantee companies of good quality are able to obtain the Financing Guarantee Operation Permit and as a result, in Xiamen, the majority of the financing guarantee companies were forced to cease business and only a relatively small number of financing guarantee companies, including Differ Guarantee, were granted the Financing Guarantee Operation Permit and were allowed to continue to operate. In addition, our Directors also understood from Differ Guarantee's cooperating banks that with more effective regulations in force, banks are more willing to cooperate with financing guarantee companies. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group did not experience any default by our customers resulting in us having to honour our financing guarantees provided to our customers nor did we experience any early termination of cooperation relationship with banks. On the contrary, our financing guarantee business expanded during the Track Record Period as we recorded an increase in revenue attributable to our financing guarantee business as well as the total amount guaranteed by us.

Having considered the above, our Directors are of the view that the collapse of a large number of guarantee companies in the PRC in recent years did not and will not have a material adverse effect on our Group.

## BUSINESS

### PAWN LOANS

#### Business model

We offer pawn loans to our customers where our customers pledge certain collateral to us in order to obtain short-term financing from us. The loan amount we grant to our customers depends on, and is at a discount to, the value of the collateral pledged by our customers.

The Pawning Measures specifies three types of pawn loans, namely, real estate pawn loan, movable property pawn loan and property rights pawn loan, each of which corresponds to different types of collateral and is subject to different pricing requirements (see the paragraph headed “Business — Pawn loans — Key regulatory requirements applicable to our pawn loan business” below for details). The types of collateral that we had accepted for our pawn loans during the Track Record Period are set out in the following table:

Type of pawn loan	Type of collateral
Real estate pawn loans	(i) Real estate
Movable property pawn loans	(i) Motor vehicles (ii) Antiques (iii) Gold and jewelries
Property rights pawn loans	(i) Warehouse receipt for goods inventory (ii) Non-listed equity rights

Please refer to the section headed “Business — Internal control and risk management — Loan-to-value ratio” below for our target loan-to-value ratio for different types of collateral.

We charge our pawn loan customers monthly interest and monthly comprehensive fees for our pawn loans. Such interest and comprehensive fees are calculated as a certain percentage of the loan amount. During the Track Record Period, the interests we charged to our pawn loan customers ranged from 0.3% to 1.5% per month, while the comprehensive fees ranged from 0.5% to 3.0% per month.

Upon the end of the loan period, our customers shall repay the principal of the loan in one lump sum payment, or alternatively, our customers can apply to us for a renewal of the loan prior to the end of the loan period. For each pawn loan, the loan period is no longer than six months but is subject to renewals. There is no restriction on the number of times for which a pawn loan can be renewed, provided that all interest and comprehensive fees on the existing loan are paid before its due date.

## BUSINESS

### Collaterals

The following table sets out the breakdown of the types and the values of the collaterals that we accepted for our pawn loans as at the end of each of the Track Record Period:

	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013	
	Value of collaterals		Value of collaterals		Value of collaterals	
	<i>RMB'000</i>	<i>Approximate %</i>	<i>RMB'000</i>	<i>Approximate %</i>	<i>RMB'000</i>	<i>Approximate %</i>
Real estate	20,428	94.2	14,698	31.6	29,308	50.2
Movable property	1,255	5.8	22,886	49.3	14,600	25.0
Property rights	—	—	8,873	19.1	14,500	24.8
<b>Total (A)</b>	<b><u>21,683</u></b>	<b><u>100.0</u></b>	<b><u>46,457</u></b>	<b><u>100.0</u></b>	<b><u>58,408</u></b>	<b><u>100.0</u></b>
<b>Outstanding balance of pawn loans receivables (B) (RMB'000)</b>	<b><u>9,930</u></b>		<b><u>33,250</u></b>		<b><u>35,850</u></b>	
<b>Loan-to-value ratio (B/A)</b>	<b><u>45.8%</u></b>		<b><u>71.6%</u></b>		<b><u>61.4%</u></b>	

As at 31 December 2011, 2012 and 31 July 2013, our average loan-to-value ratios in respect of our pawn loans business were approximately 45.8%, 71.6% and 61.4% respectively.

### Key operating statistics

The table below sets out a breakdown of our pawn loans granted during the Track Record Period by type of collateral:

Type of collateral	Year ended 31 December 2011			Year ended 31 December 2012			Seven months ended 31 July 2012			Seven months ended 31 July 2013		
	Number of new loans granted during the year	Total amount of new loans granted during the year		Number of new loans granted during the year	Total amount of new loans granted during the year		Number of new loans granted during the period	Total amount of new loans granted during the period		Number of new loans granted during the period	Total amount of new loans granted during the period	
		<i>RMB'000</i>	<i>Approximate %</i>		<i>RMB'000</i>	<i>Approximate %</i>		<i>RMB'000</i>	<i>Approximate %</i>		<i>RMB'000</i>	<i>Approximate %</i>
Real estate	22	19,150	88.1	22	44,050	62.7	8	18,800	82.8	14	26,250	48.2
Movable property	7	1,280	5.9	12	18,700	26.6	7	3,900	17.2	10	24,250	44.5
Property rights	2	1,310	6.0	1	7,500	10.7	—	—	—	1	4,000	7.3
<b>Total</b>	<b><u>31</u></b>	<b><u>21,740</u></b>	<b><u>100.0</u></b>	<b><u>35</u></b>	<b><u>70,250</u></b>	<b><u>100.0</u></b>	<b><u>15</u></b>	<b><u>22,700</u></b>	<b><u>100.0</u></b>	<b><u>25</u></b>	<b><u>54,500</u></b>	<b><u>100.0</u></b>

## BUSINESS

The amount of revenue generated from each of our different types of pawn loans during the Track Record Period are set out in the table below:

	Year ended 31 December 2011		Year ended 31 December 2012		Seven months ended 31 July 2012		Seven months ended 31 July 2013	
	Revenue RMB'000	Approximate %	Revenue RMB'000	Approximate %	Revenue RMB'000 (unaudited)	Approximate %	Revenue RMB'000	Approximate %
<b>Real estate pawn loans</b>								
— Interest income	842	51.2	908	15.1	484	26.5	400	5.7
— Comprehensive fee income	<u>689</u>	<u>42.0</u>	<u>3,218</u>	<u>53.5</u>	<u>832</u>	<u>45.5</u>	<u>2,531</u>	<u>36.1</u>
<b>Sub-total</b>	<u>1,531</u>	<u>93.2</u>	<u>4,126</u>	<u>68.6</u>	<u>1,316</u>	<u>72.0</u>	<u>2,931</u>	<u>41.8</u>
<b>Movable property pawn loans</b>								
— Interest income	27	1.6	383	6.4	197	10.8	445	6.3
— Comprehensive fee income	<u>32</u>	<u>2.0</u>	<u>1,407</u>	<u>23.4</u>	<u>314</u>	<u>17.2</u>	<u>2,705</u>	<u>38.6</u>
<b>Sub-total</b>	<u>59</u>	<u>3.6</u>	<u>1,790</u>	<u>29.8</u>	<u>511</u>	<u>28.0</u>	<u>3,150</u>	<u>44.9</u>
<b>Property rights pawn loans</b>								
— Interest income	23	1.4	16	0.2	—	—	153	2.2
— Comprehensive fee income	<u>29</u>	<u>1.8</u>	<u>84</u>	<u>1.4</u>	<u>—</u>	<u>—</u>	<u>780</u>	<u>11.1</u>
<b>Sub-total</b>	<u>52</u>	<u>3.2</u>	<u>100</u>	<u>1.6</u>	<u>—</u>	<u>—</u>	<u>933</u>	<u>13.3</u>
<b>Total</b>	<u>1,642</u>	<u>100.0</u>	<u>6,016</u>	<u>100.0</u>	<u>1,827</u>	<u>100.0</u>	<u>7,014</u>	<u>100.0</u>

For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, our Group's pawn loan income was approximately RMB1.6 million, RMB6.0 million and RMB7.0 million respectively. The pawn loan income comprised interest income and comprehensive fee income.

The increase in comprehensive fee income is higher than the increase in interest income because of the following reasons: (i) we have previously misinterpreted that the monthly interest rate and the monthly comprehensive fee rate could be aggregated and be subject to one single threshold, leading to us having charged our pawn loan customers relatively higher interest rates and relatively lower comprehensive fee rates during the year ended 31 December 2011 and part of the year ended 31 December 2012, and, due to such misinterpretation, the interest rates that we charged in those cases exceeded the maximum limit prescribed under the Pawning Measures (for details, please refer to the paragraph headed "Non-compliance" below in this section); and (ii) we have rectified this problem in 2012, and as such, in the year ended 31 December 2012 as compared with the year ended 31 December 2011 and in the seven months ended 31 July 2013 as compared with the seven months ended 31 July 2012, the increase in comprehensive fee income is higher than the increase in interest income.

## BUSINESS

The following table sets out the key operating statistics of our real estate pawn loans, movable property pawn loans and property rights pawn loans:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
<b>Real estate pawn loans</b>				
Number of outstanding loans as at the end of the year/period	10	6	11	10
Number of loans with revenue contribution for the year/period	29	32	18	20
Number of new loans granted during the year/period	22	22	8	14
Total amount of new loans granted during the year/period (RMB'000)	19,150	44,050	18,800	26,250
Average amount of new loans granted during the year/period (RMB'000)	870.5	2,002.3	2,350	1,875
Average loan period per new loan (days)	133	105	52	137
Number of renewals for existing loans granted prior to the commencement of the year/period	6	4	4	5
Loan renewal ratio for existing loans granted prior to the commencement of the year/period	85.7%	40.0%	40.0%	83.3%
Number of renewals for new loans granted during the year/period	1	3	—	3
Loan renewal ratio for new loans granted during the year/period (%)	4.5%	13.6%	—	21.4%
Range of interest rates charged for new loans (% per month)	1%–1.2%	0.4%–1%	0.4%–1.0%	0.4%–0.47%
Range of comprehensive fees charged for new loans (% per month)	0.5%–1.8%	1.5%–2.6%	1.5%–2.6%	2.03%–2.6%
Average surety ratio (i.e. percentage of new loans with personal/corporate guarantee provided) (%)	—	—	—	—
Loan default rate (%)	—	—	—	—
Loan impairment ratio (%)	—	—	—	—
<b>Movable property pawn loans</b>				
Number of outstanding loans as at the end of the year/period	6	6	11	2
Number of loans with revenue contribution for the year/period	7	18	13	16
Number of new loans granted during the year/period	7	12	7	10*
Total amount of new loans granted during the year/period (RMB'000)	1,280	18,700	3,900	24,250*
Average amount of new loans granted during the year/period (RMB'000)	182.9	1,558.3	557.1	2,425*
Average loan period per new loan (days)	176	144	142	130
Number of renewals for existing loans granted prior to the commencement of the year/period	—	6	6	3
Loan renewal ratio for existing loans granted prior to the commencement of the year/period	—	100.0%	100.0%	50.0%
Number of renewals for new loans granted during the year/period	—	1	—	3
Loan renewal ratio for new loans granted during the year/period (%)	—	8.3%	—	30.0%
Range of interest rates charged for new loans (% per month)	1%–1.2%	0.4%–1.5%	0.4%–1.5%	0.4%–0.47%
Range of comprehensive fees charged for new loans (% per month)	0.5%–1.8%	2.0%–3.0%	2.0%–3.0%	2.4%–2.6%

## BUSINESS

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
Average surety ratio (i.e. percentage of new loans with personal/ corporate guarantee provided) (%)	—	—	—	—
Loan default rate (%)	—	—	—	—
Loan impairment ratio (%)	—	—	—	—
<b>Property rights pawn loans</b>				
Number of outstanding loans as at the end of the year/period	—	1	—	1
Number of loans with revenue contribution for the year/period	2	1	—	2
Number of new loans granted during the year/period	2	1	—	1
Total amount of new loans granted during the year/period (RMB'000)	1,310	7,500	—	4,000
Average amount of new loans granted during the year/period (RMB'000)	655	7,500	—	4,000
Average loan period per new loan (days)	41	180	—	180
Number of renewals for existing loans granted prior to the commencement of the year/period	—	—	—	—
Loan renewal ratio for existing loans granted prior to the commencement of the year/period	—	—	—	—
Number of renewals for new loans granted during the year/period	—	—	—	—
Loan renewal ratio for new loans granted during the year/period (%)	—	—	—	—
Range of interest rates charged for new loans (% per month)	1%–1.5%	0.47%	—	0.47%
Range of comprehensive fees charged for new loans (% per month)	1%–1.5%	2.4%	—	2.4%
Average surety ratio (i.e. percentage of new loans with personal/ corporate guarantee provided) (%)	—	100%	—	—
Loan default rate (%)	—	—	—	—
Loan impairment ratio (%)	—	—	—	—

\* During the seven months ended 31 July 2013, we have granted 10 new movable property pawn loans, with an average loan amount of approximately RMB2.4 million per loan. Among the 10 new loans, 6 were secured by antique collaterals, 4 by gold and jewelry.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any default in payments from our pawn loan customers. For our impairment policies, please refer to the section headed “Financial information — Critical accounting policies — Financial assets — Impairment loss on financial assets” in this prospectus for details.

**Agreements in a typical pawn loan transaction**

The following agreements are involved in a typical pawn loan transaction:

<b>Agreement</b>	<b>Parties to the agreement</b>
A pledge agreement	(i) Differ Pawn, as the pledgee; and (ii) our customer, as the pledgor
A national standardised pawn ticket (全國統一當票)	(i) Differ Pawn, as the lender; and (ii) our customer, as the borrower

*Pledge agreement*

If the collateral is real estate, the pledge agreement will contain the following salient terms:

- (i) the pledgor (i.e. our customer) shall pledge certain specified real estate collateral(s) for the particular pawn loan;
- (ii) the collateral shall be used to cover the principal, interest (including penalty interest), damages payable to the pledgee (i.e. Differ Pawn) in connection with the potential defaults of the pledgor, and all costs associated with the enforcement of the pledge;
- (iii) the loan principal is a certain specified amount;
- (iv) the loan period is a certain specified period and the loan can be renewed subject to the mutual agreement between the pledgor and the pledgee;
- (v) if the loan is not repaid or renewed after the expiry of the loan period, the pledgee shall be entitled to enforce the pledge;
- (vi) the pledgor shall pay on a monthly basis to the pledgee a loan interest at a certain specified monthly interest rate as well as a comprehensive fee at a certain specified monthly fee rate;
- (vii) the collateral shall remain in the possession of the pledgor but the title documents shall be retained in the possession of the pledgee, and the pledgor must agree to the requests for inspection of the collateral by the pledgee;
- (viii) during the pledge, the pledgor must not sell, lease, transfer, give, re-pledge, or otherwise deal with the collateral without the prior written consent of the pledgee; and
- (ix) the pawn ticket shall be part of the agreement between the parties and if there are any discrepancies between the pledge agreement and the pawn ticket regarding the terms and conditions of the pawn loan, the pawn ticket shall prevail.

For other types of collateral, the principal difference of the terms and conditions of the relevant pledge agreement relates to the possession of the collateral during the loan period.



## BUSINESS

If the collateral is movable property (such as motor vehicles, gold, antique, etc.), the collateral shall be retained in the possession of the pledgee (i.e. Differ Pawn) during the loan period.

If the collateral is a warehouse receipt for goods inventory (i.e., a type of property rights pawn loan), the warehouse receipt will be retained in the possession of the pledgee (i.e. Differ Pawn) while the relevant goods inventory will be stored in a third-party warehouse. The pledgor (i.e. our customer) and the warehouse owner will enter into a separate storage agreement pursuant to which the pledgor shall pay a monthly storage fee to the warehouse owner and the warehouse owner shall issue a warehouse receipt which serves as a proof of ownership of, as well as a document required for the delivery of, the goods inventory under storage. In addition, the pledgor (i.e. our customer), the pledgee (i.e. Differ Pawn) and the warehouse owner shall also enter into a separate cooperation agreement for the pledge of warehouse receipt (倉單質押合作協議) pursuant to which the parties acknowledge that the pledgor has pledged the relevant warehouse receipt to the pledgee and that the warehouse owner shall not transfer or move or arrange for the delivery of the relevant goods inventory without the written prior consent of the pledgee.

If the collateral is unlisted equity rights (i.e., a type of property rights pawn loan), the relevant certificate of title shall be retained in the possession of the pledgee (i.e. Differ Pawn) during the loan period.

### *National standardised pawn ticket*

In every pawn loan transaction, a nationally standardised pawn ticket will be issued, which requires our customer's signature and fingerprinting as well as Differ Pawn's stamping. In such a pawn ticket, the following information is specified:

- (i) Differ Pawn's name, address, telephone number and Pawn Operation Permit number;
- (ii) our customer's name, address, telephone number and personal identification document's number;
- (iii) the collateral's description, specifications and conditions (if applicable), quantity and appraised value;
- (iv) the loan-to-value ratio;
- (v) the principal amount of the loan;
- (vi) the monthly interest rate;
- (vii) the monthly comprehensive fee rate and the actual amount of monthly comprehensive fee payable by the borrower;
- (viii) the loan period;
- (ix) remarks and other agreements between the parties (if any); and
- (x) the date of the pawn ticket and the name of Differ Pawn's staff who prepares the pawn ticket.

## BUSINESS

### Our pawn loan customers

For our pawn loan business, our target customers are individuals with short term financing needs. We have a dedicated sales team in Shishi for our pawn loan business. In addition, as we operate a pawn shop outlet in Shishi, our customers may approach us directly through our pawn shop outlet to apply for a pawn loan. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, we had 22, 33 and 14 pawn loan customers respectively and most of them are individual customers mainly in Fujian Province.

An analysis of our source of pawn loan customers during the Track Record Period is set out in the table below:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012	Seven months ended 31 July 2013
<b>Real estate pawn loans</b>				
New customers who were referred to us by third parties	—	—	—	—
Customers acquired through our own sales networks	—	—	—	1
New walk-in customers	9	13	7	2
Repeat customers	7	9	9	7
<b>Sub-total</b>	<u>16<sup>1</sup></u>	<u>22<sup>2</sup></u>	<u>16<sup>2</sup></u>	<u>10<sup>1</sup></u>
<b>Movable property pawn loans</b>				
New customers who were referred to us by third parties	1	1	—	—
Customers acquired through our own sales networks	—	—	—	—
New walk-in customers	5	6	6	—
Repeat customers	—	5	5	3
<b>Sub-total</b>	<u>6<sup>1</sup></u>	<u>12<sup>2</sup></u>	<u>11<sup>2</sup></u>	<u>3<sup>1</sup></u>
<b>Property rights pawn loans</b>				
New customers who were referred to us by third parties	—	—	—	—
Customers acquired through our own sales networks	—	—	—	—
New walk-in customers	1	1	—	—
Repeat customers	—	—	—	2
<b>Sub-total</b>	<u>1</u>	<u>1</u>	<u>—</u>	<u>2</u>
<b>Total</b>	<u><u>22<sup>3</sup></u></u>	<u><u>33<sup>3</sup></u></u>	<u><u>25<sup>3</sup></u></u>	<u><u>14<sup>3</sup></u></u>

Notes:

1. Included in real estate pawn loans were one customer who was also our movable property pawn loan customer.
2. Included in real estate pawn loans were two customers who were also our movable property pawn loan customers.
3. The total number of customers excluded duplication of the same customer under different type of pawn loan.

## BUSINESS

### Key regulatory requirements applicable to our pawn loan business

The following table highlights the key regulatory requirements relevant to our pawn loan business. For further details of such requirements as well as information on other requirements relevant to our pawn loan business, please refer to the section headed “Regulatory overview — C. The pawn loan industry” in this prospectus.

<b>Key requirements</b>	<b>Compliance status</b>		
<p>The maximum term of a pawn loan is 6 months (which may be renewed for a period not exceeding 6 months each time by agreement between the parties and there is no limit on the number of times that a pawn loan may be renewed).</p>	<p>We complied with such requirement during the Track Record Period:</p>		
	<p><b>Year ended 31 December 2011</b></p>	<p><b>Year ended 31 December 2012</b></p>	<p><b>Seven months ended 31 July 2013</b></p>
<p>Where a pawnshop has a registered capital of RMB10 million or more, the maximum amount of a single pawn loan secured by real estate may not exceed 10% of its registered capital.</p>	<p>We complied with such requirement during the Track Record Period:</p>		
	<p><b>Year ended 31 December 2011</b> <i>RMB million</i></p>	<p><b>Year ended 31 December 2012</b> <i>RMB million</i></p>	<p><b>Seven months ended 31 July 2013</b> <i>RMB million</i></p>
<p>Maximum amount of a single pawn loan secured by real estate (A)</p>	<p>6</p>	<p>6</p>	<p>6</p>
<p>Registered capital of Differ Pawn (B)</p>	<p>10</p>	<p>10 and 30 <i>(note)</i></p>	<p>30</p>
<p>A/B (%)</p>	<p>10%</p>	<p>10%</p>	<p>10%</p>

*Note:* The registered capital of Differ Pawn was increased from RMB10 million to RMB30 million on 16 July 2012.

## BUSINESS

<b>Key requirements</b>	<b>Compliance status</b>		
<p>The total outstanding amount of pawn loans provided by a pawnshop to any one legal person or natural person may not exceed 25% of its registered capital.</p>	<p>We complied with such requirement during the Track Record Period:</p>		
	<b>Year ended</b>	<b>Year ended</b>	<b>Seven months</b>
	<b>31 December</b>	<b>31 December</b>	<b>ended</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	2.5	2 and 7.5	7.5
	10	10 and 30	30
	25%	20% and 25%	25%
<p>The total outstanding amount of pawn loans secured by property rights may not exceed 50% of the registered capital.</p>	<p>We complied with such requirement during the Track Record Period:</p>		
	<b>Year ended</b>	<b>Year ended</b>	<b>Seven months</b>
	<b>31 December</b>	<b>31 December</b>	<b>ended</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	1.3	Nil and 7.5	7.5
	10	10 and 30	30
	13%	0% and 25%	25%

## BUSINESS

### Key requirements

### Compliance status

The total outstanding amount of pawn loans secured by real estates may not exceed the registered capital.

We complied with such requirement during the Track Record Period:

	<b>Year ended</b>	<b>Year ended</b>	<b>Seven months</b>
	<b>31 December</b>	<b>31 December</b>	<b>ended</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Maximum outstanding amount of pawn loans secured by real estates	9.7	8.8 and 22.1	20.4
Registered capital of Differ Pawn	10	10 and 30	30

The monthly interest rate of a pawn loan may not exceed the statutory interest rate for a six-month loan published by the PBOC as discounted by the term of the pawn loan.

We did not fully comply with such requirement during the Track Record Period. For details, please refer to the section headed “Business — Non-compliances — Pawning Measures”.

## BUSINESS

### Key requirements

The monthly comprehensive fee rate of a pawn loan may not exceed 4.2% of the amount of the pawn loan if secured by moveable property, 2.7% if secured by real estate, and 2.4% if secured by property rights.

### Compliance status

We complied with such requirement during the Track Record Period:

	<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2012</b>	<b>Seven months ended 31 July 2013</b>
<p>Maximum monthly comprehensive fee rate charged by Differ Pawn for:</p> <ul style="list-style-type: none"> <li>— Moveable property pawn loans (maximum allowed: 4.2%)</li> <li>— Real estate pawn loans (maximum allowed: 2.7%)</li> <li>— Property rights pawn loans (maximum allowed: 2.4%)</li> </ul>	<p>1.8%</p> <p>1.8%</p> <p>1.5%</p>	<p>3.0%</p> <p>2.6%</p> <p>2.4%</p>	<p>2.6%</p> <p>2.6%</p> <p>2.4%</p>

### Pricing strategies

We charge our pawn loan customers a monthly interest as well as a monthly comprehensive fee. Such interests and fees are determined primarily by reference to our risk assessment and the quality of the collateral on a case-by-case basis. For the range of interest rates and comprehensive fees that we charged for our pawn loan customers during the Track Record Period, please refer to the section headed “Business — Pawn loans — Key operating statistics” above.

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### Ageing analysis of our pawn loan receivables

The following table sets out an analysis of our pawn loan receivables and the value of collaterals for each ageing category:

	As at 31 December 2011		As at 31 December 2012			As at 31 July 2013			Value of collaterals RMB'000
	Outstanding balance of loan receivables RMB'000	%	Outstanding balance of loan receivables RMB'000	%	Value of collaterals RMB'000	Outstanding balance of loan receivables RMB'000	%		
<b>Neither past due nor impaired</b>									
— 0 to 30 days	2,000	20.1	4,780	12,550	37.7	16,816	13,500	37.6	27,016
— 31 to 90 days	4,130	41.6	9,045	7,300	22.0	12,122	9,100	25.4	15,387
— 91 to 180 days	3,800	38.3	7,858	13,400	40.3	17,519	13,250	37.0	16,005
— Over 180 days	—	—	—	—	—	—	—	—	—
<b>Sub-total</b>	<b>9,930</b>	<b>100.0</b>	<b>21,683</b>	<b>33,250</b>	<b>100.0</b>	<b>46,457</b>	<b>35,850</b>	<b>100.0</b>	<b>58,408</b>
<b>Past due and/or impaired</b>	—	—	—	—	—	—	—	—	—
<b>Total</b>	<b>9,930</b>	<b>100.0</b>	<b>21,683</b>	<b>33,250</b>	<b>100.0</b>	<b>46,457</b>	<b>35,850</b>	<b>100.0</b>	<b>58,408</b>
— Attributable to renewed loans	—	—	—	1,800	5.4	2,514	9,500	26.5	12,516
— Not attributable to renewed loans	9,930	100.0	21,683	31,450	94.6	43,943	26,350	73.5	45,892

If a pawn loan is renewed before the expiry of its loan period, the ageing analysis will be based on the commencement date of renewed loan and it will not be regarded as past due or impaired after the end of the initial loan period.

### Operating procedures

Please refer to the section headed “Business — Internal control and risk management — Approval procedures” below for our operating and approval procedures in respect of our guarantee, pawn loan, entrusted loan and finance lease businesses.

## FINANCIAL CONSULTATION SERVICES

### Business model

In our financial consultation services, we either (i) provide general financial consultation service to our customers for a pre-agreed period of time with a view to assist our customers in obtaining financing; or (ii) assist our customers in obtaining a specified amount of financing within a pre-agreed period of time. In general, we will devise financing plans for our customers, recommend suitable methods and sources of financing to our customers, offer advices to our customers regarding ways of improving their internal financial management, and assist our customers throughout the entire process of obtaining financing.

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In return for our service, we charge our customers a consultation fee which is either (i) a fixed amount payable regardless of whether our customers can successfully obtain financing as a result of our consultation, or (ii) calculated as a percentage (which typically ranged from 1.0% to 3.0% during the Track Record Period) of the amount of financing obtained as a result of our consultation and is payable only upon the successful obtaining of the relevant financing.

In certain cases where we consider that the customer meets our selection criteria for our entrusted loan target customers, we may also refer our consultation customers to our entrusted loan department. During the Track Record Period, 6 of our consultation customers were referred to, and were granted entrusted loans by, our entrusted loan department.

### Key operating statistics

The table below summarises the key operating statistics of our financial consultation business during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012	Seven months ended 31 July 2013
Number of contracts with revenue contribution for the year/period	11	35	26	11
Number of new contracts entered into during the year/period	12	30	21	9
Range of service period for new contracts ( <i>months</i> )	12–24	6–14	7–12	2–12
Average service period per new contract ( <i>months</i> )	13.7	10.9	12.0	6.3

### Agreements involved in our financial consultation business

In a typical financial consultation transaction, Differ Holding, as the consultation service provider, will enter into a service agreement with our customer. The salient terms of a typical service agreement include:

- (i) the service period, which varies from case to case but is usually about one year;
- (ii) Differ Holding shall either (a) provide on-demand consultation services in relation to financing matters according to the needs of the customer; or (b) assist the customer in obtaining a certain specified amount of financing by devising a financing plan, recommending suitable sources of financing, negotiating the terms of financing with the potential financing providers on behalf of our customer, and preparing the relevant documents in relation to the obtaining of financing;



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- (iii) the customer shall pay Differ Holding a service fee which is either (a) a specified amount usually payable in equal instalments on a quarterly or half-yearly basis; or (b) calculated as a specified percentage of the amount of financing obtained as a result of our consultation services.

### **Our financial consultation customers**

For our financial consultation business, our target customers are SMEs with short to medium-term financing needs. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, we had 9, 27 and 10 financial consultation customers respectively, which were mainly SMEs in Fujian Province.

Our sources of customers mainly include (i) referrals from third parties; (ii) customers acquired through our own sales networks; (iii) walk-in customers; and (iv) repeat customers. An analysis of our source of financial consultation customers during the Track Record Period is set out in the table below:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012	Seven months ended 31 July 2013
New customers who were referred to us by third parties	8	17	11	2
New customers acquired through our own sales networks	—	1	—	1
New walk-in customers	—	3	3	1
Repeat customers	<u>1</u>	<u>6</u>	<u>6</u>	<u>6</u>
<b>Total</b>	<b><u>9</u></b>	<b><u>27</u></b>	<b><u>20</u></b>	<b><u>10</u></b>

In addition, for each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, nil, 5 and 2 of our financial consultation customers respectively were also our entrusted loan customers. For details, please refer to the paragraph headed “Business — Entrusted loans — Our entrusted loan customers”. The financial consultation service income from these customers were approximately nil, RMB6,085,000 and RMB2,802,000 respectively. The basis of recognition of the financial consultation service income for these customers was the same as other financial consultation customers, i.e., the financial consultation service income is generally recognised based on the services performed to date as a percentage of the total services to be performed.

### **Key regulatory requirements applicable to our financial consultation business**

As advised by our PRC Legal Adviser, the operation of our financial consultation business in the PRC is not subject to any special licensing regime. In addition, our PRC Legal Adviser also advised that the consultation fees charged by us to our financial consultation customers are not subject to any limits under the applicable PRC laws and regulations.

### **Pricing strategies**

We charge our financial consultation customers a consultation fee for our service. Such consultation fee is usually determined with reference to our customers' assets and revenue, the duration of the pre-agreed service period as well as the amount of time and human resources that we are expected to allocate in order to devise a tailored financing proposal and/or to obtain the required financing.

In respect of consultation transactions for which a fixed fee was charged, our service fee ranged from RMB66,000 to RMB300,000 per contract for the year ended 31 December 2011, from RMB180,000 to RMB600,000 per contract for the year ended 31 December 2012 and from RMB250,000 to RMB600,000 for the seven months ended 31 July 2013. Such fees are generally payable quarterly or semi-annually in installments and our customers are normally not required to pay any upfront fee.

In respect of consultation transactions for which a fee was charged based on a percentage of financing obtained and on a success basis, our average service fee rate was 2% for the year ended 31 December 2011, approximately 2.04% for the year ended 31 December 2012 and approximately 2.25% for the seven months ended 31 July 2013, while the range of financing obtained ranged from RMB50 million to RMB100 million for the year ended 31 December 2011, from RMB10 million to RMB120 million for the year ended 31 December 2012 and from RMB7 million to RMB140 million for the seven months ended 31 July 2013. Such fees are generally payable only upon the successful obtaining of the relevant financing as a result of our service and our customers are normally not required to pay any upfront fee.

Our Directors confirmed that the financial consultation fees charged by our Group are in line with the market rates.

For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, nil, 5 and 2 of the financial consultation customers respectively were also the Group's entrusted loan customers and the financial consultation service income from these customers were approximately nil, RMB6,085,000 and RMB2,802,000 respectively. Financial consultation service income is generally recognised based on the services performed to date as a percentage of the total services to be performed.

### **Recognition of financial consultation service income**

When recognising the financial consultation service income, we will normally consider the following two factors:

1. whether the recognition method is in accordance with the relevant accounting standards; and
2. the basis to estimate the percentage of services performed at the end of the reporting period.

The financial consultation service income is generally recognised based on the services performed to date as a percentage of the total services to be performed which is in accordance with HKAS 18 "Revenue" regarding the recognition of income from rendering of services.

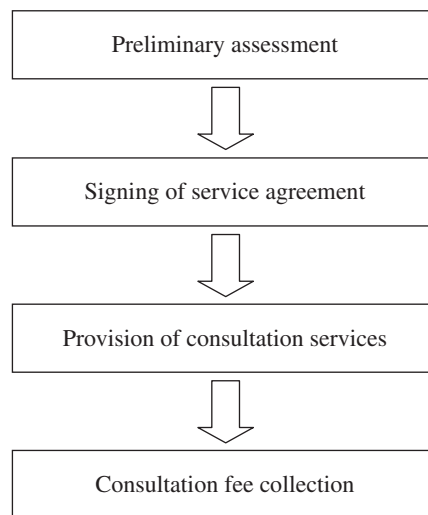
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In respect of consultation transactions for which a fixed fee was charged, our services are performed by an indeterminate number of acts over the pre-agreed period of time and the financial consultation service income is recognised on a straight-line basis over the period.

In respect of consultation transactions for which a fee was charged based on a percentage of financing obtained and only payable upon the successful obtaining of the financing, our Directors consider that the successful obtaining of the relevant financing by our customers is a specific act that is much more significant than any other acts performed by our Group as the financial consultation service fee is payable only upon the successful obtaining of the financing. Therefore, such financial consultation service income is recognised at the time of the successful obtaining of the financing of our customers.

### Operating procedures

The diagram below illustrates the operating procedures for our financial consultation business:



### *Preliminary assessment*

For the provision of financial consultation services, we will request for the following information and documents from our customer: (i) its basic corporate documents such as business licence, tax registration certificate, permit for bank account opening, articles of association; (ii) the personal identification documents or business licence of its legal representative and/or shareholders; and (iii) its latest financial statements.

Based on the information provided by our potential customer, our Group will conduct a preliminary assessment of the application by assessing the proposed duration of service period, the business condition of the potential customer, its major assets and liabilities, the amount of time and human resources that we are expected to allocate to our customer in order to devise a tailored financing proposal and/or the expected amount and difficulty of work that we would need to perform in order to assist our customers in obtaining the required financing.

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### ***Signing of service agreement***

If the service application is approved after our preliminary assessment, we will enter into a service agreement with our customer. For the salient terms of a typical service agreement, please refer to the paragraph headed “Business — Financial consultation services — Agreements involved in our financial consultation business” above.

### ***Provision of consultation services***

After the signing of a service agreement, we will keep close contact with our customer in order to further understand its financing needs and its business conditions. We will also identify suitable sources of financing and provide tailored advice to our customer with a view of assisting it in obtaining financing. For details of our scope of consultation, please refer to the paragraph headed “Business — Financial consultation services — Agreements involved in our financial consultation business” above.

### ***Consultation fee collection***

Before our consultation fee falls due, our business manager will remind our customer of the payment of our fee.

During the Track Record Period, we did not experience any material difficulties in collecting our financial consultation service fees.

## **ENTRUSTED LOANS**

### **Business model**

In a typical entrusted loan transaction, a bank acts as an entrusted party of the entrusted funds provided by us and lends such entrusted funds to our customer based on terms agreed between us and our customer. Our customer will make interest payments to the bank on a monthly basis and repay the loan principal at the end of the loan period to the bank, which will in turn pay such interest and/or loan principal to us upon receiving the same from our customer. All risks associated with the loan, including the credit risk (i.e. the risk that the borrower defaults on the entrusted loan), are borne by our Group but not by the bank.

The relationship between the bank and us is that of an entrusted party and an entrusting party, whereas the relationship between the bank and our customer is that of lender and borrower. No direct creditor/debtor relationship exists between us and our customer. In case of default, the bank will assist our Group to recover the loan at our request according to the agreement entered into between us and the bank. The bank may also apply to the court for enforcement of the loan agreement entered into between the bank and our customer and, if collateral and/or personal/corporate guarantees are provided, to enforce such collateral and/or guarantees.

We charge our entrusted loan customers a monthly interest calculated as a certain percentage of the principal amount of the loan. During the Track Record Period, such monthly interest ranged from 1.2% to 1.5% of the loan principal amount for the year ended 31 December 2011, 1.2% to 2.0% for the year ended 31 December 2012 and 1.8% for the seven months ended 31 July 2013.

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The bank, by acting as our entrusted party, charges a one-off handling fee, which is also calculated as a certain percentage of the principal amount of the loan. Depending on the agreement between our customer and us on a case-by-case basis, such one-off handling fee may be payable by us or by our customer. During the Track Record Period, such one-off handling fee ranged from 0.05% to 0.2% of the loan principal amount.

### Collateral and guarantees

When granting an entrusted loan to our customer, we generally require collateral of sufficient value to be provided by our customer (or a related party of our customer) such that the value of the collateral is greater than the amount of the loan granted.

The following table sets out the breakdown of the types and the values of collaterals that we have accepted for our entrusted loans as at the end of each of the Track Record Period:

	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013	
	Value of collateral		Value of collateral		Value of collateral	
	<i>RMB'000</i>	<i>Approximate %</i>	<i>RMB'000</i>	<i>Approximate %</i>	<i>RMB'000</i>	<i>Approximate %</i>
Real estate	358,222	100.0	175,729	84.4	207,564	100.0
Inventories	—	—	32,414	15.6	—	—
<b>Total (A)</b>	<b><u>358,222</u></b>	<b><u>100.0</u></b>	<b><u>208,143</u></b>	<b><u>100.0</u></b>	<b><u>207,564</u></b>	<b><u>100.0</u></b>
<b>Outstanding balance of entrusted loans receivables (B)</b> <i>(RMB'000)</i>	<b><u>43,717</u></b>		<b><u>120,000</u></b>		<b><u>97,000</u></b>	
<b>Loan-to-value ratio (B/A)</b>	<b><u>12.2%</u></b>		<b><u>57.7%</u></b>		<b><u>46.7%</u></b>	

Please refer to the section headed “Business — Internal control and risk management — Loan-to-value ratio” below for our target loan-to-value ratio for different types of collaterals. As at 31 December 2011, 2012 and 31 July 2013, our average loan-to-value ratios in respect of our entrusted loan business were 12.2%, 57.7% and 46.7% respectively.

For details of our procedures in respect of our due diligence on the collaterals, please refer to the paragraph headed “Business — “Internal control and risk management — Approval procedures” below.

As an additional comfort, we also require our customers and/or related party(ies) of our customers (such as the owner of our customer, related persons of the owner and other related corporate entities of our customer) to guarantee the performance of the repayment obligation of our customer. For the salient terms of a typical guarantee agreement, please refer to the paragraphs headed “Business — Entrusted loans — Agreements in a typical entrusted loan transaction — Guarantee agreement” below.

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### Key operating statistics

The table below summarises the key operating statistics of our entrusted loans business during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
Number of outstanding loans as at the end of the year/period	4	6	4	3
Number of loans with revenue contribution for the year/period	7	20	12	13
Number of new loans granted during the year/period	7	16	8	7
Total amount of loans granted during the year/period ( <i>RMB'000</i> )	117,000	400,000	195,000	222,000
Average amount per loan granted during the year/period ( <i>RMB'000</i> )	16,714	25,000	24,375	31,714
Range of loan period per new loan (days)	43–183	57–365	91–275	31–182
Average loan period per new loan (days)	91	140	129	108
Range of interest rate charged for new loans ( <i>% per month</i> )	1.2%–1.5%	1.5%–2.0%	1.5%–2.0%	1.8%
Number of renewals for new loans granted during the year/period	—	5	1	3
Loan renewal ratio for new loans (%)	—	31.3%	12.5%	42.9%
Average surety ratio (i.e. percentage of new loans with personal/corporate guarantee provided) (%)	100%	100%	100%	100%
Number of overdue or default cases during the year/period	2	—	—	—
Amount of outstanding entrusted loans receivable as at the end of the year/period ( <i>RMB'000</i> )	43,717	120,000	110,000	97,000

Save for the two overdue cases as set out in the paragraph headed “Previous overdue cases” below in this section, we did not experience any material delay or default in payments from our entrusted loans customers during the Track Record Period.

**Agreements in a typical entrusted loan transaction**

In a typical entrusted loan transaction, we will enter into the following agreements:

<b>Agreement</b>	<b>Parties to the agreement</b>
An entrustment agreement (委託合同)	(i) Differ VC or Differ Holding, as the entrusting party; and (ii) the lending bank, as the entrusted party
A loan agreement (借款合同)	(i) Differ VC or Differ Holding, as the entrusting party (only in some agreements); (ii) the lending bank, as the entrusted party and the lender; and (iii) our customer, as the borrower
A pledge agreement (抵押合同)	(i) either the lending bank, Differ VC or Differ Holding as the pledgee; and (ii) our customer and/or a related party of our customer providing the collateral for the particular entrusted loan transaction, as the pledgor
A guarantee agreement (保證合同)	(i) the lending bank, as the entrusted party and the lender; (ii) the owner of our customer and/or related party(ies) of our customer, as the guarantor

***Entrustment agreement***

The salient terms of a typical entrustment agreement include:

- (i) the entrusting party (i.e. Differ VC or Differ Holding) shall entrust the entrusted party (i.e. the bank) with a certain amount of its own funds for the purpose of lending the same to a borrower designated by the entrusting party;
- (ii) the principal terms of the entrusted loan including the loan amount, loan period, interest rate and repayment method shall be designated by the entrusting party;
- (iii) the entrusting party shall provide to the entrusted party the full amount of the entrusted loan prior to the date of disbursement of the entrusted loan;
- (iv) the entrusted party shall charge a handling fee calculated as a certain specified percentage of the entrusted loan amount and the party (either the entrusting party or the borrower) who shall bear the handling fee is specified in the agreement;
- (v) all risks associated with the entrusted loan shall be borne by the entrusting party but not the entrusted party; and
- (vi) the entrusted party shall open an account for the entrusting party for the settlement of the particular entrusted loan.

***Loan agreement***

The salient terms of a typical loan agreement include:

- (i) the lending bank shall lend a specified amount of entrusted loan to the borrower (i.e. our customer) in accordance with an entrustment agreement between the entrusting party (i.e. Differ VC or Differ Holding) and the lending bank;
- (ii) the borrower shall use the loan for a specified purpose;
- (iii) the loan period;
- (iv) the loan shall be disbursed to the borrower only after, amongst other conditions, the lending bank has received the funds from the entrusting party;
- (v) the borrower shall pay to the bank a monthly interest calculated as a specified percentage of the loan amount on a specified date of each month;
- (vi) a specified penalty interest rate would apply if the borrower fails to make a scheduled payment on time;
- (vii) the borrower shall repay the loan principal in one lump sum at the end of the loan period;
- (viii) the bank shall charge a handling fee calculated as a certain specified percentage of the entrusted loan amount and the party (either the entrusting party or the borrower) who shall bear the handling fee as specified in the agreement; and
- (ix) the borrower may submit a written application for a renewal of the loan not later than a specified number of business days prior to the due date of the loan, and such a renewal application is subject to the approval of the entrusting party.

***Pledge agreement***

The salient terms of a typical pledge agreement include:

- (i) the pledgor (i.e. the borrower or its related party(ies)) agrees to pledge certain specified collateral for the particular entrusted loan; and
- (ii) the collateral will be used to cover the principal, interest (including penalty interest), damages and all costs associated with the enforcement of the collateral.

***Guarantee agreement***

The salient terms of a typical guarantee agreement include:

- (i) the guarantor (i.e. a related party of the borrower) shall guarantee the performance of the repayment obligation of the borrower and such guarantee shall cover the principal, interest (including penalty interest), damages payable and all costs associated with the recovery of the loan; and



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- (ii) the guarantee period shall usually be a two-year period commencing from the date on which the loan becomes due.

### Our entrusted loan customers

For our entrusted loan business, our target customers are currently SMEs located in the Fujian Province with short term financing needs. Our selection criteria for SMEs is that they should have legal and compliant business operations, efficient production processes, good credit records, healthy cash flows, sufficient assets for the repayment of all borrowings, as well as shareholders with good business reputation. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, we had 5, 10 and 5 entrusted loan customers respectively, which were mainly SMEs in the Fujian Province.

Our sources of customers mainly include (i) referrals from third parties (such as banks); (ii) customers acquired through our own sales networks (such as the business networks of our sales executives, etc.); (iii) walk-in customers; and (iv) repeat customers. An analysis of our source of entrusted loan customers during the Track Record Period is set out in the table below:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
New customers who were referred to us by third parties	4	3	2	1
New customers acquired through our own sales networks	—	4	1	—
New walk-in customers	1	—	—	—
Repeat customers	—	3	3	4
<b>Total</b>	<b>5</b>	<b>10</b>	<b>6</b>	<b>5</b>

For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, nil, 5 and 2 of our entrusted loan customers respectively were also our financial consultation customers. In respect of these customers, they first entered into a financial consultation service agreement with us pursuant to which we agreed to assist them in obtaining specified amount of financing for them and they agreed to pay us consultation fees upon the successful obtaining of financings from banks or other financial institutions as a result of our consultation services. Such consultation fee was determined as a certain percentage of the amount of financing obtained by our customers. Subsequently, such customers were referred to our entrusted loan business department and, having gone through our standard loan approval procedures, our Group granted entrusted loans to such customers. Such customers have therefore paid us consultancy fees for the successful obtaining of financing as a result of our financial consultation services as well as monthly interest payment for the entrusted loans granted by us. As advised by our PRC Legal Adviser, the relevant PRC laws and regulation do not prohibit us from charging consultation fees and interests to an entrusted loan customer. As further advised by our PRC Legal Adviser, the financial consultation service fee charged by our Group to our entrusted loan

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customers shall not be deemed as interests charged on entrusted loans. Therefore, our PRC Legal Adviser confirmed that it is not necessary to consider the total of the financial consultation service fee and the entrusted loan interests together when assessing our Group's compliance with the regulatory requirements on the maximum interests that our Group may charge. Our PRC Legal Adviser further confirmed that the financial consultation fees charged to customers who were also granted entrusted loans of the Group would not be deemed as a means to circumvent the regulatory maximum fee restrictions in respect of entrusted loans.

### **Factors considered by the Group in granting entrusted loans and/or providing financial consultation services**

In considering whether to grant an entrusted loan to a potential customer, our Group will consider a range of factors on a case-by-case basis, which generally include the credit record of the customer, the reliability of all information provided by the customer, whether the customer proposes to use the loan for any unlawful activities, whether the customer is identified to have a bad reputation in the society or industry or has any record of unscrupulous trading or illegal activities, whether the customer is involved in any major unresolved civil lawsuits or economic disputes, whether the collateral provided by the customer is in good condition, liquid, and sufficient to cover the entire loan amount, whether the customer has reliable and healthy source of income or cash flow to repay the loan and interest and whether the customer's business is deteriorating or is difficult to improve.

In respect of the customers who are common customers of both of our entrusted loan and financial consultation services, we first consider granting financial consultation services to the customer by considering the difficulty and the amount of time and human resources that we expect to allocate to the customer in order for us to assist the customer in obtaining the required financing through a preliminary assessment of the business condition of the customer, and its assets and liabilities. After accepting to provide financial consultation services to such customers, we will identify and seek different suitable sources of financing to the customer. In this process, if we consider that the customer meets our criteria for granting entrusted loans, we may refer such customer to our entrusted loan department. In considering whether to grant entrusted loan to such customers who are so referred to the entrusted loan department, we will go through the same set of approval procedures as required for other entrusted loan customers and take into account the same factors in general as mentioned in the preceding paragraph above.

### **Key regulatory requirements applicable to our entrusted loan business**

As advised by our PRC Legal Adviser, under the relevant PRC laws, companies engaging in entrusted loan business in the PRC are not required to obtain any special licence or permit. Our PRC Legal Adviser also advised that the relevant PRC laws do not restrict the maximum amount of entrusted loans that may be provided by us.

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As advised by our PRC Legal Adviser, according to 最高人民法院《關於人民法院審理借貸案件的若干意見》(the Several Opinions of the Supreme People's Court on the Trial of Loan Cases by the People's Courts), we generally cannot charge interest rates for entrusted loans that exceed four times the rates that a PRC bank charges for similar loans. We have complied with this requirement in respect of our entrusted loans during the Track Record Period;

<b>Key requirements</b>	<b>Compliance status</b>		
We generally cannot charge interest rate for entrusted loans that exceed four times the rates that a PRC bank charges for similar loans.	We complied with such requirement during the Track Record Period:		
	<b>Year ended</b>	<b>Year ended</b>	<b>Seven months</b>
	<b>31 December</b>	<b>31 December</b>	<b>ended</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
			<b>2013</b>
	Maximum monthly interest rate charged by us for an entrusted loan granted during the year/period (A)		
	1.5%	2.0%	1.8%
	The lowest monthly statutory interest rate published by the PBOC for a 12-month loan during the year/period (B)		
	0.48%	0.50%	0.50%
	A/B (times)		
	3.13	4.00	3.60

For details of other regulatory requirements applicable to our entrusted loan business, please refer to the section headed "Regulatory overview" in this prospectus.

### **Pricing strategies**

We charge our entrusted loan customers a monthly interest calculated as a certain percentage of the principal amount of the loan. During the Track Record Period, such monthly interest ranged from 1.2% to 1.5% of the loan amount for the year ended 31 December 2011, 1.2% to 2.0% for the year ended 31 December 2012 and 1.8% for the seven months ended 31 July 2013. In determining such monthly interest rate, we mainly make reference to factors such as our overall risk assessment in respect of our customer and the prevailing credit market conditions.

### **Previous overdue cases**

During the Track Record Period, we have encountered two overdue cases from our entrusted loan customers. In both cases, we eventually recovered the full amount of the loan principal and we did not suffer any material losses. The first case involved a customer which borrowed a loan in the principal amount of RMB7 million at a monthly interest rate of 1.2% for a period of six months from June 2011 to December 2011. The customer did not make repayment on time in December 2011 and subsequently

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made irregular repayments of different amounts in the following months. In July 2012, the customer finally repaid the full amount of the outstanding loan principal together with most of the accrued interest and we suffered a loss of approximately RMB8,000 in interest payable by the customer. The second case involved another customer which borrowed a loan in the principal amount of RMB20 million at a monthly interest rate of 1.5% for a period of 3 months from August 2011 to November 2011. The customer did not make repayment on time in November 2011. In July 2012, the customer finally repaid the full amount of the outstanding loan principal together with all accrued interest and we did not suffer any loss.

In respect of the aforesaid two overdue cases, our respective business managers had, upon becoming aware of the non-payment by the respective customers after the due date, contacted the customers immediately and directly to understand the situation. Our business managers and risk management personnel maintained regular contacts with the customers to understand and check if their financial conditions had improved. Such regular contacts lasted until we have recovered the entire outstanding loan principal and substantially most or all of the accrued interest.

### Ageing analysis of our entrusted loan receivables

The following table sets out an analysis of our entrusted loan receivables and the value of collaterals for each ageing category:

	As at 31 December 2011			As at 31 December 2012			As at 31 July 2013		
	Outstanding balance of loan receivables RMB'000	%	Value of collaterals RMB'000	Outstanding balance of loan receivables RMB'000	%	Value of collaterals RMB'000	Outstanding balance of loan receivables RMB'000	%	Value of collaterals RMB'000
<b>Neither past due nor impaired</b>									
— 0 to 30 days	—	—	—	35,000	29.2	66,752	33,000	34.0	80,369
— 31 to 90 days	20,000	45.7	83,568	65,000	54.1	108,977	29,000	29.9	48,410
— 91 to 180 days	—	—	—	20,000	16.7	32,414	35,000	36.1	78,785
— Over 180 days	—	—	—	—	—	—	—	—	—
<b>Sub-total (A)</b>	<u>20,000</u>	<u>45.7</u>	<u>83,568</u>	<u>120,000</u>	<u>100.0</u>	<u>208,143</u>	<u>97,000</u>	<u>100.0</u>	<u>207,564</u>
<b>1 to 90 days past due but not impaired (B)</b>	23,717	54.3	274,654	—	—	—	—	—	—
<b>Total (A) + (B)</b>	<u>43,717</u>	<u>100.0</u>	<u>358,222</u>	<u>120,000</u>	<u>100.0</u>	<u>208,143</u>	<u>97,000</u>	<u>100.0</u>	<u>207,564</u>
— Attributable to renewed loans	—	—	—	67,000	55.8	118,188	35,000	36.1	78,785
— Not attributable to renewed loans	<u>43,717</u>	<u>100.0</u>	<u>358,222</u>	<u>53,000</u>	<u>44.2</u>	<u>89,955</u>	<u>62,000</u>	<u>63.9</u>	<u>128,779</u>
	<u>43,717</u>	<u>100.0</u>	<u>358,222</u>	<u>120,000</u>	<u>100.0</u>	<u>208,143</u>	<u>97,000</u>	<u>100.0</u>	<u>207,564</u>

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As at 31 December 2011, the outstanding overdue balance of the two overdue cases mentioned under the paragraph headed “Previous overdue cases” above (with original loan principals of RMB7 million and RMB20 million initially) amounted to approximately RMB23,717,000 in aggregate. Such amount was classified as “1 to 90 days past due but not impaired” in the above entrusted loan ageing analysis.

### **Operating procedures**

Please refer to the section headed “Business — Internal control and risk management — Approval procedures” for our operating and approval procedures in respect of our guarantee, pawn loan, entrusted loan and finance lease businesses.

## **FINANCE LEASE**

### **Business model**

Finance lease is an arrangement where we purchase certain asset (such as machinery) from our customer (or supplier designated by our customer) in cash at the beginning and lease it back to our customer immediately afterwards in return for a series of monthly rental payments payable by our customers to us over a pre-agreed lease period as well as an up-front one-off handling fee. Our customer will continue to have custody and the right to use of the asset throughout the lease period. At the end of the lease period, the title of ownership of the asset will be transferred back to our customer at a nominal consideration.

In essence, the amount that we pay for the purchase of an asset under a finance lease arrangement can be regarded as a loan advanced to our customer, while the asset that we purchase from our customer can be regarded as a collateral. The monthly rental payments by our customer can therefore be regarded as repayment of the loan on an amortized basis such that a portion of each payment is for interest while the remaining amount is applied towards reducing the principal balance. The reporting accountants of our Group have given an opinion on the financial information of the Group as a whole, including the accounting treatment in relation to the finance lease arrangement, in the Accountants’ Report set out in Appendix I to this Prospectus.

In addition, we may also require our finance lease customers to place deposit with us (calculated as a certain percentage of the finance lease principal amount where such percentage ranged from 10% to 20% during the Track Record Period) as part of the finance lease arrangement, and such deposit shall be repaid to the customer after the customer fulfilled all obligations under the finance lease contract.

In finance lease, we will have an up-front cash outflow (being the price paid by us in cash for the purchase of the asset from our customer) and subsequently a series of cash inflows throughout the lease period (being the monthly rental payable by our customer to us). The amount of the monthly rental payment is determined such that, among other things, we are able to earn a reasonable internal rate of return based on all expected relevant cashflows.

It is our policy that the amount that we pay for the purchase of an asset under a finance lease arrangement must not exceed the value of the asset as appraised by us.

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### Key operating statistics

We have commenced our finance lease operation in the second half of 2012. During the Track Record Period, we had entered into 5 finance lease transactions. The following table summarises the finance lease transactions:

	<b>Since commencement of our finance lease operation in the second half of 2012 up to 31 December 2012</b>	<b>Seven months ended 31 July 2013</b>
Number of finance lease transactions with revenue contribution for the period	1	5
Number of new finance lease agreements entered into during the period	2	3
Number of new loans granted during the period	1	4
Total amount of financing for transactions granted during the period ( <i>RMB'000</i> )	8,500	62,240
Average amount of financing per transaction granted during the period ( <i>RMB'000</i> )	8,500	15,560
Range of lease period per new transaction (months)	24	36
Average lease period per new transaction (months)	24	36
Range of internal rate of return for new transactions granted during the period	18.0%	9.9%–14.7%
Average internal rate of return for new transactions granted during the period	18.0%	12.4%
Range of up-front handling fee rate for new transactions ( <i>% of the financing amount</i> )	5%	2.9%–3.4%
Average up-front handling fee rate for new transactions ( <i>% of the financing amount</i> )	5%	3.0%
Average surety ratio (i.e. percentage of new transactions with personal/corporate guarantee provided)	100%	100%
Type of asset involved	Manufacturing machinery	Manufacturing machinery
Number of overdue or default cases during the period	0	0
Amount of outstanding finance lease receivables as at the end of the period ( <i>RMB'000</i> )	7,178	60,882

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any delay in rental payment from our finance lease customer.

**Salient terms of a typical contract entered into between us and our finance lease customer**

In a typical finance lease transaction, we will enter into the following agreements:

<b>Agreement</b>	<b>Parties to the agreement</b>
A finance lease agreement	(i) Differ Lease, as the lessor; and (ii) our customer, as the lessee
A guarantee agreement	(i) the owner or other related parties of our customer, as the guarantor; and (ii) Differ Lease, as the party to whom the guarantee is made

*Finance lease agreement*

The salient terms of a typical finance lease agreement include:

- (i) Differ Lease shall purchase certain machinery from our customer (or supplier designated by our customer), and our customer shall lease such machinery from Differ Lease for a certain lease period;
- (ii) our customer shall pay to Differ Lease a certain amount as the first monthly rental payment (which included an up-front handling fee);
- (iii) our customer shall pay to Differ Lease a certain amount on a monthly basis as the monthly rental from the second month onwards throughout the remaining of the lease period;
- (iv) upon the end of the lease period, our customer shall purchase the machinery back from Differ Lease at a certain specified nominal consideration;
- (v) the machinery can only be used by our customer at a specified location;
- (vi) our customer shall be responsible for the proper usage and maintenance of the machineries at its own costs; and
- (vii) the ownership of any new replacement components installed on the machinery as a result of maintenance work during the lease period shall also belong to Differ Lease.

*Guarantee agreement*

The salient terms of a typical guarantee agreement include:

- (i) the guarantor (i.e. the owner or other related parties of our customer) shall agree to provide personal guarantee in favour of Differ Lease in respect of the performance of the payment obligation of the lessee (i.e. our customer) under the finance lease transaction between Differ Lease and the lessee; and
- (ii) the guarantee shall cover the sum of all rental payments during the lease period as well as any damages payable to Differ Lease in connection with the potential defaults of the lessee.

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### Our finance lease customers

For our finance lease business, our target customers are currently SMEs with medium term financing needs. An analysis of our source of finance lease customers during the Track Record Period is set out in the table below:

	<b>Since commencement of our finance lease operation in the second half of 2012 up to 31 December 2012</b>	<b>Seven months ended 31 July 2013</b>
New customers who were referred to us by third parties	—	—
New customers acquired through our own sales networks	1	4
New walk-in customers	—	—
Repeat customers	—	1
<b>Total</b>	<b>1</b>	<b>5</b>

### Key regulatory requirements applicable to our finance lease business

The following table highlights the key regulatory requirements relevant to our finance lease business. For further details of such requirements as well as information on other requirements relevant to our finance lease business, please refer to the section headed “Regulatory overview” in this prospectus.

<b>Key requirements</b>	<b>Compliance status</b>
<p>Our finance lease operation is not subject to any special licensing regime in the PRC. However, the establishment of a wholly foreign-owned enterprise engaging in the finance lease business in Xiamen is required to be approved by 廈門市投資促進局 (Xiamen Investment Promotion Bureau) (“XMIPB”).</p>	<p>We complied with such requirement during the Track Record Period. On 10 April 2012, XMIPB issued its written approval for the establishment of Differ Lease by Differ Hong Kong.</p>



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<b>Key requirements</b>	<b>Compliance status</b>		
A foreign-invested finance lease company must have a registered capital of not less than US\$10 million.	We complied with such requirement during the Track Record Period:		
	<b>Year ended</b>	<b>Year ended</b>	<b>Seven months</b>
	<b>31 December</b>	<b>31 December</b>	<b>ended</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
			<b>2013</b>
	Registered capital of Differ Lease	Not applicable	HK\$128 million (or approximately US\$16.4 million)
		HK\$128 million (or approximately US\$16.4 million)	HK\$128 million (or approximately US\$16.4 million)
The terms of a finance lease transaction are not subject to any regulatory requirements. However, the aggregate value of risky assets of a finance lease company (i.e. the total assets of a finance lease company minus certain specified items such as cash, bank balances and investments in national debts) shall not exceed 10 times of its net asset value.	We complied with such requirement during the Track Record Period:		
	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 December</b>	<b>31 July</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	Risky assets of Differ Lease as at the end of the year/period (A)	N/A	17.8
		65.9	65.9
	Net asset value of Differ Lease as at the end of the year/period (B)	N/A	20.4
		23.8	23.8
	A/B (times)	N/A	0.87
		2.77	2.77

### **Accounting treatment**

According to HK(SIC) Int 27-Evaluating the Substance of Transactions Involving the Legal Form of a Lease issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), we need to consider the substance of an arrangement to determine whether it includes the conveyance of the right to use an asset for an agreed period of time. In a finance lease arrangement where we purchase certain machinery from our customer and lease it back to our customer immediately afterwards, our customer’s risks and rewards incident to owning the underlying assets do not substantively change, and the customer has to repurchase the assets at a nominal consideration at the end of the lease period. The substance of the arrangement is that the customer borrows cash, secured by the underlying assets and repayable in instalments over the lease period and in a final lump sum at the end of the lease period. Therefore, such finance lease arrangement should not be accounted for as a lease under HKAS 17 Leases issued by the HKICPA. Instead, it should be accounted for as loan receivables and measured at the amortised cost using effective interest rate method in the financial information. The Reporting

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Accountants have given an opinion on the financial information of the Group as a whole, including the accounting treatment in relation to such finance lease arrangement, in the Accountants' Report set out in Appendix I to the Prospectus.

In respect of the finance lease arrangement where we purchase certain machinery from supplier designated by our customer and lease it to our customer immediately afterwards, as (i) the machinery is not originally owned by our customer; and (ii) our customer has to purchase the machinery at a nominal consideration at the end of the lease period, it meets the definition of finance lease under HKAS 17 "Leases" (i.e. the terms of the lease transfer substantially all the risks and rewards of ownership of the machinery to our customer). As such, it should be accounted for in accordance with the accounting policies regarding finance lease as set out in the paragraph headed "Finance lease as lessor" in the sub-section headed "Critical accounting policies" in the section headed "Financial information".

### Operating procedures

Please refer to the section headed "Business — Internal control and risk management — Approval procedures" for our operating and approval procedures in respect of our guarantee, pawn loan, entrusted loan and finance lease businesses.

### CUSTOMERS

Our target customers include SMEs and individuals with short to medium-term financing needs.

For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, we had a total of 117, 171 and 135 customers respectively. The number of customers for each of our business segments is set out below:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
<b>Guarantee services</b>				
— Individual customers	14	13	12	9
— Corporate customers	67	87	63	92
Subtotal	81	100	75	101
<b>Pawn loans</b>				
— Individual customers	22	33	25	13
— Corporate customers	—	—	—	1
Subtotal	22	33	25	14
<b>Financial consultation services</b>				
— Individual customers	—	—	—	—
— Corporate customers	9	27	20	10
Subtotal	9	27	20	10

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	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2012 (unaudited)	Seven months ended 31 July 2013
<b>Entrusted loans</b>				
— Individual customers	—	—	—	—
— Corporate customers	5	10	6	5
Subtotal	5	10	6	5
<b>Finance lease</b>				
— Individual customers	—	—	—	—
— Corporate customers	—	1	—	5
Subtotal	—	1	—	5
<b>Total</b>	<b>117</b>	<b>171</b>	<b>126</b>	<b>135</b>

During the Track Record Period, some of our customers were customers of more than one type of services offered by us. The following table sets out the number of all such customers during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Seven months ended 31 July 2013
Entrusted loan and financial consultation <i>(note 1)</i>	—	5	2
Financing guarantee and financial consultation <i>(note 2)</i>	2	1	—

*Notes:*

1. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, nil, 5 and 2 of our entrusted loan customers were also our financial consultation customers respectively. For details, please refer to the paragraph headed “Business — Entrusted loans — Our entrusted loan customers”. Such customers include companies engaged in property development, trading of construction materials, wholesale and retail of commodities, and wholesale and retail of pre-packaged food and dairy products. Such customers were independent third parties (other than being customers of our Group).
2. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, 2, 1 and nil of our financing guarantee customers were also our financial consultation customers respectively. Such customers include a company engaged in real estate development in Fujian Province and a company engaged in the wholesale and retail of coal. Such customers were independent third parties (other than being customers of our Group).

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In respect of the abovementioned customers to whom we have provided more than one type of services, our PRC Legal Adviser confirmed that other than the requirements on the maximum interest rate for entrusted loans and on the maximum financing guarantee fee rate for financing guarantee services on a standalone basis, the relevant PRC laws and regulations do not impose any restrictions on the maximum total interests and/or fees that we may charge to such customers on a combined basis for all types of services that we offered to them.

Our Group charges financial consultation fees for the financial consultation services rendered by us to our customers (including but not limited to the provision of financing solutions) and the financial consultation fees were determined based on normal commercial terms and upon arm's length negotiation between our Group and our customers. As advised by our PRC Legal Adviser, the relevant PRC laws and regulations do not prohibit the Group from charging consultation fees and entrusted loan interests/financing guarantee fees concurrently for different services rendered. The PRC Legal Adviser further confirmed that the financial consultation fees charged by our Group shall not be deemed as entrusted loan interests or financing guarantee fees charged for other services. Based on the foregoing, the Sponsor and our PRC Legal Adviser are of the view that the financial consultation fees charged would not be deemed as a means to circumvent the regulatory maximum fee restrictions in respect of entrusted loans/financing guarantee.

For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, our five largest customers accounted for approximately 40.2%, 41.0% and 48.0% of our total revenue respectively, while the largest customer accounted for approximately 9.9%, 17.6% and 21.5% respectively of our total revenue.

None of our directors, their associates, or any Shareholder (which to the knowledge of our Directors owns more than 5% of our Company's share capital) was interested in any of our five largest customers during each of the Track Record Period.

The table below sets out the background information of our five largest customers during the year ended 31 December 2011:

<b>Ranking</b>	<b>Type of service offered to the customer</b>	<b>Business activities of the customer</b>	<b>Year of commencement of business relationship</b>
1	Entrusted loans and financial consultation services	Property development and trading of construction materials	2010
2	Financial consultation services and guarantee services	Wholesale and retail of coal	2011
3	Entrusted loans	Development of resort area	2011
4	Financial consultation services	Fund management	2011
5	Entrusted loans	Manufacturing and sales of glass	2011

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The table below sets out the background information of our five largest customers during the year ended 31 December 2012:

Ranking	Type of service offered to the customer	Business activities of the customer	Year of commencement of business relationship
1	Entrusted loans and financial consultation services	Property development	2012
2	Entrusted loans and financial consultation services	Wholesale and retail of commodity and construction material	2012
3	Entrusted loans and financial consultation services	Property development and trading of construction materials	2010
4	Entrusted loans	Development of resort area	2011
5	Financial consultation services	Property development	2011

The following table sets out the background information of our five largest customers during the seven months ended 31 July 2013:

Ranking	Type of service offered to the customer	Business activities of the customer	Year of commencement of business relationship
1	Entrusted loans and financial consultation services	Property development	2012
2	Entrusted loans and financial consultation services	Wholesale and retail of commodity and construction materials	2012
3	Financial consultation services	Property development and trading of construction materials	2013
4	Pawn loans	Individual	2012
5	Entrusted loans and financial consultation services	Property development	2013

### SUPPLIERS

During the Track Record Period, we did not have regular or significant suppliers in terms of business nature.

### SOURCE OF FUNDING

During the Track Record Period, we principally finance our business through capital contribution from shareholders, borrowings from banks and profits generated from our operations.

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As at 31 December 2011, we had bank borrowings amounting to approximately RMB8,404,000. Such bank borrowings were guaranteed by Mr. Hong and an independent third party. We have fully repaid such borrowings in the year ended 31 December 2012. As at 31 December 2012 and the Latest Practicable Date, we did not have any bank borrowings and our operations were mainly financed by our internal resources.

The following table sets out a breakdown of our source of funding during the Track Record Period:

	<b>Year ended 31 December 2011 <i>RMB'000</i></b>	<b>Year ended 31 December 2012 <i>RMB'000</i></b>	<b>Seven months ended 31 July 2013 <i>RMB'000</i></b>
Internal resources in the form of cash and cash equivalents as at the beginning of the year (which originate from shareholders' capital contribution and our Group's cash flows from operating, investing and financing activities since establishment)	40,168	15,792	48,996
Operating profit before working capital changes	12,994	42,607	28,968
Drawdown/(repayment) of bank borrowings	8,404	(8,404)	—
Interest received	2,042	1,377	759
<b>Total</b>	<b>63,608</b>	<b>51,372</b>	<b>78,723</b>

Please refer to the sections headed “Financial information — Major factors affecting our results of operations — Source of funding and expansion of operation” and “Financial information — Liquidity and capital resources” of this prospectus for a discussion of the availability of our capital resources.

## **INTERNAL CONTROL AND RISK MANAGEMENT**

### **Overview**

Our Group highly values the importance of internal control and risk management for the smooth running of its business. The core of our Group's business is to provide short and medium-term financings (i.e. entrusted loans, pawn loans and finance lease) and financing-related solutions (i.e. financial consultation services and guarantee services) based on our risk assessment of our customers and their collaterals. Our Group has taken measures and steps to identify those inherent risks relevant to our business, in particular those risks in relation to our entrusted loans, guarantee services, pawn loans and finance lease businesses. We aim at minimising and managing such risks at every stage along the approval process and the post-approval monitoring process.

Taking into account our Group's due diligence and approval process (as detailed in the paragraphs headed "Operating procedures" below) as well as our policy in relation to loan-to-value ratio (as detailed in the paragraph headed "Loan-to-value ratio" below), our Directors believe that the risk exposure of our Group is relatively low and the existing measures in place can sufficiently protect our Group's interest with respect to our business.

### **Risk management**

Our Directors consider that the principal types of risks inherent to our Group's business include the following:

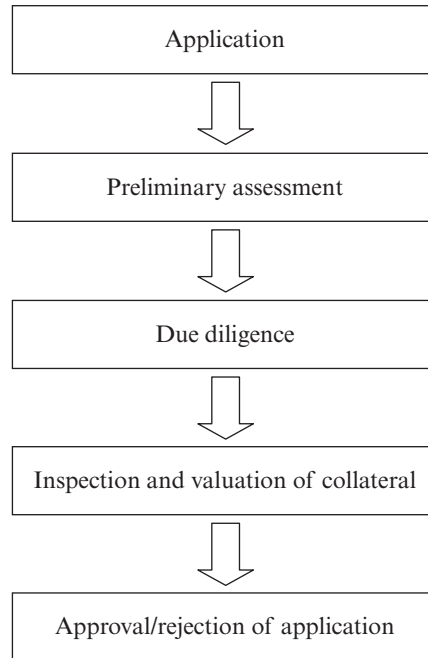
- (i) credit risk, which refers to the possibility for our Group to suffer losses due to the failure on the part of our customers to meet their contractual obligation of making scheduled payments on the loan principal and/or interests;
- (ii) market risk, which refers to the possibility for our Group to suffer losses due to factors that affect the overall performance of the financial markets, such as general economic recessions, unanticipated changes in the market interest rates, natural disaster, political turmoil and terrorist attacks;
- (iii) operational risk, which refers to the possibility for our Group to suffer losses due to inadequate or flawed internal processes, people and systems;
- (iv) liquidity risk, which refers to the possibility that our Group becomes unable to maintain sufficient reserves of cash to meet our liquidity requirements.

The following paragraphs sets out the specific measures implemented by our Group for our risk management purposes.

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### Approval procedures

It is our Group's policy that all customers' application for entrusted loans, guarantee services, pawn loans or finance lease services from our Group are subject to review by our management. Our approval procedures include the following key steps:



### *Application*

Upon application for our entrusted loans, guarantee services, pawn loans or finance lease services, an applicant is generally required to provide us with the following information:

- (i) the identity and basic information of the applicant;
- (ii) details of the proposed loan, guarantee or leased asset, including the principal amount, the intended loan, guarantee or lease period and the purpose of the loan;
- (iii) for corporate customer, the business background of its owners, the key balance sheet and income statement figures, details of its directors and management team, major products, competitors, clients and suppliers, if applicable;
- (iv) details of any proposed collateral, guarantees or counter guarantee measures that will be provided;
- (v) if applicable, the identity and basic information of the intended guarantor or counter-guarantor, and descriptions of key assets and liabilities of the intended guarantor or counter-guarantor.



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### *Preliminary assessment*

After receiving an application, our business manager will request further documents which generally include the applicant's business licence, tax registration certificates, articles of association, the identity cards of the legal representatives, identity cards/business license of shareholders of the applicant (if applicable), its corporate loan card, capital verification report(s), tax payment certificate, financial statements, relevant corporate documents retrieved from the relevant industry and commerce bureau, etc.

After receiving such additional documents, our business manager will verify the authenticity of the documents, and conduct a preliminary assessment of the application. Our business manager will select applicants that meet our criteria of target customers, such as SMEs with legally compliant business operations, efficient production processes, good credit records, healthy cash flows, and ownership of assets that are sufficient to repay all borrowings, as well as shareholders of good business reputations.

### *Due diligence*

If our business manager is satisfied with the application after the preliminary assessment, we will perform an in-depth due diligence on the applicant and, where applicable, the guarantor (or counter-guarantor).

Due diligence on the applicant generally includes gaining a thorough understanding of the applicant's business, production process, assets and liabilities, cash flows, source of funds for payment or repayment, intended usage of the loan or proceeds, credit history as well as assessing the significance of the loan to the applicant. We may require the applicant to provide its audited financial statements but we may also accept management accounts if audited financial statements are not available. Nevertheless, regardless of whether audited or unaudited financial statements are to be provided, we will still perform due diligence on the applicant in order to assess its business operation and financial position, including but not limited to paying site visits to the applicant's place of business and reviewing the applicant's bank records, sales agreements, credit records and other underlying financial documents.

Due diligence on the guarantor generally includes assessing the guarantor's background, business, assets and liabilities, etc.

### *Physical inspection of the collaterals*

Our business manager and/or the officer from our risk management department will conduct physical inspection of the collateral to ascertain its existence and conditions.

### *Verification of ownership and title of the collaterals*

We will require the applicant to provide us with documentary evidence of title and ownership of the collateral. We will also require the applicant to provide the originals of such documentary evidence in order to verify the authenticity of the documents provided. Our in-house lawyers in our legal and compliance department will inspect the title and other documents evidencing the

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applicant's ownership to the collateral, conduct public searches and make appropriate enquiries with third parties (such as the vendor from whom the applicant has acquired the collateral) to verify the authenticity of the documents based on their professional knowledge and experience.

### *Valuation of collaterals*

We will conduct a preliminary valuation of the collaterals by reference to recent market transactions, liquidity, and the condition of the collaterals based on our physical inspection.

For real estate collaterals, we will require our customer to engage a qualified independent valuer to provide a valuation report in most cases. In certain cases if the customer is unable to engage qualified independent valuer to provide a valuation report, we may consider proceeding with the application after assessing all relevant circumstances, including liquidity of the real estate collateral, the availability of recent comparable market transaction data for comparison, the condition of the collateral based on our physical inspection, and the background and financial resources of the guarantor or counter-guarantor. In such cases, our internal valuation of the real estate collateral would be based on recent market transaction data available on the internet from websites providing real estate market transaction data and take into account our physical inspection of the condition of the real estate collateral and the liquidity of the collateral.

For motor vehicle collaterals, our business manager will physically inspect the motor vehicle and check its model, exterior and interior appearance, year of manufacture, mileage travelled and performance. Our business manager will then assess the value of the motor vehicle based on the general condition of the motor vehicle as well as the recent market prices of similar motor vehicles.

For gold and jewelry collaterals, our business manager will verify whether the gold or jewelry is genuine by (i) requesting the original purchase receipt from our customer; and (ii) bringing the gold or jewelry to third-party gold and jewelry shops to verify whether it is genuine and to obtain quotes from them for its value as if we were to sell it to them. Our business managers will then assess the value of the gold or jewelry by reference to the quotes obtained from the third-party gold and jewelry shops.

For antique collaterals, we will assess the value by reference to the authentication report issued by 中國文物信息諮詢中心文物鑒定研究所 (Institute of Antiquities Authentication (the “**Institute**”) of the China Cultural Heritage Information and Consulting Center (the “**Center**”). The Center is a direct subordinate unit (直屬單位) of the PRC State Administration of Cultural Heritage (中華人民共和國國家文物局) of the PRC Government charged with the responsibilities of, among other things, collecting and organizing information related to antiquities and cultural relics as well as providing consultation, investigation, authentication, and training services relating to antiquities and cultural relics. The Institute is a department within the Center that is responsible for, among other things, the consultation, investigation and authentication of antiquities. As such, we consider that the Institute is the official authority and a competent institute in this regard. In order for us to accept antiques as collaterals, we generally require our customers to engage the Institute to prepare an authentication report for the antique collateral. The Institute will state an appraised value of the antique in its authentication report, and such value will be used as the primary basis for our business managers to assess the value of the antique.

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For non-listed equity rights collateral, we had first assessed the business and financial condition of the relevant company as well as its assets and liabilities and the net asset value. We then checked the valuation of listed companies against comparable businesses and applied a suitable liquidity discount for the non-listed equity interest.

For inventories, our valuation is mainly based on the market prices of comparable types of goods available on the internet from websites of materials and general trading and procurement platforms and we will also take into account our physical inspection of the condition of the inventories.

For machineries and equipment, our valuation is mainly based on the original purchase cost of the pledgor and we will also check the market prices of comparable machineries and equipment available on the internet from websites of machineries and equipment procurement and trading platforms and take into account the condition, usage, depreciation and functioning of the machineries and equipment.

The preliminary valuations of collaterals are mainly conducted by our business managers with the review by our officers from the risk management department. Our business managers came from a diverse background through their past working experience in banks, law firms, real estate developers, fund management companies, and investment firms, and holding different positions in various disciplines such as accounting and finance, banking, legal, investment, risk management, and sales and marketing. The past working experiences of some of our business managers, including those with experience in banking and risk management positions, were directly related to the valuation of collaterals as their previous jobs required them to perform collateral valuations similar to what is done in our Group. The past working experiences of other business managers of our Group, however, were not directly related to the valuation of collaterals. Nevertheless, our Directors consider that the valuation of most types of collaterals does not require any professional valuation skills because comparable market prices can be obtained and taken as reference relatively easily from the internet (such as real estate information websites and online procurement and trading platforms) or from external professionals (such as the Institute of Antiquities Authentication and third-party gold and jewelry shops) without employing any sophisticated valuation models or techniques. Our risk management department consists of five officers. Mr. You Jin (“**Mr. You**”) is our chief business risk control officer and is assisting Mr. Cai for the overall risk management of our Group. The qualifications and experiences of Mr. You are set out in the section headed “Directors, senior management and employees” in this prospectus. In addition to Mr. You, our risk management department has four risk management managers. Such personnel had gained risk control experience in various industries such as banks, local financing guarantee companies and multi-national companies. Before joining our Group, most of such personnel have acquired relevant experience in the short and medium-term financing industry through their previous work experience in positions relating to credit approval and/or risk management. The preliminary valuation conducted by the business managers and reviewed by our risk management department are subject to further review by the approval committee members before granting final approval of an application.

In addition, our Group will engage an independent third party qualified PRC valuer to conduct valuations of all collaterals (except antiques, gold and jewelries on which the valuer may not be able to provide valuation) <sup>(note)</sup> as at the end of each financial year in order to annually

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review the values of the collaterals and our corresponding loan-to-value ratios from an overall Group basis as well as for each individual customer and different types of collaterals and different business segments of our Group based on valuations provided by independent third party qualified PRC valuer for better risk management purposes.

*Note:* The value of antiques, gold and jewelries collaterals that were not valued by external valuer accounted for nil, approximately 1.79% and approximately 1.11% of the total value of all collaterals of our Group (including collaterals for financing guarantee, pawn loans and entrusted loans) as at 31 December 2011, 2012 and 31 July 2013 respectively.

### *Approval of applications*

When all due diligence work is completed, a due diligence report will be prepared. Our approval committee will meet to consider the application. In particular, members of the approval committee will review the due diligence report and provide their individual comment on whether they agree to approve the application. In ascertaining the accuracy of the information used for the valuation of collaterals, the approval committee will pay particular attention to the preliminary valuation conducted by our business manager, including reviewing the work done by the business managers in respect of the results of the physical inspection and the obtaining of the underlying information for use in the preliminary valuation, as well as cross-checking the preliminary valuation with the underlying sources of information. Also, the business manager and the officer from the risk management department responsible for the case are usually required to attend the approval committee's meeting to answer questions raised by the members of the committee.

In addition, before final approval, our legal and compliance department is to cross-check the terms of the relevant agreements to ensure that the terms are in full compliance with the relevant PRC laws and regulations. In particular, our legal and compliance department is to cross-check the terms of the agreements of our pawn loan transactions, including the monthly interest rate and the monthly comprehensive fee rate separately, to ensure that the terms are in full compliance with the Pawning Measures and other relevant PRC laws and regulations. In addition, as there are certain regulatory restrictions on the maximum amount of loan or guarantee that we may grant to our customers (details of which are disclosed in the section headed "Regulatory overview" in this prospectus), before granting a new financing guarantee or pawn loan, our legal and compliance department will calculate whether the granting of such new financing guarantee or pawn loan will lead to non-compliance of the above restriction on the maximum limit on the loan or guarantee amount or on the Group's overall loan or guarantee portfolio. If the legal and compliance department determines that granting a new financing guarantee or pawn loan will lead to non-compliance of the above restriction on the maximum limit, we will not grant such new financing guarantee or pawn loan.

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The key members of our approval committee include Mr. Hong, Mr. Ng, Mr. Chu Sung Fai (朱宋輝), Mr. Dai Yunshan (戴雲山), Mr. You Jin (游臻) and Mr. Tong Yuqiang (佟玉強). For details of the qualifications and experience of the committee members, please refer to the section headed “Directors, senior management and employees” in this prospectus. The following sets out a summary of the qualifications and experience of the key members of our approval committee:

Approval committee member	Position held at our Group	Qualifications and experience
Mr. Hong	Chairman of our Company and executive Director	Mr. Hong joined Differ Guarantee in September 2008 and has gained approximately 4 years of experience in reviewing and approving applications for financing and financing-related solutions since then.
Mr. Ng	Executive Director and chief executive officer of our Company	Mr. Ng joined Differ Guarantee in September 2008 and has gained approximately 4 years of experience in reviewing and approving applications for financing and financing-related solutions since then.
Mr. Chu Sung Fai (朱宋輝)	Chief operating officer in our pawn business	Mr. Chu joined our Group in February 2011 and has since then gained approximately 2.5 years of experience in reviewing and approving pawn loan applications.
Mr. DAI Yunshan (戴雲山)	Chief operating officer in our guarantee business	Mr. Dai had about 30 years of experience in the banking and guarantee industry. Before he joined our Group in January 2012, Mr. Dai had taken various managerial positions in a Chinese bank and two guarantee companies since 1979.
Mr. YOU Jin (游臻)	Chief business risk control officer	Before joining our Group in March 2010, Mr. You had about 6 years’ experience working at risk management positions in two guarantee companies in the PRC.
Mr. TONG Yuqiang (佟玉強)	General finance manager of our Group	Mr. Tong is a member of the Chinese Institute of Certified Public Accountants. Mr. Tong joined our Group in February 2012. In addition, Mr. Tong had about 20 years’ experience in accounting, financial management and corporate management in various corporations in the PRC before joining our Group.

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### *Rejection of applications*

In general, based on the results of our due diligence, we will reject an application if:

- (i) the value of the proposed collateral provided by the applicant is lower than the proposed loan amount;
- (ii) the applicant is identified to have a bad credit record from bank's credit record system;
- (iii) the applicant is found to have provided us with any misleading or deceitful information during the application process;
- (iv) the applicant proposes to use the loan for any unlawful activities, businesses or investments;
- (v) the applicant is identified to have a bad reputation in the society or industry or has any record of unscrupulous trading or illegal activities during the past three years;
- (vi) the applicant is involved in any major unresolved civil lawsuits or economic disputes;
- (vii) the applicant does not have the ability to repay the loan and interests or the applicant's business is deteriorating and is difficult to improve;
- (viii) the information of the applicant is unreliable, or the applicant has poor operational or management abilities; or
- (ix) the applicant has failed to pay the liabilities to our Group when due.

The aggregate number of applications rejected at various stages of our operating procedures is set out in the table below:

### *Number of applications rejected*

	Year ended 31 December 2011			Year ended 31 December 2012			Seven months ended 31 July 2013		
	Number of applications received	Number of applications rejected	Rejection rate	Number of applications received	Number of applications rejected	Rejection rate	Number of applications received	Number of applications rejected	Rejection rate
<b>Financing guarantee services</b>									
New customers	68	43	63.2%	72	31	43.1%	45	21	46.7%
Repeated customers	14	—	0%	29	—	0%	20	1	5%
	<u>82</u>	<u>43</u>	<u>52.4%</u>	<u>101</u>	<u>31</u>	<u>30.7%</u>	<u>65</u>	<u>22</u>	<u>33.8%</u>
<b>Pawn loans</b>									
New customers	27	4	14.8%	37	5	13.5%	8	2	25%
Repeated customers	8	—	—	3	—	—	20	1	5%
	<u>35</u>	<u>4</u>	<u>11.4%</u>	<u>40</u>	<u>5</u>	<u>12.5%</u>	<u>28</u>	<u>3</u>	<u>10.7%</u>

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	Year ended 31 December 2011			Year ended 31 December 2012			Seven months ended 31 July 2013		
	Number of applications received	Number of applications rejected	Rejection rate	Number of applications received	Number of applications rejected	Rejection rate	Number of applications received	Number of applications rejected	Rejection rate
<b>Entrusted loans</b>									
New customers	8	1	12.5%	12	—	0%	2	1	50%
Repeated customers	—	—	—	4	—	0%	6	—	—
	<u>8</u>	<u>1</u>	<u>12.5%</u>	<u>16</u>	<u>—</u>	<u>0%</u>	<u>8</u>	<u>1</u>	<u>12.5%</u>
<b>Finance lease</b>									
New customers	N/A	N/A	N/A	2	—	—	9	6	66.7%
Repeated customers	N/A	N/A	N/A	—	—	—	—	—	—
	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>2</u>	<u>—</u>	<u>0%</u>	<u>9</u>	<u>6</u>	<u>66.7%</u>

The rejection rate exhibited a decreasing trend in general during the Track Record Period, particularly for our financing guarantee services. Our Directors confirmed that our Group has not loosened our approval procedures or customer acceptance criteria. Instead, our Directors consider that the decreasing trend is mainly attributable to our increased number of repeated customers, which generally have better overall credit history and can generally be more in line with our approval criteria than completely new customers. Our rejection rate has therefore exhibited a decreasing trend as a result of our increased number of repeated customers.

Based on the rejection rates for new customers and those for repeated customers as disclosed in the table above headed “Number of applications rejected”, the Sponsor concurs with the view of the Directors that the decreasing trend of rejection rate was due to the increased number of repeated customers and that the Group has not loosened its approval procedures or customer acceptance criteria.

### Post-approval monitoring

After the commencement of the loan, guarantee or lease period, we will conduct on-going monitoring of the borrower/lessee (except pawn loans borrower) and the collateral/leased assets.

#### *Monitoring of the borrower/lessee*

Monitoring of the borrower/lessee includes ascertaining the actual usage of the loan/proceeds, visiting the borrower/lessee spontaneously (normally not less than once in a quarter) in order to understand its actual business conditions, inquiring into its sales and production trend, obtaining its financial statements, performing financial analysis on a quarterly basis, meeting with the customers of the borrower/lessee if such arrangements can be made, telephoning the borrower/lessee on a regular basis in order to remind of its repayment schedule and understand if there is any foreseeable difficulties in repayment, etc.

#### *Monitoring of the value of the collateral/leased assets*

Our business managers, with the review by our risk management department, are responsible for the monitoring of the value of the collateral/leased assets on an on-going basis. Our business managers came from a diverse background through their past working experience in banks, law firms, real estate developers, fund management companies, and investment firms, and holding different positions in

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various disciplines such as account and finance, banking, legal, investment, risk management, and sales and marketing. Our risk management department consists of five officers. Mr. You Jin (“Mr. You”) is our chief business risk control officer and is assisting Mr. Cai for the overall risk management of our Group. The qualifications and experiences of Mr. You are set out in the section headed “Directors, senior management and employees” in this prospectus. In addition to Mr. You, our risk management department has four risk management managers. Such personnel had gained risk control experience in various industries such as banks, local financing guarantee companies and multi-national companies. Before joining our Group, most of such personnel have acquired relevant experience in the short and medium-term financing industry through their previous work experience in positions relating to credit approval and/or risk management.

For all types of collaterals, our business managers will conduct a check on the value of the collateral/leased assets on a quarterly basis. In addition, our business manager will visit our customers spontaneously in order to physically inspect and monitor the conditions and/or the proper storage or usage of the collateral. When monitoring the value, we will make reference to the recent market transactions and the prevailing market rates by visiting relevant websites that provide market prices and/or recent transaction data of goods/assets comparable to the collaterals, such as real estate information websites and trading and procurement online platforms for machineries, equipment, and general materials and supplies. For collaterals where a liquid market is absent, our business managers will focus on monitoring the condition of the collaterals and paying attention to any news or development in the relevant market. For instance, our business managers will watch for any public auction of antiques and assess whether there is any material adverse change in antique market. For non-listed equity rights, our business managers will also review the actual business and financial conditions of the relevant company in order to assess if there is any material adverse change in the value of the non-listed equity rights.

In addition, our Group will engage an independent third party qualified PRC valuer to conduct valuations of all collaterals (except antiques, gold and jewelries on which the valuer may not be able to provide valuation) <sup>(note)</sup> as at the end of each financial year in order to annually review the values of the collaterals and our corresponding loan-to-value ratios from an overall Group basis as well as for each individual customer and different types of collaterals and different business segments of our Group based on valuations provided by independent third party qualified PRC valuer for better risk management purposes.

*Note:* The value of antiques, gold and jewelries collaterals that were not valued by external valuer accounted for nil, approximately 1.79% and approximately 1.11% of the total value of all collaterals of our Group (including collaterals for financing guarantee, pawn loans and entrusted loans) as at 31 December 2011, 2012 and 31 July 2013 respectively.

### *Monitoring of collateral/leased assets that remain in the possession of the pledgor/lessee or that are kept in the custody of a third party*

Collateral/leased assets that remain in the possession of the pledgor/lessee generally include real estate, machinery and inventories. Some inventories collateral may also be kept in the custody of third-parties. We conduct spontaneous physical inspection of such collaterals as part of our post-approval monitoring procedures so as to inspect the conditions and/or the proper storage or usage of the collateral.



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### *Safekeeping of collateral that are retained in our possession*

Collateral that are retained in our possession generally include movable collateral (i.e. motor vehicles, antique and gold) in respect of our pawn loans. Motor vehicle collateral in respect of our pawn loans are stored in a third-party car park in Quanzhou while the car keys are stored together with other movable collateral. Other movable collateral in respect of our pawn loans are stored in a secured safe located at the back of the sales outlet of Differ Pawn in Shishi which was built in accordance with the requirements of the Pawning Measures. Such secured safe was equipped with closed-circuit television security cameras as well as a security alarm that is connected to the system of 石獅市公安局 (Shishi Public Security Bureau). Opening of the safe requires two keys and a password that are separately kept by three designated personnel of Differ Pawn. We also keep a register of all collaterals stored in the safe.

### *Follow-up measures*

If, as a result of our post-approval monitoring, we become aware of any circumstances that would negatively affect the collectability of our outstanding loan receivables (for example, if the operating condition of the borrower/lessee deteriorates or if the value of the collateral/leased assets substantially decreases), we may (i) discuss with our customer regarding ways to improve the situation; (ii) request our customer to provide additional collateral and/or guarantees; and/or (iii) demand immediate payment or repayment of the full outstanding amount from our customer.

When we become aware of any circumstances that would negatively affect the collectability of our outstanding loan receivables, our business managers will promptly report the matter to our risk management department as well as the approval committee. Our business manager will first discuss with the customer regarding ways to improve the situation (for example, if the customer has significant amount of outstanding accounts receivables which affects its liquidity, whether the customer is taking effective steps in collecting such accounts receivables; or, if the customer's revenue is decreasing, whether the customer is taking effective steps in enhancing its products/services, increasing its marketing efforts, retaining existing customers and/or exploring new sources of customers). The relevant business manager will then prepare a summary of the situation and our risk management department will make recommendation with respect to the appropriate follow-up measures for the consideration by the approval committee. Our approval committee will then meet to consider the appropriate follow-up measures to be taken. If the risk of default is considered to be low (for example, if there has been a drop in the collateral value but the trading and financial position of the customer remains healthy), we will keep constant communications with the customer in order to closely monitor the situation and may allow the customer to make repayment as originally scheduled without imposing any additional measures. If the risk of default is considered to be high (for example, if the trading and financial position of the customer are deteriorating rapidly or if there is a significant drop in collateral value), the approval committee may either request our customer to provide additional collateral and/or guarantee (particularly if there has been a drop in collateral value) or demand immediate payment or repayment of the full outstanding amount from our customer (particularly if there has been a deterioration in trading and financial conditions of the customer). The key members of our approval committee include (a) Mr. Hong, the chairman of our Company and an executive Director, (b) Mr. Ng, an executive Director and our chief executive officer, (c) Mr. Chu Sung Fai (朱宋輝), chief operating officer in our pawn business, (d) Mr. Dai Yunshan (戴雲山), chief operating officer in our guarantee business, (e) Mr. You Jin (游臻),

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chief business risk control officer, and (f) Mr. Tong Yuqiang (佟玉強), general finance manager of our Group, whose qualifications and experience are set out in the section headed “Directors, senior management and employees” in this prospectus.

### *Renewal application*

If a customer applies for a renewal, we will go through the same approval procedures as in a new application.

### *Enforcement of collateral, leased assets or guarantee*

If a customer fails to repay the principal or interest by its due date, we will contact the customer immediately to understand the situation. We may also instruct our lawyers to commence legal proceedings against the customer to recover any late payment charges and penalty interest and/or to enforce the collateral, leased assets and guarantee. We do not engage any third party agents for loan collection. For the detailed steps in the enforcement of collaterals, please refer to the paragraph headed “Enforcement of collaterals” below.

### **Loan-to-value ratio**

During the Track Record Period, we have accepted different types of collateral for our entrusted loans, guarantee services and pawn loan business. We have set a target loan-to-value ratio for different types of collateral for our risk management purposes:

<b>Type of collateral</b>	<b>Target loan-to-value ratio</b>
Real estate	75%
Machineries and equipment	70%
Movable property (such as inventories, motor vehicles, antiques and gold)	75%
Property rights	50%

During the Track Record Period, the nature of inventories that we have accepted as collaterals included raw materials such as steel, fabric, yarn, nylon and textiles, as well as finished goods such as garments, lightings, mechanical components, chemical products, infant products, refined coal and high-grade stones. Our Directors consider that these inventory collaterals can be disposed of in the market in the event of default as the inventory collaterals are mainly common industrial and consumer products.

The following table sets out the average and the range of actual loan-to-value ratios by collateral type as at the end of each year/period during the Track Record Period. For a loan/guarantee transaction which was secured by more than one type of collaterals, the corresponding ratios were computed on a pro-rata basis according to the value of one type of collateral to the total value of all collaterals in that transaction.

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### *Loan-to-value ratios by collateral types*

Type of collateral	31 December 2011			31 December 2012			31 July 2013		
	Average	Range	Number of transactions that exceeded the target ratio	Average	Range	Number of transactions that exceeded the target ratio	Average	Range	Number of transactions that exceeded the target ratio
Real estate	25.1%	6.8%–95.7%	8	46.4%	9.8%–99.1%	5	43.7%	9.4%–99.6%	5
Machineries and equipment	29.3%	8.1%–70.4%	1	51.1%	9.8%–83.4%	3	34.3%	6.1%–83.4%	2
Movable property									
— Inventory	60.5%	8.1%–90.8%	5	51.2%	14.2%–79.3%	2	51.6%	19.6%–99.4%	1
— Other movable property	82.8%	63.7%–119.4%	6	65.6%	14.2%–75.1%	1	75.0%	59.5%–92.6%	1
Property rights	—	—	—	11.4%	6.2%–84.5%	1	26.9%	21.8%–27.6%	—
			15 <sup>1</sup>			9 <sup>2</sup>			9
Total number of transactions (including those that have and have not exceeded the target ratio)			67			91			95

*Notes:*

- Four guarantee transactions were secured by both real estate and movable property collaterals and one guarantee transaction with movable property as collateral was secured by both inventory and other movable property.
- Two guarantee transactions were secured by both real estate and movable property collaterals and one guarantee transaction was secured by both real estate and machineries and equipment collaterals.

As illustrated in the above table headed “Loan-to-value ratios by collateral types”, the loan-to-value ratio of some of our loan/guarantee transactions exceeded our target ratio for the specific type of collaterals. While we have set a target loan-to-value ratio for each type of collateral as an internal guideline for reference, we consider each application on a case-by-case basis after taking into account all relevant factors, including, for instance, the background of the customer and the guarantor or counter-guarantor. For cases where the customers or the guarantors or counter-guarantors are known to be financially resourceful or having strong cash flows generated from his/her/its business operations, we may consider accepting a loan-to-value ratio that is higher than our target ratios.

As at 31 December 2011, 31 December 2012 and 31 July 2013, there were 5, 2 and 1 loan/guarantee transactions secured by inventory collaterals that exceeded our target loan-to-value ratio, with the corresponding outstanding loan/guarantee as at the respective dates amounted to approximately RMB38,000,000, RMB18,000,000 and RMB10,000,000 respectively. In respect of such transactions, the loan-to-value ratio exceeded the target ratio because the relevant customers and counter-guarantors were considered to be financially healthy with strong cash flows generated from their respectively business operations.

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The following table sets out further information in respect of the loans and financing guarantee transactions that exceeded the target loan-to-value ratio during the Track Record Period as mentioned in the above table headed “Loan-to-value ratios by collateral types” (i.e. including all loans and financing guarantee transactions secured by all types of collaterals that exceeded the target loan-to-value ratio as mentioned in the above table):

	As at 31 December 2011 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>	As at 31 July 2013 <i>RMB'000</i>	As at the Latest Practicable Date <i>RMB'000</i>
Outstanding amount of financing guarantee and loans in respect of transactions that exceeded the target loan-to-value ratio	74,930	48,600	35,400	21,400

The following table sets out the details of each transaction that exceeded the target loan-to-value ratio during the Track Record Period:

### *Details of each transaction that exceeded the target loan-to-value ratio*

*For the year ended 31 December 2011*

No.	Type of transaction	Type of collateral	Value of collateral as at 31 December 2011 <i>RMB'000</i>	Outstanding loan/guarantee amount as at 31 December 2011 <i>RMB'000</i>	Target loan-to-value ratio	Actual loan-to-value ratio	Difference between actual and target ratio
1	Guarantee	Real estate	3,335	3,000	75.0%	90.0%	15.0%
2	Guarantee	Real estate	10,102	9,170	75.0%	90.8%	15.8%
		Inventory	915	830	75.0%	90.8%	15.8%
3	Guarantee	Real estate	1,084	860	75.0%	79.3%	4.3%
		Inventory	3,959	3,140	75.0%	79.3%	4.3%
4	Guarantee	Real estate	3,469	2,778	75.0%	80.1%	5.1%
		Inventory	1,526	1,222	75.0%	80.1%	5.1%
5	Guarantee	Real estate	2,499	1,882	75.0%	75.3%	0.3%
		Inventory	10,780	8,118	75.0%	75.3%	0.3%
6	Guarantee	Real estate	10,448	10,000	75.0%	95.7%	20.7%
7	Guarantee	Real estate	11,230	9,000	75.0%	80.1%	5.1%
8	Guarantee	Real estate	11,402	10,000	75.0%	87.7%	12.7%
9	Guarantee	Machineries and equipment	5,684	4,000	70.0%	70.4%	0.4%
10	Guarantee	Inventory	11,087	8,621	75.0%	77.8%	2.8%
		Other movable property	1,773	1,379	75.0%	77.8%	2.8%
11	Pawn loan	Other movable property	192	150	75.0%	78.1%	3.1%
12	Pawn loan	Other movable property	231	230	75.0%	99.6%	24.6%
13	Pawn loan	Other movable property	256	250	75.0%	97.7%	22.7%
14	Pawn loan	Other movable property	126	150	75.0%	119.4%	44.4%
15	Pawn loan	Other movable property	136	150	75.0%	110.3%	35.3%
			90,234	74,930			

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*For the year ended 31 December 2012*

No.	Type of transaction	Type of collateral	Value of collateral	Outstanding loan/guarantee	Target	Actual	Difference
			as at 31 December 2012	amount as at 31 December 2012	loan-to-value ratio	loan-to-value ratio	between actual and target ratio
			RMB'000	RMB'000			
1	Guarantee	Real estate	2,094	1,660	75.0%	79.3%	4.3%
		Inventory	8,000	6,340	75.0%	79.3%	4.3%
2	Guarantee	Real estate	3,320	2,493	75.0%	75.1%	0.1%
		Inventory	10,000	7,507	75.0%	75.1%	0.1%
3	Guarantee	Real estate	2,336	1,770	75.0%	75.8%	0.8%
		Machineries and equipment	964	730	70.0%	75.8%	5.8%
4	Pawn loan	Real estate	3,027	3,000	75.0%	99.1%	24.1%
5	Pawn loan	Real estate	1,014	1,000	75.0%	98.6%	23.6%
6	Guarantee	Machineries and equipment	4,796	4,000	70.0%	83.4%	13.4%
7	Guarantee	Machineries and equipment	7,259	5,100	70.0%	70.3%	0.3%
8	Pawn loan	Other movable property	9,992	7,500	75.0%	75.1%	0.1%
9	Pawn loan	Property rights	8,873	7,500	50.0%	84.5%	34.5%
			61,675	48,600			

*For the seven months ended 31 July 2013*

No.	Type of transaction	Type of collateral	Value of collateral	Outstanding loan/guarantee	Target	Actual	Difference
			as at 31 July 2013	amount as at 31 July 2013	loan-to-value ratio	loan-to-value ratio	between actual and target ratio
			RMB'000	RMB'000			
1	Pawn loan	Real estate	3,720	3,000	75.0%	80.6%	5.6%
2	Pawn loan	Real estate	2,712	2,700	75.0%	99.6%	24.6%
3	Pawn loan	Real estate	2,128	2,000	75.0%	94.0%	19.0%
4	Pawn loan	Real estate	2,537	2,500	75.0%	98.5%	23.5%
5	Pawn loan	Real estate	1,304	1,200	75.0%	92.0%	17.0%
6	Guarantee	Machineries and equipment	4,796	4,000	70.0%	83.4%	13.4%
7	Guarantee	Machineries and equipment	3,378	2,500	70.0%	74.0%	4.0%
8	Guarantee	Inventory	10,057	10,000	75.0%	99.4%	24.4%
9	Pawn loan	Other movable property	8,100	7,500	75.0%	92.6%	17.6%
			38,732	35,400			

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The main personnel generally in charge of permitting such kinds of loans and guarantee services is our approval committee, the key members of which include Mr. Hong, Mr. Ng, Mr. Chu Sung Fai (朱宋輝), Mr. Dai Yunshan (戴雲山), Mr. You Jin (游臻) and Mr. Tong Yuqiang (佟玉強), whose qualifications and experience are set out in the section headed “Directors, senior management and employees” in this prospectus. The main personnel generally in charge of overseeing the continuous monitoring of such transactions are our risk management department, which is headed by Mr. You Jin (游臻), our chief business risk control officer whose qualifications and experiences are set out in the section headed “Directors, senior management and employees” in this prospectus.

In particular, as illustrated in the above table headed “Details of each transaction that exceeded the target loan-to-value ratio”, the loan-to-value ratios for two movable property pawn loan transactions in 2011 have exceeded 100%. Such transactions were pawn loans secured by motor vehicles. The loan-to-value ratio being higher than 100% was mainly due to:

- (i) in compiling the loan-to-value ratios in the above table headed “Details of each transaction that exceeded the target loan-to-value ratio”, we have adopted the valuation provided by an independent qualified valuer in the PRC, which assessed the value of the collaterals as at the respective year/period end date. Our internal valuation, on the other hand, was prepared during our due diligence in assessing customer’s loan application;
- (ii) the loan-to-value ratios of such 2 movable property pawn loan transactions, if calculated based on our internal valuation performed during the due diligence, were lower than 100%;
- (iii) motor vehicles are considered by us to be highly liquid assets that can be easily and quickly disposed of at the prevailing market price.

Due to reasons described under the section headed “Non-compliances” below under this section, we have ceased to grant motor vehicle pawn loans.

The following table sets out further details of the aforementioned two movable property pawn loan transactions with loan-to-value ratio exceeding 100%:

	<b>Transaction 1</b>	<b>Transaction 2</b>
Type of transaction	Movable property pawn loan	Movable property pawn loan
Nature of collateral	Motor vehicle	Motor vehicle
Outstanding amount of loan as at 31 December 2011 ( <i>RMB’000</i> )	150	150
Outstanding amount of loan as at the Latest Practicable Date ( <i>RMB’000</i> )	—	—

In general, when we notice that the loan-to-value ratio in respect of a transaction has increased substantially from the original approved level due to the decrease in the value of the collateral, we may request our customer to provide additional collaterals and/or guarantees pursuant to the relevant loan or guarantee agreement entered into with our customer. In cases of the lack of response from our customer,

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we would not consider renewing or granting any further loan or guarantee to such customers. During the Track Record Period, except for the two overdue cases disclosed in the paragraph headed “Entrusted loans” under this section, we did not experience any default or delay in payment from our customers.

The outstanding balance of loans receivable/guarantee amount and our loan-to-value ratios as at 31 December 2011, 2012 and 31 July 2013 are set out in the following table:

	As at 31 December 2011			As at 31 December 2012			As at 31 July 2013		
	Outstanding balance of loans receivables or guarantee amount	Value of collaterals	Loan-to- value ratio	Outstanding balance of loans receivables or guarantee amount	Value of collaterals	Loan-to- value ratio	Outstanding balance of loans receivables or guarantee amount	Value of collaterals	Loan-to- value ratio
	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%
	(B)	(A)	(B/A)	(B)	(A)	(B/A)	(B)	(A)	(B/A)
Financing guarantee	246,590	499,770	49.3%	408,310	1,023,870	39.9%	484,100	1,052,323	46.0%
Pawn loans	9,930	21,683	45.8%	33,250	46,457	71.6%	35,850	58,408	61.4%
Entrusted loans	43,717	358,222	12.2%	120,000	208,143	57.7%	97,000	207,564	46.7%

### Registration of collaterals

As advised by our PRC Legal Adviser, under the applicable PRC laws and regulations, the registration of the pledge of certain types of collaterals is required in order for the collaterals to be directly auctionable or saleable through application to PRC courts (“**Type A Collaterals**”), while the registration of the pledge of other types of collaterals is not required and the collaterals would already be directly auctionable or saleable through application to PRC courts (“**Type B Collaterals**”).

In respect of the collaterals that we have accepted from our customers during the Track Record Period, Type A Collaterals include real estate and non-listed equity rights, while all other collaterals that we have accepted are Type B Collaterals, including inventories, motor vehicle<sup>(note)</sup>, machinery, antique, gold and jewelry.

*Note:* While the pledge of motor vehicle collaterals is not required to be registered in order for the pledge to become directly auctionable or saleable through application to PRC courts, the Pawning Measures requires that the pledge of motor vehicle collaterals for pawn loans shall be registered and any non-registration shall constitute a non-compliance under the Pawning Measures.

During the Track Record Period, the registration of the pledge of certain Type A Collaterals was not completed due to various reasons, such as the lack of proper title documents that were necessary for the completion of the registration when the pledgor has only recently acquired the collateral and was still in the process of obtaining the title documents.

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The following table sets out the relevant amounts of the value of Type A Collaterals (both registered and non-registered) and Type B Collaterals:

	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Financing guarantee</b>						
Value of registered Type A Collaterals	149,475	29.9	219,913	21.5	218,797	20.8
Value of non-registered Type A Collaterals	101,271	20.3	164,923	16.1	95,143	9.0
Value of Type B Collaterals	249,024	49.8	639,034	62.4	738,383	70.2
<b>Total value of collaterals (X)</b>	<b>499,770</b>	<b>100.0</b>	<b>1,023,870</b>	<b>100.0</b>	<b>1,052,323</b>	<b>100.0</b>
Total outstanding guarantee amount (Y)	246,590		408,310		484,100	
Loan-to-value ratio (Y/X)	49.3%		39.9%		46.0%	
Total value of collaterals excluding non-registered Type A Collaterals (Z)	398,499		858,947		957,180	
Adjusted loan-to-value ratio (Y/Z)	61.9%		47.5%		50.6%	
<b>Pawn loans</b>						
Value of registered Type A Collaterals	20,428	94.2	23,571	50.7	43,808	75.0
Value of non-registered Type A Collaterals	—	—	—	—	—	—
Value of Type B Collaterals	1,255	5.8	22,886	49.3	14,600	25.0
<b>Total value of collaterals (X)</b>	<b>21,683</b>	<b>100.0</b>	<b>46,457</b>	<b>100.0</b>	<b>58,408</b>	<b>100.0</b>
Total outstanding pawn loan receivables (Y)	9,930		33,250		35,850	
Loan-to-value ratio (Y/X)	45.8%		71.6%		61.4%	
Total value of collaterals excluding non-registered Type A Collaterals (Z)	21,683		46,457		58,408	
Adjusted loan-to-value ratio (Y/Z)	45.8%		71.6%		61.4%	



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	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Entrusted loans</b>						
Value of registered Type A Collaterals	—	—	175,729	84.4	207,564	100.0
Value of non-registered Type A Collaterals	358,222	100.0	—	—	—	—
Value of Type B Collaterals	—	—	32,414	15.6	—	—
<b>Total value of collaterals (X)</b>	358,222	100.0	208,143	100.0	207,564	100.0
Total outstanding entrusted loan receivables (Y)	43,717		120,000		97,000	
Loan-to-value ratio (Y/X)	12.2%		57.7%		46.7%	
Total value of collaterals excluding non-registered Type A Collaterals (Z)	—		208,143		207,564	
Adjusted loan-to-value ratio (Y/Z)	N/A		57.7%		46.7%	

For a transaction involving non-registered Type A Collaterals, our Group has adopted a new policy to minimize our credit risks. Since March 2013, our Group requires the relevant customers to provide additional Type B Collaterals such that for each transaction, the value of all collaterals minus the value of all non-registered Type A Collaterals must be greater than the loan or guarantee amount. For details of the enforcement procedures of Type A Collaterals (registered and non-registered) and Type B Collaterals, please refer to the paragraph headed “Enforcement of collaterals” below.

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### First charge and second charge of collaterals

During the Track Record Period, some of the collaterals that we have accepted were secured by first charge (“**Type One Collaterals**”), while some were secured by second charge (“**Type Two Collaterals**”). The following table sets out the relevant amounts:

	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Financing guarantee</b>						
Value of Type One Collaterals	398,499	79.7	768,943	75.1	899,369	85.5
Value of Type Two Collaterals/ Non-registered						
Type A Collaterals	101,271	20.3	254,927	24.9	152,954	14.5
<b>Total value of collaterals (A)</b>	<b>499,770</b>	<b>100.0</b>	<b>1,023,870</b>	<b>100.0</b>	<b>1,052,323</b>	<b>100.0</b>
Total outstanding guarantee amount (B)	246,590		408,310		484,100	
Loan-to-value ratio (B/A)	49.3%		39.9%		46.0%	
Total value of collaterals excluding Type Two Collaterals/Non-registered						
Type A Collaterals (C)	398,499		768,943		899,369	
Adjusted loan-to-value ratio (B/C)	61.9%		53.1%		53.8%	
<b>Pawn loans</b>						
Value of Type One Collaterals	21,683	100.0	46,457	100.0	58,408	100.0
Value of Type Two Collaterals/ Non-registered						
Type A Collaterals	—	—	—	—	—	—
<b>Total value of collaterals (A)</b>	<b>21,683</b>	<b>100.0</b>	<b>46,457</b>	<b>100.0</b>	<b>58,408</b>	<b>100.0</b>
Total outstanding pawn loans receivables (B)	9,930		33,250		35,850	
Loan-to-value ratio (B/A)	45.8%		71.6%		61.4%	
Total value of collaterals excluding Type Two Collaterals/Non-registered						
Type A Collaterals (C)	21,683		46,457		58,408	
Adjusted loan-to-value ratio (B/C)	45.8%		71.6%		61.4%	
<b>Entrusted loans</b>						
Value of Type One Collaterals	—	—	208,143	100.0	207,564	100.0
Value of Type Two Collaterals/ Non-registered						
Type A Collaterals	358,222	100.0	—	—	—	—

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	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Total value of collaterals (A)</b>	358,222	100.0	208,143	100.0	207,564	100.0
Total outstanding entrusted loans receivables (B)	43,717		120,000		97,000	
Loan-to-value ratio (B/A)	12.2%		57.7%		46.7%	
Total value of collaterals excluding Type Two Collaterals/Non-registered Type A Collaterals (C)	—		208,143		207,564	
Adjusted loan-to-value ratio (B/C)	N/A		57.7%		46.7%	

During the Track Record Period, our Group accepted 6 transactions involving Type Two Collaterals where our Group ranked second among the creditors of the respective customers in enforcing our right over the collaterals. The following table sets out the relevant details of each of the 6 transactions:

Transaction	Type of transaction	Commencement date of the relevant guarantee period	Total amount of financing guarantee	Outstanding	Outstanding	Outstanding	Outstanding
				amount as at 31 December 2011	amount as at 31 December 2012	amount as at 31 July 2013	amount as at the Latest Practicable Date
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	Financing guarantee	25 July 2012	5,000	—	5,000	—	—
2	Financing guarantee	19 June 2012	3,500	—	3,500	—	—
3	Financing guarantee	3 September 2012	10,000	—	10,000	10,000	—
4	Financing guarantee	10 October 2012	7,000	—	7,000	7,000	7,000
5	Financing guarantee	27 November 2012	4,000	—	4,000	4,000	4,000
6	Financing guarantee	17 December 2012	8,000	—	8,000	8,000	8,000
<b>Total</b>			<u>37,500</u>	<u>—</u>	<u>37,500</u>	<u>29,000</u>	<u>18,000</u>

### Exposure

As at 31 December 2011, 31 December 2012 and 31 July 2013, the amount of our exposure under those loans and guarantees which were neither secured by Type One Collaterals nor secured by registered Type A Collaterals or Type B Collaterals (the “**Exposure**”) was RMB77,877,000, RMB49,452,000 and nil respectively. In other words, the Exposure in respect of each transaction represents the loan or guarantee amount minus the value of all Type One Collaterals, registered Type A Collaterals and Type B Collaterals of the transaction. Such figures were arrived at by taking the following two steps:

- (i) The Exposure in each of our Group’s loan and financing guarantee transactions was determined by calculating P minus Q minus R minus S, where P is the amount of financing guarantee or loan principal; Q is the value of Type One Collaterals; R is the value of registered Type A Collaterals (except already included in Q); and S is the value of Type B Collaterals (except already included in Q).
- (ii) The Exposure in each transaction as calculated in step (i) above was summed up to arrive at the final figures.

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Based on the above calculation, our aggregate Exposure was nil as at 31 July 2013. Although certain collaterals as at 31 July 2013 were Type Two Collaterals and non-registered Type A Collaterals, the value of Q and R and S in respect of each transaction was sufficient to cover P (the amount of financing guarantee of loan principal) and as such, our aggregate Exposure was nil as at 31 July 2013.

The following table sets out the average and the range of actual loan-to-value ratio by collateral status as at the end of each year/period during the Track Record Period:

	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013	
	Average	Range	Average	Range	Average	Range
Registered Type A Collaterals	42.1%	7.5%–95.7%	50.1%	9.8%–99.1%	47.8%	9.4%–99.6%
Non-registered Type A Collaterals	18.8%	6.8%–90.8%	38.7%	9.8%–76.0%	20.3%	9.4%–59.3%
Type B Collaterals	56.9%	8.1%–119.4%	41.4%	6.2%–83.4%	49.5%	6.1%–99.4%
Type One Collaterals	50.9%	7.5%–119.4%	45.6%	6.2%–99.1%	49.4%	6.1%–99.6%
Type Two Collaterals ( <i>note</i> )	—	—	34.4%	20.5%–72.1%	37.1%	19.6%–71.1%

*Note:* When calculating the loan-to-value ratio in relation to Type Two Collaterals, the value of the entire collateral was used.

For details of the enforcement procedures of Type Two Collaterals, please refer to the paragraph headed “Enforcement of collaterals” below.

### Summary of different types of collaterals

The following table summarises the various types of collaterals that we have accepted as at the end of each of the Track Record Period:

#### *Different types of collaterals*

Type of collaterals	Our right over the collaterals	As at 31 December 2011		As at 31 December 2012		As at 31 July 2013		As at Latest Practicable Date	
		Value of collaterals RMB'000	Corresponding loan and guarantee value RMB'000	Value of collaterals RMB'000	Corresponding loan and guarantee value RMB'000	Value of collaterals RMB'000	Corresponding loan and guarantee value RMB'000	Value of collaterals RMB'000	Corresponding loan and guarantee value RMB'000
Real estate	Type One	169,903	71,477	327,158	178,647	395,808	198,878	290,517	187,976
	Type Two/Non-registered Type A	459,493	86,413	250,427	92,664	152,954	40,749	159,921	39,959
Machinery and equipment	Type One	31,562	9,239	74,591	38,126	123,171	42,253	87,554	48,927
	Type Two/Non-registered Type A	—	—	—	—	—	—	—	—
Inventory	Type One	215,689	130,599	426,377	218,342	606,172	312,868	658,779	353,973
	Type Two/Non-registered Type A	—	—	—	—	—	—	—	—
Other movable property	Type One	3,028	2,509	32,318	21,208	23,640	17,755	8,128	4,968
	Type Two/Non-registered Type A	—	—	—	—	—	—	—	—
Property rights	Type One	—	—	163,099	10,447	16,550	4,447	21,550	6,447
	Type Two/Non-registered Type A	—	—	4,500	2,126	—	—	—	—
<b>Total</b>		<b>879,675</b>	<b>300,237</b>	<b>1,278,470</b>	<b>561,560</b>	<b>1,318,295</b>	<b>616,950</b>	<b>1,226,449</b>	<b>642,250</b>

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### *Inventory collateral*

As disclosed in the above table headed “Different types of collaterals”, as at 31 December 2011, 31 December 2012, 31 July 2013 and the Latest Practicable Date, the value of inventory collaterals pledged to us amounted to approximately RMB215,689,000, RMB426,377,000, RMB606,172,000 and RMB658,779,000 respectively. All of such inventory collaterals were under use by the customers during the pledge. As advised by our PRC Legal Advisers, pursuant to the terms of the relevant pledge agreements entered into between us and our relevant customers, (i) we have charge over certain specified inventory collateral; (ii) with our prior consent, our customers are allowed to sell the pledged inventory collateral, provided that they must replenish the inventory back to the level as specified in the pledge agreements; and (iii) we shall have charge over the replenished inventory without the need to enter into additional pledge agreements. In the event that we become aware that the inventory level falls below the required level stipulated in the pledge agreement, we may enforce our rights over such collaterals by, among others, applying to the relevant PRC court for auction or sale of all remaining inventories. If the proceeds from the auction or sale of the remaining inventories are insufficient to cover our secured interest, we may require our customer to repay the shortfall through application to the relevant PRC court.

We conduct physical inspection and counting of inventory collaterals as part of our post-approval monitoring procedures so as to inspect the conditions and sufficiency of the inventory collaterals. In general, our business managers conduct physical inspection and counting of inventory collaterals once a month in order to ascertain the inventory level does not fall below that required under the relevant pledge agreement. In addition, we also perform post-approval monitoring on the business and financial condition of our customers and the value of the collaterals. For further information, please refer to the section headed “Business — Internal control and risk management — Post-approval monitoring” above.

### **Enforcement of collaterals**

#### *Registered Type A and Type B Collaterals*

Our PRC Legal Adviser has advised that for the registered Type A Collaterals as well as Type B Collaterals, in the event of default by our customers, our Group may enforce our rights over such collaterals by undertaking the following major procedures:

- i. Our Group and the customer in default may enter into an agreement pursuant to which our Group shall obtain the property right of the collateral by converting it into cash, or we be given the priority in being repaid with the proceeds from auction or sale of the collateral. The collateral shall be converted into cash or be sold by reference to market price. However, if the said agreement has infringed the interests of any other creditor, the creditor may, within one year as of the date he/she/it come to know or should have known the cause for cancellation, apply to the PRC Court to cancel such agreement. Circumstances which may lead to the interests of other creditors being infringed include (i) converting the collaterals into cash or selling them at a price significantly below their market prices; (ii) changing the amount of our Group’s security interest over the collaterals; or (iii) changing our place in the order of realising our security interest over the collaterals, without the consent of other creditors.

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- ii. If our Group fails to reach an agreement with the customer in default on the means of realizing our security interest, our Group may apply to the relevant PRC Court for auction or sale of the relevant collateral.
- iii. If the proceeds obtained from conversion into cash or from auction or sale of the collateral exceed the amount of the Group's secured interest, the balance shall be paid to the customer; and if the proceeds are insufficient to cover the Group's secured interest, the shortage shall still be repaid by the customer.

### *Non-registered Type A Collaterals*

Our PRC Legal Adviser has advised that for non-registered Type A Collaterals, our Group may also reach an agreement with the customer in default on the means of realizing the collateral as mentioned in paragraph (i) above. If our Group fails to reach an agreement with the customer, the Group may demand the customer to make up the registration formalities based on the relevant mortgage/pledge contract entered into by them, or, if not applicable, apply to PRC courts to claim damages for the breach of contract against the customer and get repaid.

### *Type Two Collaterals*

Our PRC Legal Adviser has advised that according to the Property Law of the PRC effective as of 1 October 2007, where a collateral is registered in favor of two or more creditors, the proceeds obtained from auction or sale of the collateral shall be applied to repayment based on the order of registration.

During the Track Record Period, there were a total of 6 transactions in which our Group ranked second among the creditors of the respective customers in enforcing our right over the collaterals. In the event of default by the customers in those 6 transactions, the creditor who ranked first shall have the first priority in getting repaid. If the proceeds from auction or sale of the collaterals are not sufficient to cover the total amount owed by the respective customers to its creditors ranking first and our Group, our Group may face the risk of not being fully secured by the collaterals.

In view of the risk involved in enforcing Type Two Collaterals, our Group seldom considers applications involving Type Two Collaterals. During the Track Record Period, our Group accepted only 6 transactions with Type Two Collaterals. In these transactions, we have evaluated all relevant circumstances of each of the 6 cases carefully on a case-by-case basis in accordance with our established approval procedures, focusing in particular the quality of the collaterals and the background and financial healthiness of the customers and the guarantors or counter-guarantors. In most cases, we also apply lower loan-to-value ratios for Type Two Collaterals than we would have if the collaterals were Type One Collaterals.

### *Time required for enforcement*

The time generally required for the Group to realize its security interest may differ considerably depending on the various means adopted and the negotiations between the parties. Based on our industry knowledge, we estimate that in the event that an agreement is reached with the customer on the means of conversion of the collateral into cash, our Group can generally complete the relevant procedures in

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less than 2 months; in the event that our Group has to apply to the PRC courts for auction or sale of the collateral or performance of contracts, it may take 3 months or more for our Group to complete the relevant procedures.

### **Recruitment of and trainings provided to our staffs**

We recruit staff with finance, accounting and/or legal backgrounds for positions involved in our due diligence and approval procedures. Promotion of staff to manager grade is subject to satisfactory performance and the passing of internal appraisals. To ensure on-going compliance, we provide internal trainings to our employees involved in the pre-approval due diligence procedures, the approval process, and the post-approval monitoring procedures. Such trainings focus on our operating procedures, risk management and compliance matters. Trainings related to business operations and risk management were organised internally and given by or on behalf of the risk management department and business department. Trainings on compliance matters were provided by our legal and compliance department.

### **On-going monitoring of market conditions**

We keep track of the key economic indicators (such as interest rates and any adverse economic trends), governmental policies, and any factors affecting the market from time to time so that our business departments can avoid granting loans, guarantee services or finance lease services involving assets of restricted industries or which may otherwise be affected by any prevailing negative market-wide factors. We also closely monitor the operation of each transaction so that we could adopt adequate measures to minimise our loss due to market risk.

### **Internal control against fraud and errors**

The management of our Group regularly reviews our Group's operations to ensure that the risk of fraud and human error by our employees are adequately managed by establishing systems, processes and measures, coordinating, guiding and monitoring operational risk management activities conducted by business departments and back offices, and evaluating sufficiency and efficiency of operational risk management and monitoring processes.

### **Measures taken to prevent loan or guarantee amount exceeding the prescribed regulatory or internal limits**

There are certain regulatory restrictions on the maximum amount of loan or guarantee that we may grant to our customers, details of which are disclosed in the section headed "Regulatory overview" in this prospectus. The following is a summary of such regulatory restrictions:

<b>Type of services</b>	<b>Regulatory restriction on maximum loan or guarantee amount</b>
Financing guarantee	The outstanding financing guarantee amount of a financing guarantee company shall not exceed 10 times of its net assets. The outstanding financing guarantee amount provided to a single customer shall not exceed 10% of the net assets of the financing guarantee company. The outstanding financing guarantee amount provided to a single customer and its affiliated parties shall not exceed 15% of the net assets of the financing guarantee company.

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Pawn loans	Where a pawnshop has a registered capital of RMB10 million or more, the maximum amount of a single pawn loan secured by real estate may not exceed 10% of its registered capital. The total outstanding amount of pawn loans provided by a pawnshop to any one legal person or natural person may not exceed 25% of its registered capital. The total outstanding amount of pawn loans secured by property rights may not exceed 50% of the registered capital. The total outstanding amount of pawn loans secured by real estates may not exceed the registered capital.
Entrusted loans	No such restriction

Our legal and compliance department will monitor the compliance status of our Group in respect of the above requirements on an on-going basis. Before granting a new financing guarantee or pawn loan, our legal and compliance department will calculate whether the granting of such new financing guarantee or pawn loan will lead to non-compliance of the above restriction on the maximum limit on the loan or guarantee amount or on the Group's overall loan or guarantee portfolio. If the legal and compliance department determines that granting a new financing guarantee or pawn loan will lead to non-compliance of the above restriction on the maximum limit, we will not grant such new financing guarantee or pawn loan.

Apart from regulatory restrictions on the maximum amount of loan or guarantee, our Group has also set a target loan-to-value ratio for different types of collateral for our risk management purposes. Such target loan-to-value ratios, however, are not meant to be absolute restrictions on the maximum loan or guarantee amount that can be granted to customers. Instead, they are internal guidance that can be subject to change upwards or downwards on a case-by-case basis after taking into account all relevant circumstances of each case in order to minimize our risk exposure while maximize our profitability. For details, please refer to the paragraph headed "Loan-to-value ratio" above in this section.

### Legal and compliance procedures

Our legal and compliance department shall check the transactions submitted by our business departments so as to ensure that each transaction complies with the relevant laws and regulations. In particular, the terms of the relevant agreements involved in our businesses shall be reviewed by our internal lawyers in our legal and compliance department to ensure that the terms of the agreement are in full compliance with the relevant PRC laws and regulations. In addition, we keep track of the latest changes in laws, regulations and policies, and our business departments will promptly make relevant adjustment to our credit limit and pricing.

Our legal and compliance department consists of five staffs. Mr. Guan Zhongjian (管中建) ("Mr. Guan"), a qualified lawyer in the PRC, is the head of legal and compliance department of our Group. Mr. Guan had 16 years of experience in providing legal and advisory services for various commercial firms and law firm. In addition to Mr. Guan, our legal and compliance department has 4 other legal managers, who have legal background and/or previous work experience in related discipline. Such personnel have legal experience in various industries such as law firms, government authority and commercial firms.



**Anti-money laundering**

As advised by our PRC Legal Adviser, we are currently not subject to anti-money laundering laws and regulations in the PRC and are not required by current laws and regulations in the PRC to establish specific identification and reporting procedures relating to anti-money laundering. Nevertheless, our business department officers shall fully understand the basic information of potential customers through communication, and keep contact with our customers from time to time with a view to obtaining an updated status of them. Our business department officers shall check the identity of our customers in accordance with our relevant internal guidelines, and shall not proceed with the transaction with any potential customer who fails to produce their proof of identity. Our customer's information and transaction record shall be duly kept. Our business departments shall understand our customer's use of proceeds, their source of funding for repayment and/or the operating condition of our customers, and shall promptly escalate any abnormal situations to our risk management department and legal and compliance department.

Our sources of funds are mainly contributed by capital injection from shareholders and our internally generated funds. In addition, our Company has also implemented certain internal control measures that would mitigate the risk of being used as a money laundering vehicle, such as:

- (i) our Company has issued to, and communicated with, the business department officers a policy about the needs and internal control measures in relation to anti-money laundering;
- (ii) our Company has arranged anti-money laundry training for our business officers. Upon Listing, it is the Company's intention to conduct such training on a yearly basis;
- (iii) in our normal course of business, our business department officers will obtain necessary understanding of the background information of the customers, such as their financial information, source of income, shareholding status for corporate customers, the customers' intended and actual use of loans and their source of repayment;
- (iv) our legal and compliance department will review our list of customers, particularly our pawn loan customers, and cross check with the black lists of anti-money laundering (such as wanted person, terrorists list and an anti-money laundering black list of the State Administration of Foreign Exchange of the PRC) on a quarterly basis; and
- (v) our business department managers review the transactions on a monthly basis and report the abnormal incidents to our risk management department and legal and compliance department once any abnormal incident is noted. Both department heads will review and discuss the abnormal incident. In situations where there are suspicious transactions, it is the Company's policy to require the department heads to report to the Directors and to the PRC government authority.

Mr. Guan Zhongjian (管中建) (“**Mr. Guan**”), the head of legal and compliance department of our Group, is the personnel in charge of internal controls measures of anti-money laundering activities. Mr. Guan is a qualified lawyer in the PRC and had 16 years of experience in providing legal and advisory services for various commercial firms and law firm.

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Our Directors confirm that no abnormal incidents had been identified and reported to the senior management during the Track Record Period.

### **Measures to govern transactions with related parties**

Our Company will not encourage conducting transactions with related parties in our ordinary course of business after Listing. Nevertheless, the Directors has established and endorsed a policy that is drafted under the requirement of GEM Listing Rules Chapter 19 and 20, for regulating and managing potential related transactions. In accordance with the policy, the key measures over related transactions include, but not limited to the following:

1. all Directors, Controlling Shareholders and senior management of our Group are required to submit a list of their respective connected persons as defined under the GEM Listing Rules and update the list every six months;
2. for our loan and guarantee business, the business officer and legal and compliance department will cross check and document the identity of the customers against the list of related parties and their associates before entering into a transaction;
3. our Directors, Controlling Shareholders and senior management of our Group will be required to abstain from approving the transactions in which he/she or his/her connected person has a material interest;
4. the legal and compliance department will maintain a list of related parties based on which the Company secretary will summarise the transaction nature, terms and amount of those related party transactions (if any) in the monthly report for the review of the whole board of Directors on a monthly basis; and
5. the Audit Committee composing of INEDs will be responsible for reviewing and commenting whether the terms and conditions of related party transactions (if any) are conducted in the ordinary and usual course of business of our Group, whether they are on normal commercial terms; and whether they are subject to further listing requirements, such as timely and appropriate announcement, circular and shareholder's approval, given beyond the realm of exemption and waiver.

During the Track Record Period, the main personnel generally in charge of the approval of loans and guarantee business with respect to related parties and their associates is our approval committee, the key members of which include Mr. Hong, Mr. Ng, Mr. Chu Sung Fai (朱宋輝), Mr. Dai Yunshan (戴雲山), Mr. You Jin (游臻) and Mr. Tong Yuqiang (佟玉強), whose qualifications and experience are set out in the section headed "Directors, senior management and employees" in this prospectus. As one of the measures to govern transactions with related parties as disclosed in paragraph 3 above, our Directors, Controlling Shareholders and senior management of our Group will be required to abstain from approving the transactions in which he/she or his/her connected person has a material interest.

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### Liquidity risk management and maturity profile

Our Group incurred net cash outflow from operating activities of approximately RMB57.1 million and RMB63.7 million for each of the two years ended 31 December 2012 respectively. The net cash outflow from operating activities for the two years ended 31 December 2012 were mainly attributable to the increase in our net loan receivables as our Group expanded our loan portfolio. Due to the nature of our money lending business, when we grant a loan to our customer, it will be recorded as our operating cash outflow; and when our customer makes repayment to us, it will be recorded as our operating cash inflow. During the two years ended 31 December 2012, our pace of granting loans increased and our loan portfolio expanded, leading to the amount of new loans granted to our customers being larger than the amount of repayment from our customers. As a result, we recorded negative operating cash flow. Operating cash inflow may be recorded if we slow down our pace of granting new loans. We may fund the operating cash requirement by our internal resources, debt or equity financing.

Our Group continuously monitors our current and expected liquidity requirements as well as our cash and receivables in order to ensure that we maintain sufficient liquidity to meet our liquidity requirements. In particular, we monitor the ageing of our loan and account receivables as well as the maturity profile of our financial liabilities under the guarantees provided to our customers.

The following table sets out an ageing analysis of our Group's loan and account receivables as at the end of each year/period of the Track Record Period:

	As at 31 December				As at 31 July	
	2011		2012		2013	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
0 to 30 days	3,357	5.8	48,790	30.2	47,647	24.4
31 to 90 days	24,130	41.3	72,300	44.7	77,515	39.8
91 to 180 days	25,180	43.1	40,578	25.1	48,250	24.8
Over 180 days	<u>5,717</u>	<u>9.8</u>	<u>—</u>	<u>—</u>	<u>21,467</u>	<u>11.0</u>
	<u><u>58,384</u></u>	<u><u>100.0</u></u>	<u><u>161,668</u></u>	<u><u>100.0</u></u>	<u><u>194,879</u></u>	<u><u>100.0</u></u>

Ageing analysis of the Group's loan and account receivables, prepared based on due date, that were not impaired is as follows:

	As at 31 December				As at 31 July	
	2011		2012		2013	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Neither past due nor impaired	32,667	56.0	161,668	100.0	194,879	100.0
1 to 90 days past due	<u>25,717</u>	<u>44.0</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>58,384</u></u>	<u><u>100.0</u></u>	<u><u>161,668</u></u>	<u><u>100.0</u></u>	<u><u>194,879</u></u>	<u><u>100.0</u></u>

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The following table sets out the maturity profile of our potential obligations under the guarantees provided to our customers:

*Maturity profile of potential obligations under the guarantees provided to customers*

	<b>Total contractual undiscounted cash flow RMB'000</b>	<b>Repayable on demand RMB'000</b>
<b>At 31 December 2011</b>		
<b>Financial guarantees issued</b>		
Maximum amount guaranteed	<u>246,590</u>	<u>246,590</u>
<b>At 31 December 2012</b>		
<b>Financial guarantees issued</b>		
Maximum amount guaranteed	<u>408,310</u>	<u>408,310</u>
<b>At 31 July 2013</b>		
<b>Financial guarantees issued</b>		
Maximum amount guaranteed	<u>484,100</u>	<u>484,100</u>

As illustrated in the above tables headed “Maturity profile of potential obligations under the guarantees provided to customers”, the majority of our Group’s loan and account receivables had an age of within 180 days as our Group focused on providing short-term financing. On the other hand, all of our potential financial liabilities under the guarantees provided to our customers were regarded as repayable on demand because we might be requested by the respective banks to honour our payment obligation under the guarantee we provided when our customer is in default.

As at 31 July 2013, our loan and account receivables amounted to approximately RMB194.9 million, all of which were neither past due nor impaired. As at 31 July 2013, the maximum amount guaranteed by us in respect of the financing guarantees we provided amounted to approximately RMB484.1 million, all of which were classified as repayable on demand.

We have certain concentration risk on our loan and account receivables as we had outstanding balances of loan and account receivables of approximately RMB40,973,000, RMB100,483,000 and RMB68,429,000 as at 31 December 2011, 2012 and 31 July 2013 that were attributable to 2, 2 and 2 customers respectively. The 2 customers as at 31 December 2012 were the same as the 2 customers as at 31 July 2013, while the 2 customers as at 31 December 2011 were different from the 2 customers as at 31 December 2012 and 31 July 2013.

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The following table sets out the background information of the 2 customers as at 31 December 2011:

	<b>Type of loan and account receivables attributable to the customer</b>	<b>Business activities of the customer</b>	<b>Location of the customer</b>	<b>Year of commencement of business relationship</b>	<b>Other relationship with our Group</b>
Customer 1	Entrusted loan	Development of resort area	Fujian Province	2011	Independent third party
Customer 2	Entrusted loan	Trading of furniture	Fujian Province	2011	Independent third party

The following table sets out the background information of the 2 customers as at 31 December 2012 and 31 July 2013:

	<b>Type of loan and account receivables attributable to the customer</b>	<b>Business activities of the customer</b>	<b>Location of the customer</b>	<b>Year of commencement of business relationship</b>	<b>Other relationship with our Group</b>
Customer 3	Entrusted loan	Property development	Fujian Province	2012	Independent third party
Customer 4	Entrusted loan	Wholesale and retail of commodity and construction materials	Fujian Province	2012	Independent third party

We did not have concentration risk on our financing guarantee contracts during the Track Record Period as the largest financing guarantee amount granted to a single customer amounted to approximately 4.1%, 2.4% and 3.1% of our total outstanding financing guarantee amount as at 31 December 2011, 2012 and 31 July 2013 respectively.

Mr. Tong Yuqiang, our general finance manager and Mr. Tam Wai Tak Victor, our financial controller and company secretary, are responsible for the continuous monitoring and overseeing our liquidity management. For details of the background and profile of Mr. Tong Yuqiang and Mr. Tam Wai Tak Victor, please refer to the section headed “Directors, senior management and employees” in this prospectus. Our Directors consider that our liquidity risk in respect of our negative operating cash outflow is manageable because when it becomes necessary to increase our liquidity, we can generate operating cash inflow relatively easily by simply retaining the cash received from customers’ loan repayments and refraining from lending out additional loans, unless our Group experiences any material defaults in repayments from our customers. Our Group did not experience any material defaults in

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repayments from our customers during the Track Record Period other than the two overdue entrusted loans as disclosed in the section headed “Business — Entrusted loans — Previous overdue cases”. Our Group has put in place various policies and procedures to manage our credit risk against the potential defaults from our customers, details of which are disclosed in various paragraphs under the section headed “Business — Internal control and risk management” above in this section.

### MARKETING

The principal marketing strategies of our Group are referrals, our own sales channels, and advertising through media.

#### Referrals

We have come across referrals from time to time and our existing customers may also introduce new clients to us. During the Track Record Period, we did not pay any referral fee to third parties for the referral of customers to us.

#### Our own sales channels

Potential customers can approach us through our sales team and our sales outlet in Shishi. We also use our sales and marketing team to source customers through our existing database and promotional materials.

#### Advertising through media

We advertise our services through placement of advertisements on magazines to attract new customers as and when we think necessary. During the Track Record Period, a total of approximately RMB1.9 million was spent on advertising through media.

### COMPETITIVE STRENGTHS

#### We provide a range of different financial services which suit different financing needs

We provide a range of different financial services including (i) guarantee services, (ii) pawn loans, (iii) financial consultation services, (iv) entrusted loans and (v) finance lease. We believe that our business diversity allows us to accommodate the different financing needs from different customers and to provide comprehensive and efficient financial services to our customers.

#### We provide convenient and quick access to short to medium-term financings

The PRC’s economic growth over the past 30 years has created a growing private enterprise sector. The expansion of businesses and various commercial activities has created a growing demand for funding. However, our Directors understand that small and medium-sized enterprises often lack the track record to obtain sufficient lines of credit from commercial banks for their business development.

In view of the above difficulties, we facilitate small and medium-sized enterprises in obtaining financings by providing short to medium-term financing and financing-related solutions to them. Subject to the satisfaction of all of the application conditions, we are able to approve and grant loans or

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guarantees to our customers within a short period of time, usually within 4 weeks depending on the type of services requested. We believe that our Group complements the role played by commercial banks by providing speedy, convenient and efficient services for customers who need financing on short notice.

### **We have good relationship with a number of banks**

Our good relationship with banks allows us to receive referrals of customers from banks from time to time. Customers which are referred to us by banks typically include (i) borrowers who are in need of our loan guarantee services for their loan applications to be approved by banks, (ii) borrowers who are in need for quick access to financings on short notice and may not be able to endure the relatively long approval process of banks, and (iii) SMEs which lack the track record to obtain sufficient lines of credit from banks for their business development based on their individual circumstances.

### **We have implemented a robust risk management system**

We consider that risk management is an integral part to the success of our business. In order to maintain our risk at the minimum level, we focus on the identification and creditworthiness of customers and the legal ownership and valuation of collaterals. We have a detailed operation manual for each of our business segments which provide detailed guidelines and rules for our processing of customers' applications.

## **COMPETITION**

The entrusted loan industry and the financial consultation industry are not subject to any special licensing regime or any statutory requirement under the PRC laws and regulations and there is no formal entry barrier to these industries.

The financing guarantee services industry in the PRC is competitive. We compete with government-funded and privately owned financing guarantee companies in the PRC in terms of the amount of registered capital, brand name, pricing, relationship with banks, risk control capabilities and customer services. Our Directors consider that the entry barrier in setting up a financing guarantee business is high. The establishment of a financing guarantee company or its branch is subject to the approval and the issue of a Financing Guarantee Operation Permit from the relevant provincial level supervisory authority. In addition, the aggregate exposure of financing guarantees provided by a financing guarantee companies for a single customer may not exceed 10% of such financing guarantee company's net asset value. Our Directors understand that, as such, banks are more willing to cooperate with financing guarantee companies with a higher net asset value when providing loans to SMEs, and our Directors believe that the higher the net asset value and registered capital of a financing guarantee company, the more competitive it becomes. Currently, the paid-up registered capital of Differ Guarantee exceeds RMB100 million. Our Board believes that the increasingly strict requirements on net asset value and paid-up registered capital would provide our Group with a significant competitive advantage and a healthy development environment for our financing guarantee business.

Our Directors consider that the pawn loan industry in Fujian Province has a large number of participants and is highly competitive. New pawn loan providers may enter the industry provided that they meet the entry requirement and are granted with the requisite licences and permits under the applicable PRC laws and regulations.

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The finance lease industry in the PRC is not subject to any special licensing regime. However, the establishment of a wholly foreign-owned enterprise engaging in the finance lease business in Xiamen is required to be approved by 廈門市投資促進局 (Xiamen Investment Promotion Bureau) and is subject to a minimum registered capital of US\$10 million. Save for the above, there is no formal entry barrier to the finance lease industry.

We believe the following competitive strengths may allow us to compete effectively with our major competitors:

- We provide a range of different financial services which suit different financing needs
- We provide convenient and quick access to short to medium-term financings
- We have good relationship with a number of banks
- We have robust risk management system

### PROPERTY INTERESTS

#### Owned property

We own one property located at Units 2301 to 2306 (i.e. the whole of floor 23), 166 Tapu East Road, Siming District, Xiamen, Fujian Province, the PRC (中國福建省廈門市思明區塔埔東路166號觀音山11號樓23層) which is occupied by us for use as our head office.

#### Leased properties

We also lease three properties. The table below is a summary of our leased properties:

Location	Usage	Key terms of the current lease
Unit D, Floor 20, Industrial Bank Quanzhou Building, the south side of the eastern section of Fengze Street, Quanzhou, Fujian Province, the PRC (中國福建省泉州市豐澤街東段南側興業銀行泉州大廈第20層D單元)	The property is currently occupied by us for office use for our guarantee business.	The lease is for a period up to 31 August 2014 at a monthly rent of RMB13,300.
Level 9, Hengyu Trading Centre, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi, Fujian Province, the PRC (中國福建省石獅市石泉路東北側華山村K8號樓恒宇商貿中心9樓)	The property is currently occupied by us for office use mainly for our pawn loan business with a small section for office use for our guarantee business.	The property is held by the Group under two leases which will expire on 20 November 2016 and at a total monthly rent of RMB10,530.



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Location	Usage	Key terms of the current lease
Shop No. 2 on Level 1, Hengyu Trading Centre, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi, Fujian Province, the PRC (中國福建省石獅市石泉路東北側華山村K8號樓恒宇商貿中心第二間臨街店面)	The property is currently occupied by us for use as our pawn shop outlet.	The lease is for a period up to 20 November 2016 at a monthly rent of RMB6,000.

The landlords of Level 9, Hengyu Trading Centre, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi, Fujian Province, the PRC (中國福建省石獅市石泉路東北側華山村K8號樓恒宇商貿中心9樓) and Shop No. 2 on Level 1, Hengyu Trading Centre, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi, Fujian Province, the PRC (中國福建省石獅市石泉路東北側華山村K8號樓恒宇商貿中心第二間臨街店面) was unable to provide the relevant title documents showing the ownership of the properties. As advised by our PRC Legal Adviser, if there is any dispute over the ownership of the properties, we may not be able to operate normally within the aforesaid leased properties. If the lease contracts are invalidated, revoked or terminated because the landlords does not have the legal titles to the leased properties, we may be evicted from the properties. These properties are mainly used for our pawn loan business with a small section for our guarantee business. Taking into account the contribution of the pawn loan business to our overall revenue and financial results, our Directors consider that these leased properties are not crucial to our Group's operation. During each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, the revenue attributable to our operations in these two leased properties amounted to approximately RMB1.6 million, RMB6.0 million and RMB7.0 million respectively. If we are required to be evicted from these properties, we plan to relocate to another suitable location in Shishi. Our Directors consider that there are plenty of suitable locations in Shishi to choose from and that the entire relocation process, including identifying a new location, entering into a new tenancy agreement, renovation, removal from the original office, and moving into the new office, should take less than one month. Our Directors consider that the costs of relocation consist mainly of the rental expenses in relation to the new tenancy agreement while other costs of renovation and removal are expected to be immaterial. Our Group currently does not have plan to immediately relocate from these two leased properties to new premises because our Directors consider that (i) we are currently able to operate normally within the two leased properties; (ii) any relocation, should it become necessary, shall take only less than one month; and (iii) the Directors are not aware of any actual or threatened claim or challenge to the legal titles to the two leased properties that may potentially result in us being unable to continue our normal operation in the two leased properties.

For further details of our property interests, please refer to "Appendix III — Property Valuation" of this prospectus.

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### INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we had 28 registered trademarks in the PRC and have applied one registered trademark in Hong Kong. The trademarks relate to our corporate names and logos.

As at the Latest Practicable Date, we are the registered owner of 8 material domain names.

For further details, please refer to “Appendix V — Statutory and general information — B. Further information about the business of our Company — 2. Intellectual property rights”.

### LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group that would have a material adverse effect on the results of operations and financial condition of our Company.

### NON-COMPLIANCES

#### Registered address

As at the Latest Practicable Date, the registered addresses of Differ Holding, Differ Guarantee, Differ Lease and Differ Import & Export were located in a building at 619 Sishui Road, Xiamen (the “**Sishui Road Addresses**”), which was provided by a state-owned assets investment company under the 廈門市湖里區投資促進局 (Xiamen Huli District Investment Promotion Agency) (“**Huli Agency**”), a government agency in Xiamen, free of charge to us for our office use. Details of our Sishui Road Addresses are as follows:

<b>Subsidiaries of our Company</b>	<b>Date of last change of registered address</b>	<b>Registered address immediately before the change</b>	<b>Registered address immediately after the change and as at the Latest Practicable Date</b>
Differ Holding	12 June 2012	Unit 03, Floor 23, 166 Tapu East Road, Siming District, Xiamen (廈門市思明區塔埔東路166號23層03單元)	Room 125, 619 Sishui Road, Huli District, Xiamen (廈門市湖里區泗水道619號125室)
Differ Guarantee	17 January 2013	Unit 06, Floor 23, 166 Tapu East Road, Siming District, Xiamen (廈門市思明區塔埔東路166號23層06單元)	Room 126, 619 Sishui Road, Huli District, Xiamen (廈門市湖里區泗水道619號126室)
Differ Lease	No change since establishment on 19 April 2012	Not applicable	Room 115, 619 Sishui Road, Huli District, Xiamen (廈門市湖里區泗水道619號115室)

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Subsidiaries of our Company	Date of last change of registered address	Registered address immediately before the change	Registered address immediately after the change and as at the Latest Practicable Date
Differ Import & Export	No change since establishment on 22 December 2011	Not applicable	Room 114, 619 Sishui Road, Huli District, Xiamen (廈門市湖里區泗水道619號114室)

### *Non-compliance with the Company Law of the PRC*

Before 16 April 2013, we have not actually occupied the Sishui Road Addresses for office use. Such difference in the registered address and the actual place of business was not in full compliance with the Company Law of the PRC (中華人民共和國公司法).

### *Reason for the non-compliance and legal consequences*

Our use of the Sishui Road Addresses was due to the invitation of the 廈門市湖里區投資促進局 (Xiamen Huli District Investment Promotion Agency) (“**Huli Agency**”), a government agency in Xiamen, as part of the Huli Agency’s campaign to solicit quality financial institutions and to attract investments into the Huli District of Xiamen. Huli Agency, through a state-owned assets investment company, provided the Sishui Road Addresses to us free of charge for use by Differ Holding, Differ Guarantee, Differ Lease and Differ Import & Export.

Huli Agency issued written statements on 15 January 2013 and 7 March 2013 confirming that Differ Holding, Differ Guarantee, Differ Lease and Differ Import & Export had been among the priority enterprises under their invitation to move to Huli District and that they had, in this connection, agreed to provide the Sishui Road Addresses free of charge to Differ Holding, Differ Guarantee, Differ Lease and Differ Import & Export for use as their registered addresses.

Our PRC Legal Adviser has been confirmed by 廈門市工商行政管理局 (Xiamen Administration for Industry and Commerce) (“**XAIC**”) on 22 January 2013 that (i) the relevant campaign of Huli Agency is a kind of government activities; (ii) the issue regarding the difference between the registered address and the actual place of business arising as a result of such government activities should be resolved through the coordination of the relevant governmental departments; and (iii) XAIC will not impose any penalty on the relevant enterprises because of such issue.

As at the Latest Practicable Date, we have not received any notification from any government authority requiring us to rectify the issue, nor have we been imposed any penalty because of the issue.

As advised by our PRC Legal Adviser, the relevant PRC laws and regulations have not specified any specific penalty to be imposed on an enterprise having its registered address different from its actual place of business as a result of government’s investment promotion campaign.

Ms. Shi and Mr. Cai, our Controlling Shareholders, have undertaken to indemnify us for any losses or penalties which we may suffer in connection with such non-compliance. In view of the foregoing, our Directors and our PRC Legal Adviser are of the view that our non-compliance in relation to our use of the Sishui Road Addresses will not have any material or adverse impact on our business operation.

*Latest status*

Since April 2013, we have rectified such non-compliance by actually occupying and commencing business operations at the Sishui Road Addresses.

*The Sponsor's views*

The Sponsor is of the view that the abovementioned non-compliance incidents would not affect the suitability of listing of the Company under Rule 11.06 of the GEM Listing Rules since the non-compliance in relation to the difference between the registered address and the actual place of business was due to the invitation of the Huli Agency, which is a government agency in Xiamen, as part of the Huli's Agency campaign to solicit quality financial institutions and to attract investments into the Huli District of Xiamen and did not involve any fraudulent act on the part of any executive Directors or their integrity to manage a listed company.

**Housing provident funds**

Pursuant to the relevant PRC laws and regulations, our PRC subsidiaries are required to pay for our employees' social insurance (which includes pension, medical insurance, unemployment insurance, maternity insurance and occupational injury insurance) and housing provident fund.

According to 住房公積金管理條例 (Regulations on the Management of the Housing Provident Fund), which became effective on 3 April 1999 and was amended on 24 March 2002, PRC companies shall go through housing provident fund registration with the local housing fund management centre 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 abovementioned 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 abovementioned 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 centre 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 centre may apply to the court for enforcement of the unpaid amount.

During the Track Record Period, due to the different levels of acceptance of the housing provident fund system and the social security system by employees and the fact that certain employees did not ordinarily reside in Xiamen, we had not made our housing provident fund registered with the local housing fund bureau, within the time stipulated under the relevant PRC laws and regulations, and had not made contributions to the housing provident fund in accordance with the relevant PRC laws and regulations.

We registered our housing provident fund with the local housing fund bureau in March 2013. Besides, since March 2013, we have made contributions to the housing provident fund for our employees.

As advised by our PRC Legal Adviser, according to applicable housing provident fund laws and regulations in the PRC, we may be ordered to rectify the deficiency in contribution and pay the outstanding amount within a stipulated deadline. Up to the Latest Practicable Date, we had not been

penalized for violation of these laws, and had not received any order from the relevant authority to pay the outstanding amount within a stipulated deadline. For each of the two years ended 31 December 2012 and the seven months ended 31 July 2013, the amount of unpaid housing provident fund contributions were approximately RMB179,000, RMB205,000 and RMB55,000 respectively.

In August 2013, we have communicated with the local housing provident fund authority for making up the outstanding housing provident fund contributions. The housing provident fund authority has informed our Group that there is no established mechanism for enterprises to make up historical outstanding housing provident fund contributions. As at the Latest Practicable Date, we are still awaiting further information from the housing provident fund authority regarding the status of processing our request for making up the historical outstanding housing provident fund contributions. We also had other difficulties in making up the outstanding housing provident fund contributions in full because, among other things, some of our former employees had already resigned and some were unwilling to bear or make up their own part of the contributions. Also, the progress of the housing provident fund authority in processing our request is beyond our Group's control. Nevertheless, we will endeavour to make up the outstanding housing provident fund contributions as soon as practicable.

Ms. Shi and Mr. Cai, our Controlling Shareholders, have undertaken to indemnify us for any losses or penalties which we may suffer in connection with such non-compliance. In view of the foregoing, our Directors and our PRC Legal Adviser are of the view that our non-compliance will not have any material and adverse impact on our business operations.

To ensure our compliance going forward to pay for our employees' social insurance and housing provident fund, we have perused the relevant rules and regulations and have consulted our PRC Legal Adviser to make the necessary rectification so that we now follow strictly the rules and regulations by way of:

- (1) dedicating one finance staff for carrying out the calculation, administration and actual payment of social insurance and housing provident fund;
- (2) assigning head of our finance department to review and approve the work of the said finance staff; and
- (3) appointing our compliance officer to supervise all the relevant compliance matters.

#### **Registration information of Differ Pawn**

Our PRC Legal Adviser advised that prior to the acquisition of Differ Pawn by Differ Investment and Differ Real Estate, certain registration information of Differ Pawn was not complete, which was not in compliance with the relevant PRC laws.

The PRC laws governing the registration of information of enterprises (“**Information Registration Laws**”) mainly include the Regulations of the PRC on the Administration of Company Registration (中華人民共和國公司登記管理條例) promulgated on 24 June 1994 and amended on 18 December 2005 and the Regulations of the PRC on the Administration of Enterprise Legal Person Registration (中華人民共和國企業法人登記管理條例) promulgated on 3 June 1988, pursuant to which an enterprise shall file with the competent Administration for Industry and Commerce, among other things, shareholders' resolutions and decisions in respect of the registration of establishment and changes of the enterprise.

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Among the corporate filings and registration records of Differ Pawn (the “**AIC Filings**”) currently accessible from 石獅市工商行政管理局 (Shishi Administration for Industry and Commerce) (the “**Shishi AIC**”), certain shareholders’ resolutions as well as certain relevant regulatory approvals were missing, including the shareholders’ resolutions in respect of the establishment of Differ Pawn in 2002 by conversion from an urban collective ownership enterprise as well as Differ Pawn’s Special Industry Permit and business license in connection with its establishment in 2002 (the “**Missing AIC Filings**”).

The exact reason for the Missing AIC Filings cannot be ascertained because the Missing AIC Filings related to documents prior to the acquisition of Differ Pawn by the Group. Nevertheless, it cannot be ruled out that one of the possible reasons for the Missing AIC Filings is that in 2002 (prior to the acquisition of Differ Pawn by our Group), Differ Pawn did not file the Missing AIC Filings with Shishi AIC. If this was the real reason for the Missing AIC Filings, such omission would have constituted a non-compliance with the Information Registration Laws on the part of Differ Pawn in 2002.

It is not practically feasible for us to complete the historical incomplete registration of Differ Pawn as the relevant documentations can no longer be retrieved.

As advised by our PRC Legal Adviser, the relevant PRC laws and regulations do not specify the specific penalty to be imposed for such non-compliance. In addition, according to the Administrative Punishment Law of the PRC (中華人民共和國行政處罰法), administrative punishments shall not be imposed in respect of a non-compliance incident after two years of its occurrence. Up to the Latest Practicable Date, Differ Pawn had not been imposed any administrative punishments in respect of the incomplete registration information. In addition, the Company has obtained a written confirmation dated 12 August 2013 issued by Shishi AIC stating that Shishi AIC is aware of the Information Registration issue of Differ Pawn and that since it was due to historical reasons and the current registration of Differ Pawn is in compliance with the applicable laws, Shishi AIC will not impose any administrative punishment on Differ Pawn in this regard. The PRC Legal Adviser is of the opinion that Shishi AIC is a competent authority to give the confirmation. Based on the foregoing, the Directors are of the view that there is a very low possibility of any administrative punishments to be imposed on Differ Pawn due to the incomplete registration information. In addition, our Controlling Shareholders have undertaken to indemnify and hold the Group from and against all or any losses, damages, liabilities, costs, expenses and fees as a result of or consequential upon any penalty imposed on the Group as a result of the abovementioned incomplete registration information.

In view of the foregoing, our PRC Legal Adviser is of the opinion that such incomplete information registration will not have any material adverse impact on the business operations of the Group.

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### Pawning Measures

During the Track Record Period, we recorded the following non-compliance transactions in our usual and ordinary course of business, all of which relate to our pawn loan business:

<b>Nature of non-compliance</b>	Differ Pawn charged monthly interest rates that exceed the maximum limit as prescribed under the Pawning Measures, being the statutory interest rate for a six-month loan published by the PBOC as discounted by the term of the pawn loan, which, during the relevant loan periods of the non-compliance transactions, ranged from approximately 1.0% to 1.5% per month.	Differ Pawn attempted, but failed, to complete the registration of the pledge of motor vehicle collaterals provided by our pawn loan customers, where such registration of motor vehicle collaterals is a procedure required by the Pawning Measures.
<b>Number of non-compliance new pawn loans granted during the year/period</b>	2011: 31 transactions 2012: 4 transactions 2013: Nil	2011: 7 transactions 2012: 6 transactions 2013: Nil <i>(note 1)</i>
<b>Interest rates charged over the prescribed limit</b>	2011: 0.49% to 0.99% per month 2012: 0.49% to 0.99% per month 2013: Not applicable	Not applicable
<b>Aggregate amount of over-charged interests as a result of the non-compliance</b>	2011: approximately RMB502,000 2012: approximately RMB433,000 2013: Not applicable	Not applicable
<b>Reason for the non-compliance</b>	Due to inadvertent administrative oversight, Differ Pawn has previously misinterpreted that the monthly interest rate and the monthly comprehensive fee rate could be aggregated and be subject to one single threshold. In each pawn loan transaction, we need to separately specify the interest rate and the comprehensive fee rate. In those non-compliant transactions, we first determined the aggregate monthly rate for each transaction, and then allocated a portion of the aggregate monthly rate to the monthly interest rate, and the remaining portion to the monthly comprehensive fee. As we misinterpreted that the monthly interest rate and monthly comprehensive fee rate could be aggregated and be subject to one single threshold, we did not notice that our allocation led to the overcharging of interest <i>(note 2)</i> .	Differ Pawn attempted to complete the relevant registration procedures but were told by the vehicle management department of Shishi Public Security Bureau, the relevant government authority responsible for handling the registration applications, that they were unable to process any applications for the registration of motor vehicle collaterals. The vehicle management department of Shishi Public Security Bureau did not offer the Group any explanation as to why it was unable to process applications for the registration of motor vehicle collaterals. <i>(note 3)</i>
<b>The relevant total loan principal amounts</b>	2011: RMB21.74 million 2012: RMB2.45 million 2013: Nil	2011: RMB1.28 million 2012: RMB3.1 million 2013: Nil



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**Rectification actions taken, measures to ensure on-going compliance, and the latest status**

Before the approval of each pawn loan, our legal and compliance department is to cross-check the terms of the agreements of our pawn loan transactions, including the monthly interest rate and the monthly comprehensive fee rate separately, to ensure that the terms are in full compliance with the Pawning Measures and other relevant PRC laws and regulations. Such cross-checking procedures are centralized at our headquarter. The Company has also set up a compliance committee that is charged with duties to oversee and report to the Directors and audit committee the continuous compliance status of the Company on a quarterly basis.

All new pawn loans granted since May 2012 (*note 4*) have been in full compliance with the Pawning Measures in terms of the interest rate charged.

We have obtained written confirmation from 石獅市經濟局 (Shishi Economic Bureau) (“SEB”) pursuant to which SEB confirmed that the previous non-compliance issues of Differ Pawn in respect of the over-charge of interest have been corrected and that SEB will not impose any penalty on Differ Pawn in respect of such past non-compliance. Our PRC Legal Adviser has advised that SEB is competent to provide such confirmation. (*note 6*)

Given that the responsibility for processing the registration of motor vehicle collaterals under the Pawning Measures lies with the vehicle management department of Shishi Public Security Bureau and is beyond the control of our Group, the management of our Company has not formulated or adopted any definitive policy regarding completion of such registration formalities going forward. As long as the relevant government authority remains unable to process applications for the registration of motor vehicle collaterals, it is not practically feasible for our Group to complete such registration. As such, we have refrained from granting any new motor vehicle pawn loans since June 2012 (*note 5*) until the relevant government authority becomes able to process the registration of the pledge of motor vehicle collaterals. The Company has also set up a compliance committee that is charged with duties to oversee and report to the Directors and audit committee the continuous compliance status of the Company on a quarterly basis.

We have obtained written confirmation from 石獅市經濟局 (Shishi Economic Bureau) (“SEB”) pursuant to which SEB confirmed SEB will not impose any penalty on Differ Pawn in respect of such past non-compliance. Our PRC Legal Adviser has advised that SEB is competent to provide such confirmation. (*note 6*)



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### Latest status

As at the Latest Practicable Date, all of the outstanding principal and accrued interests in respect of the aforementioned non-compliant pawn loans in relation to the overcharging of interest have been fully repaid and the relevant collaterals have been released. The date of the final repayment of the last non-compliant pawn loan transaction in relation to the overcharging of interest was 5 September 2012. The date of the release of the collaterals in respect of the last non-compliant pawn loan transaction in relation to the overcharging of interest was 5 September 2012.

As at the Latest Practicable Date, all of the outstanding principal and accrued interests in respect of the aforementioned non-compliant pawn loans in relation to the non-registration of motor vehicle collaterals have been fully repaid and the relevant collaterals have been released. The date of the final repayment of the last non-compliant pawn loan transaction in relation to the non-registration of motor vehicle collaterals was 5 September 2012. The date of the release of the collaterals in respect of the last non-compliant pawn loan transaction in relation to the non-registration of motor vehicle collaterals was 5 September 2012.

### Notes:

1. There were a total of 13 pawn loans secured by motor vehicles during the Track Record Period. The registration of the pledge of motor vehicle collaterals in respect of all of the 13 pawn loans during the Track Record Period was not completed.
2. For the non-compliant transactions, the basis of allocating the aggregate monthly rate was that monthly interest shall be approximately 1% to 1.5% per month while the remaining shall be allocated to monthly comprehensive fee. Such allocation basis was based on Differ Pawn's then understanding of the general market practice for short-term financing in Quanzhou. After we realised the non-compliance, our basis of allocating the aggregate monthly rate was changed such that monthly interest shall be up to the maximum limit allowed by the Pawning Measures, while the remaining shall be allocated to monthly comprehensive fee subject to the maximum limit as allowed by the Pawning Measures for different types of pawn loans. Our PRC Legal Adviser is of the view that the separation of monthly interest rate and monthly comprehensive fee would not be deemed as a means to circumvent the regulatory limit on interest rate over pawn loans because the Pawning Measures explicitly permits the charging of monthly interest rate and monthly comprehensive fees separately. As separate thresholds for the interest rate and comprehensive fees of a pawn loan were explicitly stipulated under the Pawning Measures, our PRC Legal Adviser is of the opinion that as long as the interest rate and comprehensive fees charged by Differ Pawn do not exceed the respective regulatory limit, the aggregate monthly rate charged by Differ Pawn over a pawn loan would be in compliance with the Pawning Measures. Therefore, the PRC Legal Adviser is of the opinion that the separation of monthly interest rate and monthly comprehensive fees would not be deemed as a means to circumvent the regulatory limit on interest rate over pawn loans.

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3. Differ Pawn did not immediately cease to accept motor vehicles as collaterals when the vehicle management department of Shishi Public Security Bureau informed that it was unable to process any applications for the registration of motor vehicle collaterals because our Directors considered that the registration requirement under the Pawning Measures was for the protection of pawn loan provider (i.e. in our case, for the protection of Differ Pawn) while our Directors did not anticipate any material adverse consequences to our Group's operation or credit risk as a result of the non-registration given that the motor vehicles and the relevant title documents would be physically retained by the Group during the relevant loan period. Our PRC Legal Adviser has advised that (i) the registration or non-registration of the pledge of motor vehicle collateral does not affect the legality or the enforcement procedures of the pledge; and (ii) registration of the pledge of motor vehicle collateral may provide additional comfort and protection for the Group because if the pledge is registered, the existence of the pledge will appear in a public register, which effectively guarantees that the motor vehicle collateral cannot be pledged to any other creditors without the Group's prior knowledge and consent. Nevertheless, given that it is known that the vehicle management department of Shishi Public Security Bureau was unable to process any applications for the registration of motor vehicle collaterals and that as advised by our PRC Legal Adviser, the registration requires the presentation of the title documents (while such title documents were being physically retained by our Group during the loan period), our Directors consider that the risk arising from the non-registration is minimal.
4. While all new pawn loans granted since May 2012 have been in full compliance with the Pawning Measures in terms of the interest rate charged, 10 pawn loans granted in 2011 involving the over-charge of interest rates were renewed during the period from May to June 2012. In respect of such renewed loans, the interest rate has been agreed with the customer in the respective original loan granted in 2011 and remained unchanged when the loan was renewed. Since July 2012, no more non-compliant pawn loans were renewed.
5. While we have refrained from granting any new motor vehicle pawn loans since June 2012, 6 motor vehicle pawn loans granted in 2011 were renewed during June 2012. Since July 2012, no more motor vehicle pawn loans were renewed.
6. Our PRC Legal Adviser advised that SEB is the competent local authority that regulates and supervises the operations of pawnshops in the municipality of Shishi. Therefore, our PRC Legal Adviser is of the opinion that there is a very low possibility that the written confirmation given by SEB will be revoked by a higher authority in the PRC. Our Directors consider that even if such confirmation is revoked by a higher authority in extreme circumstances, our Group, as advised by our PRC Legal Adviser, may be subject to a fine of no more than RMB30,000 for the non-compliances with the Pawning Measures, which will not have a material adverse impact on the business operations and financial position of our Group. Nevertheless, the Company has further obtained a written confirmation dated 10 August 2013 issued by 泉州市經濟貿易委員會 (Quanzhou Economic and Trade Commission), which is in the opinion of our PRC Legal Adviser the competent government authority at a level higher than SEB, stating that, among other things, (i) Quanzhou Economic and Trade Commission is aware of the historical non-compliances of Differ Pawn; (ii) SEB is a competent authority to issue the written confirmation in relation to not imposing any penalty on Differ Pawn in respect of the non-compliances; and (iii) Quanzhou Economic and Trade Commission has no objection to such written confirmation issued by SEB. Our PRC Legal Adviser has advised that Shishi is a county-level city under Quanzhou and therefore Quanzhou Economic and Trade Commission is a higher authority than SEB.

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As the non-compliance incidents took place in Shishi only, our PRC Legal Adviser considers that it is sufficient to obtain confirmations from SEB and Quanzhou Economic and Trade Commission.

According to 福建省經濟貿易委員會關於委託和下放部分行政職權的通知 (Notification of FJETC on the Delegation and Transfer of Certain Administrative Authorities) dated 9 June 2013, FJETC has delegated its authorities to impose administrative penalties on the non-compliances with the Pawning Measures to the commerce authorities at the level of municipals with districts. Therefore, our PRC Legal Adviser is of the opinion that Quanzhou Economic and Trade Commission is the competent authority to determine whether to impose any penalty on our Group's non-compliances and to issue the written confirmation dated 10 August 2013, and that such confirmation issued by Quanzhou Economic and Trade Commission will not be revoked by FJETC. Based on the foregoing, our PRC Legal Adviser considers that it is not necessary to obtain a confirmation from FJETC in this regard.

Further to the aforementioned Notification of FJETC on the Delegation and Transfer of Certain Administrative Authorities dated 9 June 2013, on 29 October 2013, 中共泉州市委機構編制委員會辦公室 (Office of Chinese Communist Party Quanzhou Organisational Establishment Committee) issued “關於調整泉州市經貿委部分行政職責的說明” (Directions on the Adjustment of the Administrative Authorities of Quanzhou Economic and Trade Commission) pursuant to which certain administrative authorities of Quanzhou Economic and Trade Commission, including but not limited to those in relation to the supervision of the pawn loan industry and the authorities to impose administrative penalties on non-compliances with the Pawning Measures, were transferred to 泉州市金融工作局 (Quanzhou Finance Bureau).

We have obtained a further written confirmation from Quanzhou Finance Bureau dated 30 October 2013 stating, among other things, that notwithstanding Differ Pawn's historical non-compliances with the Pawning Measures, Quanzhou Finance Bureau (i) permits us to continue to operate and renew our licences; and (ii) will not impose any penalty on us or our responsible personnel. Our PRC Legal Adviser considers that permitting us to “continue to operate” includes the meaning of not revoking or uplifting our existing licenses given that continuing to operate necessarily requires the Pawn Operation Permit and Special Industry Permit. Our PRC Legal Adviser has advised that Quanzhou Finance Bureau is the competent government authority to issue such confirmation and that such confirmation will not be revoked by a higher authority.

**Legal consequences and financial impacts**

As advised by our PRC Legal Adviser, pursuant to 福建省經貿行政處罰自由裁量權適用規則 (Rules Applicable to the Discretionary Power of Administrative Penalty for Economic and Trade in Fujian Province) and 福建省經濟貿易委員會行政處罰裁量基準 (FJETC Administrative Penalty Basis) issued by FJETC on 8 September 2011, we may be subject to a maximum penalty of RMB30,000 in aggregate for all non-compliant transactions with respect to the charging of a monthly interest rate above the prescribed limit.

In addition, there is a possibility that our customers who were charged monthly interest rate above the prescribed limit may initiate civil legal proceedings against us for a refund of the overcharged interest (*note 1*).

Our PRC Legal Adviser confirmed that given the nature of the non-compliance and pursuant to the applicable PRC laws and regulations, none of our Directors or any other personnel involved for our non-compliance will be subject to any civil or criminal penalty or liability.

Our Controlling Shareholders have undertaken to indemnify us for, among other things, any losses or penalties which we may suffer in connection with our non-compliance which occurred on or before the Listing Date.

In view of the foregoing, our Directors and our PRC Legal Adviser are of the view that our non-compliance will not have any material or adverse impact on our business operations. As such, no provision has been made to our financial statements in connection with such non-compliance.

As advised by our PRC Legal Adviser, the relevant PRC laws and regulations do not specify the specific penalty to be imposed for the non-compliance with respect to the failure in completing the registration of the pledge of motor vehicle collaterals. As far as our Directors and the PRC Legal Adviser are aware, no enterprise operating in the pawn loan industry in Fujian Province had been penalized by the relevant government authority for such non-compliance.

Our PRC Legal Adviser confirmed that given the nature of the non-compliance and pursuant to the applicable PRC laws and regulations, none of our Directors or any other personnel involved for our non-compliance will be subject to any civil or criminal penalty or liability.

Our Controlling Shareholders have undertaken to indemnify us for, among other things, any losses or penalties which we may suffer in connection with our non-compliance which occurred on or before the Listing Date.

In view of the foregoing, our Directors and our PRC Legal Adviser are of the view that our non-compliance will not have any material or adverse impact on our business operations. As such, no provision has been made to our financial statements in connection with such non-compliance.

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*Note 1:*

Although there is a possibility that our customers who were charged monthly interest rate above the prescribed limit may initiate civil legal proceedings against us for a refund of the overcharged interest, our Directors consider that such risk is immaterial because:

- (i) our PRC Legal Adviser is of the opinion that Differ Pawn will not be ordered by the PRC court to refund the overcharged interest because:
  - (a) the PRC courts generally respect and protect the free will of the parties to a loan contract unless the relevant provision of the contract in relation to the interest rate shall be invalidated in accordance with the Contract Law (合同法) of the PRC;
  - (b) according to the Contract Law of the PRC, contracts that are in violation of the mandatory requirements of laws and administrative regulations shall be invalid;
  - (c) according to the Legislation Law (立法法) of the PRC, laws refer to those promulgated by the National People's Congress and the National People's Congress Standing Committee pursuant to their legislative power, while administrative regulations refer to those promulgated by the State Council in accordance with the constitution and laws;
  - (d) the Pawning Measures was promulgated by the MOC and MPS. Pursuant to the Legislation Law of the PRC, the Pawning Measures is neither a law nor an administrative regulation, but instead it is under the category of departmental rules and regulations (部門規章), which refers to those subject to approval by ministerial meetings or committee meeting of a department and promulgated pursuant to a signed order by the head of the relevant department;
  - (e) based on the above, there is no legal basis for the loan contract to be invalid even though the interest rate was above the limit prescribed by the Pawning Measures, which is neither a law nor an administrative regulation; and
  - (f) as such, there is no legal basis for customers to request for refund of the overcharged interest through legal proceedings in PRC court;
- (ii) in addition, as advised by our PRC Legal Adviser, customers who intend to initiate such civil legal proceedings against us must bring a lawsuit to the PRC court or claim their rights against us within two years after the end of the relevant loan period, failing which their rights will not be protected by the PRC court pursuant to the relevant PRC laws;

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- (iii) the aggregate amount of overcharged interests as a result of the non-compliance amounted to only approximately RMB502,000 for the year ended 31 December 2011 and approximately RMB433,000 for the year ended 31 December 2012, which were insignificant compared to our cash and cash equivalent (which amounted to approximately RMB66,633,000 as at 31 July 2013), our net assets (which amounted to approximately RMB322,967,000 as at 31 July 2013), our profit for the year (which amounted to approximately RMB31,238,000 for the year ended 31 December 2012), and our operating cash inflows before working capital changes (which amounted to approximately RMB42,607,000 for the year ended 31 December 2012); and
- (iv) as disclosed above, our Controlling Shareholders have undertaken to indemnify us for, among other things, any losses or penalties which we may suffer in connection with our non-compliance which occurred on or before the Listing Date.

### **Financial impact of ceasing to grant motor vehicle pawn loans**

For each of the two years ended 31 December 2012, our income from motor vehicle pawn loans amounted to approximately RMB59,000 and approximately RMB547,000 respectively. Based on such historical revenue contribution from motor vehicle pawn loans, it is estimated that the impact of ceasing to grant pawn loans secured by motor vehicle collaterals on our Group's revenue during the Track Record Period was less than RMB1 million.

### **Renewal of the Pawn Operation Permit**

The Pawning Measures and the Regulatory Rules on the Pawn Loan Industry (典當行業監管規定) (details of which are disclosed in the section headed "Regulatory overview" in this prospectus) do not provide for the criteria for the renewal of the Pawn Operation Permit. However, pursuant to the Measures on the Annual Inspection of Pawnshop (典當行年審辦法) effective as of 1 February 2003, the abovementioned non-compliances with the Pawning Measures do not fall within any circumstance which will prevent a pawnshop from passing the annual inspection conducted by the relevant commercial department at provincial level and which could lead to the withdrawal of the Pawn Operation Permit thereof. Differ Pawn has duly passed the 2012 annual inspection conducted by FJETC. In addition, the abovementioned non-compliances with the Pawning Measures have been fully rectified. As mentioned above, Shishi Economic Bureau has also confirmed that it will not impose any penalty on Differ Pawn in respect of such non-compliances. Based on the foregoing, our PRC Legal Adviser is of the opinion that the abovementioned non-compliances with the Pawning Measures will not expose the Group to the risk of uplifting or non-renewal of our Pawn Operation Permit.

In respect of the Special Industry Permit, our PRC Legal Adviser has advised that there are no specific provisions regarding the renewal of Special Industry Permit and/or the criteria or timing for the renewal thereof under the relevant PRC laws and regulations. Our PRC Legal Adviser has advised that in practice, the renewal requirements (if any) vary in different places in the PRC. Our PRC Legal Adviser has advised that the current Special Industry Permit of Differ Pawn does not have a period of validity and therefore is not subject to renewal. Our PRC Legal Adviser is also of the opinion that the abovementioned non-compliances with the Pawning Measures will not expose our Group to the risk of uplifting of our current Special Industry Permit.

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### Mechanism to continuously monitor and improve the effectiveness of internal controls after Listing

We have rectified all the above-mentioned non-compliances with the Pawning Measures in July 2012.

In order to continuously monitor and improve the effectiveness of internal controls after Listing, the Company has set up a compliance committee in April 2013 that is charged with duties to oversee and report to the Directors and the Company's audit committee (upon Listing) on a quarterly basis the continuous compliance status of the Company. On a quarterly basis, the finance department summarises significant information such as interest rate and status of pledged assets of all pawn loan transactions into a quarterly report for the review by the compliance committee, the members of which include:

<b>Compliance committee member</b>	<b>Position held at our Group</b>	<b>Qualifications and experience</b>
Mr. GUAN Zhongjian (管中建)	Head of legal and compliance department of our Group	Mr. Guan is a qualified lawyer in the PRC. Mr. Guan had approximately 16 years of experience in providing legal and advisory services for various commercial firms and law firm.
Mr. Chu Sung Fai (朱宋輝)	Chief operating officer in our pawn business	Mr. Chu joined our Group in February 2011 and has been responsible for overseeing the operation of our pawn business since then. Our Directors consider that Mr. Chu's experience is expected to benefit our Group as to the continuous compliance with the relevant PRC laws and regulations.
Mr. TAM Wai Tak Victor (譚偉德)	Financial controller and company secretary of our Group	Mr. Tam is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Before joining our Group in January 2013, Mr. Tam was a senior manager at BDO Limited. Mr. Tam had about 10 years' experience in accounting and audit work and had also worked as a financial controller for a private company in 2010. Our Directors consider that Mr. Tam's experience in audit and financial management and his professional qualifications are expected to benefit our Group as to our continuous monitoring and improvement of the effectiveness of our internal controls for the purpose of our continuous compliance with the laws and regulations relevant to our business operations.



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<b>Compliance committee member</b>	<b>Position held at our Group</b>	<b>Qualifications and experience</b>
Mr. TONG Yuqiang (佟玉強)	General finance manager of our Group	Mr. Tong is a member of the Chinese Institute of Certified Public Accountants. Before joining our Group in February 2012, Mr. Tong had about 20 years' experience in accounting, financial management and corporate management in various corporations in the PRC. Our Directors consider that Mr. Tong's professional qualifications and experience are expected to benefit our Group as to our continuous monitoring and improvement of the effectiveness of our internal controls for the purpose of our continuous compliance with the laws and regulations relevant to our business operations.

In addition, our Company will establish a corporate governance committee before Listing, the members of which include:

<b>Corporate governance committee member</b>	<b>Position held at our Group</b>	<b>Qualifications and experience</b>
Mr. TAM Wai Tak Victor (譚偉德)	Financial controller and company secretary of our Group	Please refer to above.
Mr. YOU Jin (游臻)	Chief business risk control officer	Mr. You obtained his bachelor degree and master degree in enterprise management and business management from Xiamen University (廈門大學) in 1989 and 2000 respectively. Before joining our Group in March 2010, Mr. You had over 6 years' experience working at risk management positions in two guarantee companies in the PRC.
Mr. GUAN Zhongjian (管中建)	Head of legal and compliance department	Please refer to above.
Mr. TONG Yuqiang (佟玉強)	General finance manager of our Group	Please refer to above.
Mr. Chu Sung Fai (朱宋輝)	Chief operating officer in our pawn business	Please refer to above.



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<b>Corporate governance committee member</b>	<b>Position held at our Group</b>	<b>Qualifications and experience</b>
Mr. DAI Yunshan (戴雲山)	Chief operating officer in our guarantee business	Mr. Dai attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in April 1991. Mr. Dai had about 30 years of experience in the banking and guarantee industry. Before he joined our Group in January 2012, Mr. Dai had taken various managerial positions in a Chinese bank and two guarantee companies since 1979.

The corporate governance committee will closely monitoring the effectiveness of our internal controls and will prepare monthly reports to our Directors and our audit committee (upon Listing) containing (1) monthly consolidated financial statements, (2) business performance analysis, (3) material events and transaction (such as takeovers and mergers, change of key personnel and shareholders), (4) summary of significant contracts, (5) information of related party transactions, connected transactions and notifiable transactions, and (6) compliance status in our loan and guarantee business. The corporate governance committee should report any non-compliance issues to our Directors and audit committee immediately once the non-compliance issues are noted.

### **Training provided by our PRC Legal Adviser**

In order to further enhance the knowledge of our relevant personnel for the prevention of recurrence of similar non-compliance incidents in the future, our PRC Legal Adviser has, on 9 October 2013, provided training on the relevant PRC laws and regulations applicable to our Group's business operations to our personnel involved in the loan/guarantee approval, risk management and legal and compliance, including our Directors and the members of our approval committee, compliance committee and corporate governance committee.

Our Directors have confirmed that they have fully understood the relevant PRC laws and regulations applicable to our Group's business operations and will ensure our Group's continuous compliance with the relevant PRC laws and regulations in the future.

**Personnel involved in the non-compliant transactions**

The Director who was involved in the approval of the non-compliant pawn loans transactions was Mr. Ng, who is an executive Director. The Sponsor is of the view that Mr. Ng has the standard of competence commensurate with the positions as director of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules and that the non-compliant pawn loans transactions do not affect the suitability of Mr. Ng to act as director of a listed issuer under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules nor the suitability of listing of the Company under Rule 11.06 of the GEM Listing Rules after considering that:

- (i) Mr. Ng relied on the information provided by an employee of Differ Pawn who was responsible for the communication with the relevant government authority in relation to compliance matters. Due to miscommunication during the course of discussion, such employee misinterpreted that monthly interest and monthly comprehensive fee could be aggregated and subject to one single threshold. As for the non-registration of the pledge of motor vehicle collaterals, the reason was due to the inability of the relevant government authority to process any applications for the registration of motor vehicle collaterals, which is beyond the control of, and not committed by, the Group. Accordingly, the non-compliant pawn loan transactions did not involve any fraudulent act on the part of Mr. Ng and hence did not affect the integrity of Mr. Ng;
- (ii) the executive Directors, including Mr. Ng, have taken rectification actions and implemented measures including requiring the Group's legal and compliance department to conduct cross-checks on the terms of the agreements of all pawn loan transactions to ensure that the terms are in full compliance with the Pawning Measures and other relevant PRC laws and regulations;
- (iii) since May 2012, the terms of all new pawn loans granted by Differ Pawn have been in full compliance with the Pawning Measures, and since July 2012, no more non-compliant pawn loans were renewed;
- (iv) the Group has refrained from granting any new motor vehicle pawn loans since June 2012, and no more motor vehicle pawn loans were renewed since July 2012, until the relevant government authority becomes able to process the registration of the pledge of motor vehicle collaterals; and
- (v) Mr. Ng has attended the training provided by our PRC Legal Adviser on the PRC laws and regulations applicable to our Group's business operations as disclosed in the paragraph headed "Training provided by our PRC Legal Adviser" above.

Mr. Ng is currently a member of our approval committee. Please refer to the section headed "Business — Internal control and risk management — Approval procedures" for further information and composition of our approval committee. Members of our approval committee collectively have the general responsibility and authority for the approval of, among other things, our pawn loans, and Mr. Ng, as a member of the approval committee, participates in the approval work of the approval committee.

**Review by the Internal Control Reviewer**

BDO Financial Services Limited (the “**Internal Control Reviewer**”), an independent internal control consultant, was engaged by the Group in October 2012 to perform an internal control review. The Company has particularly requested the Internal Control Reviewer to review and follow up the effectiveness of enhanced and recommended measures over the non-compliance issues and credit risk management covering the period from the effective implementation dates of those measures to the Latest Practicable Date with the following scope of review:

1. review of the internal control measures over the non-compliance issue in relation to the charging of pawn loan interest rate that exceeded the maximum limit;
2. review of the internal control measures over the non-compliance issue in relation to the non-registration of motor vehicles as collaterals for pawn loans;
3. review of the internal control measures over the non-compliance issue in relation to incomplete registration information of Differ Pawn prior to acquisition of Differ Pawn by the Group; and
4. review of the internal control measures over the credit risks management in relation to the non-registration of Type A collaterals.

The result of the review and follow-up are stated in the following paragraphs.

**Non-compliance in relation to the over-charge of interest**

*Findings of the Internal Control Reviewer*

The Internal Control Reviewer has inquired the management of the Group, obtained walkthrough and performed control testing of the following internal controls of the Company:

1. In June 2012, the Company has issued an internal memorandum documenting and communicating with the pawn loan staffs about the needs to comply with the related rules and regulations in relation to interest rate charge for pawn loan business under the Pawning Measures;
2. Effective since July 2012, the Company has delegated its legal and compliance department to review the pawn loan transactions by reviewing the terms and comparing the pawn charge against the statutory monthly interest rate charges and comprehensive charges regulated under the Pawning Measures. The corresponding reviewers include a PRC qualified lawyer;

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3. In April 2013, the Company has set up a compliance committee that is charged with duties to oversee and report to the Directors and Company's audit committee (upon Listing) the continuous compliance status of the Company. On a quarterly basis, the finance department summarise significant information such as interest rate and status of pledged assets of all pawn loan transactions into a quarterly report for the review of the compliance committee members, including:
  - Mr. Tong Yuqiang (佟玉強), the general finance manager of our Group;
  - Mr. Tam Wai Tak Victor (譚偉德), the company secretary of our Company;
  - Mr. Guan Zhongjian (管中建), a qualified lawyer in the PRC and the head of legal and compliance department of our Group; and
  - Mr. Chu Sung Fai (朱宋輝), the chief operating officer of pawn business of our Group.

The qualifications and experiences of Mr. Tong Yuqiang, Mr. Tam Wai Tak Victor and Mr. Chu Sung Fai are set out in the section headed "Directors, senior management and employees" in this Prospectus. Mr. Guan Zhongjian is a qualified lawyer in the PRC. He is also the head of legal and compliance department of our Group. Mr. Guan had 16 years of experience in providing legal and advisory services for various commercial firms and law firm.

The compliance committee reports the continuous compliance status of the Group to the board of Directors on a quarterly basis and will also report to the audit committee on a quarterly basis upon Listing.

### *View of the Internal Control Reviewer*

Based on the walkthrough and control testing, the Internal Control Reviewer concurs with the Company's view that the Company has properly designed and effectively operated the internal controls for the purpose of preventing future non-compliance in relation to the over-charge of interest rate for pawn loans.

### **Non-compliance in relation to the non-registration of pledge of motor vehicle collaterals**

#### *Findings of the Internal Control Reviewer*

The Internal Control Reviewer has inquired the management of the Group, obtained walkthrough and performed control testing of the following internal controls of the Company:

1. In June 2012, the Company has established an internal memorandum documenting its decision to cease the acceptance of pawn loan transactions with vehicle pledge.
2. Since July 2012, the Company ceased the acceptance of pawn loan transactions with vehicle pledge.
3. In April 2013, the Company has set up a compliance committee that is charged with duties to oversee and report to the Directors and Company's audit committee (upon Listing) the continuous compliance status of the Company. On a quarterly basis, the finance department

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summarise significant information such as interest rate and status of pledged assets of all pawn loan transactions into a quarterly report for the review of the compliance committee members, including:

- Mr. Tong Yuqiang (佟玉強), the general finance manager of our Group;
- Mr. Tam Wai Tak Victor (譚偉德), the company secretary of our Company;
- Mr. Guan Zhongjian (管中建), a qualified lawyer in the PRC and the head of legal and compliance department of our Group; and
- Mr. Chu Sung Fai (朱宋輝), the chief operating officer of pawn business of our Group.

### *View of the Internal Control Reviewer*

Based on the walkthrough and control testing, the Internal Control Reviewer concurs with the Company's view that it has properly designed and effectively operated the internal controls for the purpose of preventing future non-compliance in relation to the non-registration of motor vehicle pledge.

### **Non-compliance in relation to the incomplete registration information prior to acquisition of Differ Pawn**

Since the incomplete registration information issue of Differ Pawn occurred in 2002 which was prior to the acquisition of Differ Pawn by the Group, the Company considers that the issue does not represent a weakness of the current governance structure and control system of the Group. Nevertheless, the Company has put in place certain new and revised measures to prevent similar non-compliance in the future.

### *Findings of the Internal Control Reviewer*

The Internal Control Reviewer has inquired the management of the Company, obtained walkthrough and performed control testing of the following internal controls of the Company.

1. The Company has a strengthened governance structure over corporate secretarial and business registration matters.

At operating subsidiaries level, the Group has delegated a qualified PRC lawyer from its legal and compliance department to handle, review and maintain necessary documents of corporate secretarial and business registration matters in accordance with relevant rules and regulations, such as the Administration of Company Registration (中華人民共和國公司登記管理條例) and the Regulations of the PRC on the Administration of Enterprise Legal Person Registration (中華人民共和國企業法人登記管理條例).

At Group level, the Group has delegated Mr. Tam Wai Tak Victor, the Group's financial controller and company secretary, to handle, review and maintain necessary documents of corporate secretarial and business registration matters in accordance with relevant GEM Listing Rules.

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2. In July 2013, the Group has particularly issued an internal memorandum to the management of the Group re-addressing the requirements of reporting and submitting necessary information and documents in relation to corporate secretarial and business registration matters to legal and compliance department. The purpose of the memorandum is to facilitate the necessary information communication within the Group.
3. In August 2013, the legal and compliance department has performed a review of significant corporate secretarial and business registration matters, such as status of business registration and licenses, change in directors, business name, and legal representative. The legal and compliance department has and will continue to maintain proper documentation of the result of the review and related supporting evidences, such as board resolutions, endorsed registration application forms and copies of business registration and licenses.

### *View of the Internal Control Reviewer*

Based on the walkthrough and control testing, the Internal Control Reviewer concurs with the Company's view that it has properly designed and effectively operated the internal controls for the purpose of preventing future non-compliance in relation to the incomplete registration information matter.

### **Internal controls over credit risk management in relation to non-registered Type A collaterals**

As advised by PRC Legal Adviser, the non-registration of Type A Collaterals does not constitute non-compliance. Such matters are only relating to the enforcement of collaterals instead.

Nevertheless, the Company has adopted a new policy to minimize the related credit risks. Since March 2013, the Group has required customers to provide additional Type B Collaterals for each transaction such that the value of all collaterals minus the value of all non-registered Type A Collaterals must be greater than the loan or guarantee amount. To ensure the implementation effectiveness of such credit policy, the Company has put in place certain new and revised measures.

### *Findings of the Internal Control Reviewer*

The Internal Control Reviewer has inquired the management of the Company, obtained walkthrough and performed control testing of the following internal controls of the Company.

1. In February 2013, the Group has issued internal memorandums communicating and instructing the management about the specific requirements under such credit policy, such as:
  - clearly defining the registration requirements and classifying the items of Type A and Type B collaterals;
  - clearly addressing that each transaction must be fully covered by registered Type A Collaterals and/or Type B Collaterals at value greater than the loan or guarantee amount; and
  - clearly requiring the risk management department to review and maintain necessary supporting evidence for Type A Collaterals in support of the related registration status.

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2. Since April 2013, the Company has delegated Mr. Tam Wai Tak Victor, the Group's financial controller and company secretary, with the duties to monitor the implementation of the above-mentioned policy. Particularly, the responsible staff are required to summarize the transactions for the review of Mr. Tam over the following information on a regularly basis, at around quarterly interval:
- the nature, composition and value of collaterals;
  - the contractual & registration status of collaterals;
  - whether each transaction is fully covered by registered Type A Collaterals and/or Type B Collaterals at value greater than the loan or guarantee amount, and if not, to follow up with the respective management and report to the executive Directors.

### *View of the Internal Control Reviewer*

Based on the walkthrough and control testing, the Internal Control Reviewer concurs with the Company's view that it has properly designed and effectively operated the internal controls for the purpose of implementing the said credit policy in relation to the non-registered Type A Collaterals.

### **Internal control review after Listing**

After Listing, our Company will appoint an independent qualified internal control reviewer to review our internal controls system and procedures annually. On 2 December 2013, our Company has engaged BDO Financial Services Limited for the review of our internal control system and procedures for the year ending 31 December 2014.

### **Our Directors and the Sponsor's views on the non-compliance with Pawning Measures**

Having considered that (i) since May 2012, the terms of all new pawn loans granted by Differ Pawn have been in full compliance with the Pawning Measures, and since July 2012, no more non-compliant pawn loans were renewed, after the implementation of rectification actions by our Group; (ii) we have refrained from granting any new motor vehicle pawn loans since June 2012, and no more motor vehicle pawn loans were renewed since July 2012, until the relevant government authority becomes able to process the registration of the pledge of motor vehicle collaterals, our Directors are of the view that the various internal control measures adopted by us are adequate and effective under Rule 6A.15(5) of the GEM Listing Rules. The Sponsor, after considering the above and having reviewed our internal control measures and the findings of the Internal Control Reviewer, concurs with the view of our Directors that the various internal control measures adopted by us are and should be adequate and effective under Rule 6A.15(5) of the GEM Listing Rules.

Our Board considers that the abovementioned non-compliance incidents in relation to the over-charge of pawn loan interest were due to inadvertent administrative oversight where the interest rate charged exceeded the prescribed limit but the aggregate sum of interest and comprehensive fee rate charged did not exceed the aggregate maximum limit of interest and comprehensive fee rate as prescribed under the Pawning Measures, and would not affect the suitability of our executive Directors under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules and the suitability of listing of the Company under Rule 11.06 of the GEM Listing Rules. In particular, (i) the non-compliance incidents

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were unintentional, did not involve any fraudulent act by our executive Directors, and did not raise any question as to the integrity of our executive Directors; (ii) we have taken rectification actions and implemented measures including requiring our legal and compliance department to cross-check the terms of the agreements of our pawn loan transactions to ensure that the terms are in full compliance with the Pawning Measures and other relevant PRC laws and regulations; (iii) since May 2012, the terms of all new pawn loans granted by Differ Pawn have been in full compliance with the Pawning Measures after the implementation of rectification actions by our Group, and since July 2012, no more non-compliant pawn loans were renewed; (iv) we have refrained from granting any new motor vehicle pawn loans since June 2012, and no more motor vehicle pawn loans were renewed since July 2012 until the relevant government authority becomes able to process the registration of the pledge of motor vehicle collaterals. The Sponsor, after considering the above, concurs with the view of our Board that our executive Directors have the standard of competence commensurate with the positions as directors of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules and that the abovementioned non-compliance incidents would not affect the suitability of our Directors under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules and the suitability of listing of the Company under Rule 11.06 of the GEM Listing Rules.



## NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

### NOTIFIABLE TRANSACTIONS AND DISCLOSURE PURSUANT TO CHAPTERS 17 AND 19 OF THE GEM LISTING RULES

The provision of entrusted loans, pawn loans, guarantee services and finance lease services to our customers is in our ordinary and usual course of business. However, under Rule 19.04(8) of the GEM Listing Rules, the term “ordinary and usual course of business”, in the context of financial assistance, only applies to a banking company, and not to a money lending company. In this connection, upon Listing, the financial assistance provided by us to our customers may constitute notifiable transactions under Chapter 19 of the GEM Listing Rules and subject to the relevant notification, announcement and shareholders’ approval requirements.

Further, financial assistance provided by us to our 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 our Group individually exceeds 8% under the assets ratio as defined in Rule 19.07(1) of the GEM Listing Rules.

Our Group has 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 after Listing.

For illustration purposes, as at Latest Practicable Date, certain percentage ratios calculated pursuant to Rule 19.07 of the GEM Listing Rules in respect of the total loan amount or guarantee amount in a transaction or a series of transactions (aggregated under Rules 19.22 and 19.23 of the GEM Listing Rules) as listed in the table below exceeded 5% but were less than 25%. As a result, each of these transactions would have constituted a discloseable transaction of our Company under Rule 19.08 of the GEM Listing Rules and is therefore subject to the notification and announcement requirements under the GEM Listing Rules.

<b>Customer</b>	<b>Type of financial assistance provided</b>	<b>Approximate amount of financial assistance provided as at the Latest Practicable Date (RMB)</b>	<b>The relevant period in which our loan, finance lease service or guarantee service is provided</b>
Customer A	Finance lease	20 million	From January 2013 to December 2015
Customer B	Finance lease	29.2 million	From May 2013 to April 2016
Customer C	Entrusted loan	33 million	From July 2013 to January 2014
		17 million	From November 2013 to February 2014
Customer D	Entrusted loan	30 million	From August 2013 to January 2014

# NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

## CONNECTED TRANSACTIONS IN OUR ORDINARY AND USUAL COURSE OF BUSINESS DURING THE TRACK RECORD PERIOD

During the Track Record Period, our Group had the following transactions with connected persons of our Group during the ordinary and usual course of our business:

	Year ended 31 December 2011		Year ended 31 December 2012		Seven months ended 31 July 2012		Seven months ended 31 July 2013	
	Revenue of our Group attributable to the transactions RMB'000	Approximate percentage to our total revenue %	Revenue of our Group attributable to the transactions RMB'000	Approximate percentage to our total revenue %	Revenue of our Group attributable to the transactions RMB'000 (unaudited)	Approximate percentage to our total revenue %	Revenue of our Group attributable to the transactions RMB'000	Approximate percentage to our total revenue %
<b>Financial consultation services</b>								
General financial consultation service provided to a customer in which Mr. Hong is a shareholder <i>(note 1)</i>								
	240	1.13	—	—	—	—	—	—
<b>Guarantee services</b>								
Financing guarantee services provided to a customer in which Ms. Shi is a major shareholder <i>(note 2)</i>								
	192	0.90	18	0.03	18	0.07	212	0.54
Financing guarantee services provided to customers who were independent third parties which were counter-guaranteed by connected persons of our Company <i>(note 3)</i>								
	704	3.31	485	0.86	270	1.04	365	0.94
Counter-guarantee service provided to a customer which is owned indirectly by Ms. Shi and Mr. Cai <i>(note 4)</i>								
	—	—	199	0.35	—	—	76	0.20
	896	4.21	702	1.24	288	1.11	653	1.68
<b>Pawn loans</b>								
Pawn loans provided to a customer who is a connected person of our Company <i>(note 5)</i>								
	121	0.57	—	—	—	—	—	—
<b>Total</b>	1,257	5.91	702	1.24	288	1.11	653	1.68

## NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

*Notes:*

1. Our Group entered into one transaction with the customer during the Track Record Period. The customer is 鼎盛置業股份有限公司 (Dingsheng Property Holding Company Limited), which is owned as to 20% by Mr. Hong and as to 80% by certain other third parties and is principally engaged in property development which does not compete with the business of our Group. In the transaction, we provided financial consultation services to the customer and a fixed fee of RMB240,000 was charged for a service period from 1 January 2011 to 31 December 2011. The transaction had been fully completed and settled. As at the Latest Practicable Date, we had not provided any financial consultation services to any connected persons of our Company.
2. During the Track Record Period, there were two financing guarantee transactions where we provided financing guarantee services to a customer, namely, 福建京福輝紡織科技有限公司 (Fujian Jin Fu Hui Textile Technology Company Limited), which is owned as to 95% by Ms. Shi and as to 5% by another third party. In the first transaction, (a) the guarantee amount was RMB10 million; (b) the guarantee fee rate was 2%, which was in line with the guarantee fee rate that we charged to our other customers; and (c) the guarantee period was approximately 1 year, which had ended in January 2012. In the second transaction, (a) the guarantee amount was RMB10 million; (b) the guarantee fee rate was 3%, which was in line with the guarantee fee rate that we charged to our other customers; and (c) the guarantee period was approximately 10 months, which was ended before Listing. The guarantee amount that remained outstanding was RMB10 million as at 31 December 2011, RMB10 million as at 31 December 2012, and RMB10 million as at 31 July 2013. The transaction with the connected customer had been fully completed before Listing.
3. There were a total of 16 transactions during FY2011, 9 transactions during FY2012 and 4 transactions during the seven months ended 31 July 2013 where we provided financing guarantee services to customers who are independent third parties which were counter-guaranteed by connected persons of our Company. The guarantee fee rate charged by us in respect of such transactions ranged from 1% to 2.7% for FY2011, from 1% to 3% for FY2012 and from 1.8% to 3.0% for the seven months ended 31 July 2013, which were not significantly different from the guarantee fee rate that we charged to our other customers. The total guarantee amount in respect of such connected transactions that remained outstanding was approximately RMB22 million as at 31 December 2011, approximately RMB26.7 million as at 31 December 2012 and approximately RMB12.9 million as at 31 July 2013. All the outstanding guarantee transactions had been fully completed before Listing.
4. We provided counter-guarantee service to the customer, namely, 鼎豐商業管理有限公司 (Differ Commercial Management Company Limited), by acting as the counter-guarantor for the customer in favour of a bank in Quanzhou in order to facilitate the customer in obtaining certain performance guarantee services from the bank. The customer is beneficially owned as to 60% by Ms. Shi and as to 40% by Mr. Cai and is principally engaged in property development which does not compete with the business of our Group. We entered into the relevant guarantee agreement with the customer on 10 August 2012. The guarantee amount was RMB22.16 million and the original guarantee period as stated in the guarantee agreement

## NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

was 60 months. The guarantee fee rate that we charged to the customer was 3% of the guarantee amount, which was in line with the guarantee fee rate that we charged to our other customers.

In view of the Listing, the Directors consider that it is appropriate to terminate the counter-guarantee service provided to the customer before Listing. As such, upon mutual agreement between the customer and us, the guarantee agreement between the customer and us was early terminated on 22 April 2013. The customer agreed that our Group shall not be liable to any early termination liability as a result of such early termination of the guarantee agreement.

5. During the Track Record Period, we provided two pawn loans to the customer, who is the father of Mr. Ng. The loan period of the first pawn loan was from November 2010 to May 2011 while that of the second pawn loan (being a renewal of the first loan) was from May 2011 to November 2011. The loan principal amount was RMB800,000. The monthly interest rate was 1%. The monthly comprehensive fee rate was 0.5%. The two pawn loans have been fully repaid by the customer in accordance with the relevant loan agreements.

As at the Latest Practicable Date, save for the non-exempt continuing connected transactions as disclosed in the subsection headed “Non-exempt continuing connected transactions” below, our Group did not have any outstanding connected transactions. Our Group will comply with the GEM Listing Rules upon entering into any new connected transactions. Besides, our Group intends not to provide financial guarantee services to customers who are independent third parties which are counter-guaranteed by connected persons of our Company.

Our Directors (including the independent non-executive Directors) consider that the abovementioned connected transactions were entered into in the ordinary and usual course of business of the Group, on terms that are in line with those available to third parties, and were fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions will constitute non-exempt continuing connected transactions for our Company under Chapter 20 of the GEM Listing Rules.

#### Relationship between our Group and the connected person

##### (1) *Differ Pawn*

As at the Latest Practicable Date, Differ Pawn was owned:

- (i) as to 78% by Aidu, which in turn was owned as to 99% by Mr. Hong and as to 1% by Ms. Zhang Huiling (張惠玲); and
- (ii) as to 22% by Fujian VC, which in turn was owned as to 99% by Ms. Cai Danni (蔡丹妮) and as to 1% by Mr. Wu Zhipei (吳志培).

Mr. Hong, being the chairman of our Company and an executive Director, will become a connected person of our Company under Rule 20.11(1) of the GEM Listing Rules upon Listing. Ms. Zhang Huiling is Mr. Hong's mother. As Mr. Hong and Ms. Zhang Huiling together own the entire equity interest in Aidu directly, Aidu is regarded as a connected person of our Company under the GEM Listing Rules.

Ms. Cai Danni is Mr. Cai's daughter. Mr. Cai, being an executive Director and one of our Controlling Shareholders, will become a connected person of our Company under Rule 20.11(1) of the GEM Listing Rules upon Listing.

Mr. Wu Zhipei is Mr. Ng's cousin. Mr. Ng, being an executive Director, will become a connected person of our Company under Rule 20.11(1) of the GEM Listing Rules upon Listing.

As Ms. Cai Danni and Mr. Wu Zhipei together own the entire equity interest in Fujian VC directly, Fujian VC is regarded as a connected person of our Company under the GEM Listing Rules.

As Differ Pawn is owned as to 78% by Aidu and as to 22% by Fujian VC, Differ Pawn is regarded as a connected person of our Company under the GEM Listing Rules.

##### (2) *Differ Pawn Registered Shareholders*

The Differ Pawn Registered Shareholders include Aidu and Fujian VC. As set out in paragraph (1) above, each of Aidu and Fujian VC is regarded as a connected person of our Company.

Under the GEM Listing Rules, for so long as either Mr. Hong or Mr. Cai remains a connected person of our Company, the following transactions between Differ Holding, Differ Pawn, Aidu and Fujian VC will constitute continuing connected transactions on the part of the Company upon Listing.

## NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

### Structured Agreements

#### *Background*

On 16 July 2012, the Structured Agreements were entered into by Differ Holding, Differ Pawn, Aidu and Fujian VC. Details of the Structured Agreements are set out in the section headed “Structured Agreements” in this prospectus. The transactions contemplated under the Structured Agreements constitute continuing connected transactions and are subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

#### *Reasons for the waiver application and the view of our Directors on the continuing connected transactions*

Our Directors (including our independent non-executive Directors) are of the view that (i) the Structured Agreements are fundamental to our Group’s legal structure and business operations in respect of our pawn loan business; and (ii) the Structured Agreements are on normal commercial terms, fair and reasonable, and in the interests of our Shareholders as a whole. Our Directors also believe that our Group’s structure whereby the financial results of Differ Pawn are consolidated into our Group’s financial statements as if it were our Group’s subsidiary, and the economic benefit of its business flows to our Group, places our Group in a special position in relation to the connected party transaction rules. Accordingly, notwithstanding that the transactions contemplated under the Structured Agreements technically constitute continuing connected transactions for the purposes of Chapter 20 of the GEM Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs for our Company, for all transactions contemplated under the Structured Agreements to be subject to strict compliance with the requirements set forth under Chapter 20 of the GEM Listing Rules, including, among other things, the announcement and independent shareholders’ approval requirements.

In addition, given that the Structured Agreements were entered into prior to the Listing Date and have been disclosed in this prospectus, and potential investors of our Company will participate in the Placing on the basis of such disclosure, our Directors consider that compliance with the announcement and independent shareholders’ approval requirements in respect thereof immediately after Listing would add unnecessary administrative costs for our Company.

Our Directors (including our independent non-executive Directors) confirm that the continuing connected transactions constituted under the Structured Agreements (i) were negotiated and will be conducted on an arm’s length basis, (ii) are in the ordinary and usual course of our business and on normal commercial terms, and (iii) are fair and reasonable so far as our Shareholders are concerned.

#### *Conditions of waiver*

In view of the above, we have applied to the Stock Exchange pursuant to Rule 20.42(3) of the GEM Listing Rules for, and the Stock Exchange has granted, a waiver from (i) strict compliance with the announcement and the independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules in respect of the transactions contemplated under the Structured Agreements; (ii) setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to Differ Holding under the Structured Agreements; and (iii) fixing the term of the Structured Agreements to three years or less.

## NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

For so long as our Shares are listed on the Stock Exchange, the waiver for the Structured Agreements are subject to the following conditions:

- (a) No change without independent non-executive Directors' approval: No changes to the Structured Agreements will be made without the approval of our independent non-executive Directors.
- (b) No change without independent Shareholders' approval: Save as described in paragraph (d) below, no changes to the Structured Agreements will be made without the approval of our independent Shareholders.
- (c) Economic benefits flexibility: The Structured Agreements shall continue to enable our Group to receive the economic benefits derived by Differ Pawn through: (i) our Group's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in Differ Pawn; (ii) the business structure under which the revenue generated by Differ Pawn is substantially retained by Differ Holding (such that no annual caps shall be set on the amount of services fees payable to Differ Holding under the Exclusive Management and Consulting Services Agreement); and (iii) Differ Holding's right to control the management and operation of, as well as, in substance, all of the voting rights of Differ Pawn.
- (d) Renewal and cloning: On the basis that the Structured Agreements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Differ Pawn, on the other hand, that such framework may be renewed and/or cloned upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which foreign-owned companies are restricted to operate in the PRC and which our Group might wish to establish when justified by business expediency, without obtaining the approval of our independent Shareholders, on substantially the same terms and conditions as described in the section headed "Structured Agreements" in this prospectus. Such new wholly foreign-owned enterprise or operating company (including branch company) may be established by our Group for expansion in the PRC due to potential business growth. When the term of operation of Differ Pawn as set forth in its operating licence comes to an end in the future, our Group may also establish new companies as and when considered necessary. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish when justified by business expediency will, upon renewal and/or cloning of the Structured Agreements, however be treated as our Group's connected persons and transactions between these connected persons and our Group other than those under similar Structured Agreements shall comply with Chapter 20 of the GEM Listing Rules. This condition is subject to compliance with the relevant laws, regulations and approvals of the PRC.

## NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

- (e) On-going reporting and approvals: our Group will disclose details relating to the Structured Agreements on an on-going basis as follows:
- (i) The Structured Agreements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the GEM Listing Rules.
  - (ii) Our independent non-executive Directors will review the Structured Agreements annually and confirm in our Company's annual report and accounts for the relevant year that: (1) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structured Agreements, have been operated so that the revenue generated by Differ Pawn has been substantially retained by Differ Holding; (2) no dividends or other distributions have been made by Differ Pawn to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (3) any new contracts entered into, renewed or reproduced between our Group and Differ Pawn during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole.
  - (iii) Our Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Structured Agreements and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten business days before our Company bulk prints its annual report, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Structured Agreements and that no dividends or other distributions have been made by Differ Pawn to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group.
  - (iv) For the purposes of Chapter 20 of the GEM Listing Rules, and in particular the definition of "connected person", Differ Pawn will be treated as our Company's wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of Differ Pawn and their respective associates will be treated as our Company's "connected persons" and transactions between these connected persons and our Group other than those under the Structured Agreements shall comply with Chapter 20 of the GEM Listing Rules.
  - (v) Differ Pawn and each of the Differ Pawn Registered Shareholders will undertake that, for so long as our Shares are listed on GEM, Differ Pawn and each of the Differ Pawn Registered Shareholders will provide our Group's management and our Company's auditors with full access to its relevant records for the purpose of our Company's auditors' review of the connected transactions.
- (f) New transactions amongst Differ Pawn and other members of our Group: There may be new contracts or renewal of the existing contracts to be entered into between Differ Pawn and other members of our Group. Given that the financial results of Differ Pawn will be consolidated into our Group's financial statements and given our Group's relationship with



## NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

Differ Pawn as created by the Structured Agreements, all such new contractual arrangements will also be exempted from the “continuing connected transactions” provisions of the GEM Listing Rules.

### *Confirmation from the Sponsor*

The Sponsor confirms that the transactions contemplated under the Structured Agreements are and will be entered into in the ordinary and usual course of business of our Group, and the terms of such transactions are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole, pursuant to Rule 20.42(3) of the GEM Listing Rules.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### CONTROLLING SHAREHOLDERS

Immediately after completion of the Placing and the Capitalisation Issue (without taking into account Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme), Ms. Shi, Mr. Cai, Expert Corporate Limited and Ever Ultimate Limited will be our Controlling Shareholders (within the meaning of the GEM Listing Rules). As at the Latest Practicable Date, save and except for their respective interests in our Company and its subsidiaries, none of our Controlling Shareholders nor any of their respective associates had interests in any other companies which held interests in the business of our Company during the Track Record Period and ceased to hold such interests after the Reorganisation.

Our Group has been under the ownership and control by Ms. Shi, Mr. Cai, Expert Corporate Limited and Ever Ultimate Limited throughout the Track Record Period.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Save as otherwise disclosed in the section headed “Notifiable transactions and connected transactions” in this prospectus, our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders and their respective associates upon or shortly after the Listing. The Directors believe that our Group are capable of carrying on our business independently of our Controlling Shareholders and their respective associates after the Placing having considered the following factors:

#### Management independence

Our Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors. Our executive Directors are Mr. Hong, Mr. Ng and Mr. Cai. Mr. Hong is the spouse of Ms. Shi, one of our Controlling Shareholders. Mr. Cai is also one of our Controlling Shareholder.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit of and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) will abstain from voting at the relevant board meetings of our Company in respect of such transactions and will not be counted in the quorum of the relevant board meeting.

Save for Mr. Hong, Mr. Cai, Mr. Cai Jianfeng (a non-executive Director) and Mr. Cai Xiacheng (the chief operations officer of our Group and a member of our senior management), we have an independent senior management team to carry out the business decisions of our Group independently. Mr. Cai Jianfeng, a brother-in-law of Mr. Cai, is a non-executive Director and is not directly involved in the daily management of the Group. Mr. Cai Xiacheng, a son-in-law of Mr. Cai, is the chief operations officer of our Group who reports to Mr. Hong and is fully aware of his duties as a member of our Group’s senior management to act for the benefit of and in the best interest of our Group. Our Directors are satisfied that our senior management team are able to perform their roles in our Company independently, and our Directors are of the view that our Company is capable of managing its business independently from our Controlling Shareholders after the Placing.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### **Operational independence**

Our Group has established our own organisational structure made up of individual departments, each with specific areas of responsibilities. Our Group has independent access to customers for our business. Our Group has also established a set of internal controls to facilitate the effective operation of our business.

### **Financial independence**

Our Group has independent financial and accounting systems, independent treasury function for receiving cash and making payments and independent access to third party financing. Our Group makes financial decisions according to our own business needs.

Our Group's operations were partly financed by loans from our Controlling Shareholders. As at 31 July 2013, the amount due to our Controlling Shareholders was approximately RMB19.6 million, the full amount of which was subsequently capitalised prior to the Listing.

In view of our Group's internal resources and the estimated net proceeds from the Placing, our Directors believe that our Group will have sufficient capital for our financial needs without dependence on our Controlling Shareholders. Our Directors further believe that by leveraging on the listing status after the Placing, our Group would be able to obtain third party financing at reasonable terms in accordance with our business needs.

Our Directors consider that our Group's ability to operate as a going concern is not dependent on continuing financial support provided by our Controlling Shareholders.

### **COMPETITION**

None of our Directors, Controlling Shareholders or any of their respective associates is a director or a shareholder of any business apart from the business of our Group which competes or is likely to compete, either directly or indirectly, with the business of our Group.

### **Other investments held by our Controlling Shareholders**

Apart from the business of our Group, Ms. Shi, together with her family including Mr. Hong, are also engaged in the textiles, fashion and apparel business and the property development business in the PRC.

Apart from the business of our Group, Mr. Cai is also engaged in the property development business in the PRC.

Our Directors believe that the other investments held by our Controlling Shareholders as referred to in the above are in completely different industries from that of our Group and therefore do not and will not compete with the business of our Group.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### NON-COMPETITION UNDERTAKING

Each of our Controlling Shareholders has given a non-competition undertaking in favour of our Company, pursuant to which each of our Controlling Shareholders jointly and unconditionally undertakes to and covenants with our Company (for our Company and as trustee of our subsidiaries) that:

- (1) each of our Controlling Shareholders shall not, and shall procure each of his/her/its associates and/or companies controlled by he/she/it, whether on his/her/its own account or in conjunction with or on behalf of any person, firm or company, whether directly or indirectly and whether for profit or otherwise, which carries on a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as a shareholder, partner, principal, agent or otherwise and whether for profit, reward or otherwise) any business which is or may be in competition with the business of any members of our Group (the “**Restricted Business**”);
- (2) if each of our Controlling Shareholders and/or any of his/her/its associates is offered or becomes aware of any project or new business opportunity (“**New Business Opportunity**”) that relates to the Restricted Business, whether directly or indirectly, he/she/it shall: (i) promptly within seven Business Days notify our Group in writing of such opportunity and provide such information as is reasonably required by our Group in order to enable our Group to come to an informed assessment of such New Business Opportunity; and (ii) use his/her/its best endeavours to procure that such opportunity is offered to our Group on terms no less favourable than the terms on which such New Business Opportunity is offered to him/her/it and/or his/her/its associates; and
- (3) if our Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within thirty (30) Business Days (the “**30-day Offering Period**”) of receipt of notice from the relevant Controlling Shareholder, the relevant Controlling Shareholder and/or his/her/its associates shall be permitted to invest in or participate in the New Business Opportunity on his/her/its own accord. Our Controlling Shareholders agree to extend the 30 Business Days to a maximum of 60 Business Days if Differ Group requires so by giving a written notice to our Controlling Shareholder within the 30-day Offering Period.

Each of our Controlling Shareholders undertakes to our Company (for our Company and as trustee of our subsidiaries) to provide our Group and our Directors from time to time (including the independent Directors) with all information for the annual review by the independent Directors with regard to compliance of the terms of the non-competition undertaking and the enforcement of the non-competition undertaking.

Each of our Controlling Shareholders undertakes to our Company (for our Company and as trustee of our subsidiaries), (if necessary) after the end of each financial year of our Group, a declaration made by each of our Controlling Shareholders which shall state whether or not our Controlling Shareholders have during that financial year complied with the terms of the non-competition undertaking, and if not, particulars of any non-compliance, which declaration (or any part thereof) may be reproduced,

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

incorporated, extracted and/or referred to in the annual report of our Group for the relevant financial year, such annual declaration shall be consistent with the principles of making voluntary disclosures in the corporate governance report.

Each of our Controlling Shareholders undertakes to our Company (for our Company and as trustee of our subsidiaries) to allow the Directors, their respective representatives and the auditors to have sufficient access to the records of our Controlling Shareholders and his/her/its associates to ensure their compliance with the terms and conditions of the non-competition undertaking.

Each of our Controlling Shareholders undertakes to our Company (for our Company and as trustee of our subsidiaries) that during the period in which he/she/it and his/her/its associates, individually or taken as a whole, remains as a Controlling Shareholder:

- (1) he/she/it will not invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by our Group from time to time;
- (2) he/she/it will not solicit any existing or then existing employee of our Group for employment by he/she/it or his/her/its associates (excluding our Group);
- (3) he/she/it will not without the consent from our Group, make use of any information pertaining to the business of our Group which may have come to his/her/its knowledge in his/her/its capacity as our Controlling Shareholder for any purposes; and
- (4) he/she/it will procure his/her/its associates (excluding our Group) not to invest or participate in any project or business opportunity mentioned above, unless the information about the principal terms thereof has been disclosed to our Group and our Directors, and our Group shall have, after review and approval by our Directors (including our independent Directors without the attendance by any Director with beneficial interest in such project or business opportunities, in which resolutions have been duly passed by the majority of our independent Directors), confirmed its rejection to be involved or engaged, or to participate, in the relevant Restricted Business and provided also that the principal terms on which that relevant associate of our Controlling Shareholders invests, participates or engages in the Restricted Business are substantially the same as or not more favourable than those offered to our Group. Subject to the above, if the relevant associate of our Controlling Shareholders decides to be involved, engaged, or participate in the relevant Restricted Business, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to our Group and our Directors as soon as practicable.

The non-competition undertaking will take effect from the date on which dealings in the Shares first commence on GEM and will cease to have any effect upon the earlier of the date on which:

- (i) any of our Controlling Shareholders and his/her/its associates and/or successor, individually and/or collectively, cease to own 30% or more of the then issued share capital of our Company directly or indirectly or ceases to be deemed as controlling shareholder of our Company (as defined in the GEM Listing Rules from time to time); or

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) the Shares cease to be listed on the Stock Exchange (except for temporary suspension of the Shares due to any reason).

### CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of our Shareholders:

- (1) the Articles provide that a Director shall absent himself/herself from participating in Board meetings (nor shall he/she be counted in the quorum) and voting on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested unless a majority of our independent non-executive Directors expressly requested him/her to attend but in no circumstances shall he/she be counted towards the quorum or allowed to vote on such resolution;
- (2) our independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by our Controlling Shareholders;
- (3) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the non-competition undertaking;
- (4) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of our Controlling Shareholders in the annual reports of our Company;
- (5) our Controlling Shareholders will make an annual declaration on compliance with their non-competition undertaking in the annual report of our Company;
- (6) our independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/her/its associates to involve or participate in a Restricted Business and if so, any condition to be imposed; and
- (7) our independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertaking or connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out in this paragraph headed "Corporate Governance Measures", our Directors believe that the interest of our Shareholders will be protected.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### DIRECTORS

Our Board currently consists of eight Directors comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets out the information regarding our members of the Board:

<u>Name</u>	<u>Age</u>	<u>Appointment date</u>	<u>Position</u>	<u>Principal responsibilities</u>
Mr. HONG Mingxian (洪明顯)	39	4 December 2012	Executive Director and chairman	Overall strategic formulation, management and planning of our Group
Mr. NG Chi Chung (吳志忠)	41	26 November 2013	Executive Director and chief executive officer	Overall business development and management of our Group
Mr. CAI Huatan (蔡華談)	54	26 November 2013	Executive Director	Overall expanding strategy formulation of our Group
Mr. CAI Jianfeng (蔡劍鋒)	46	26 November 2013	Non-executive Director	Advising on business opportunities for investment, development and expansion of our Group
Mr. WU Qinghan (吳清函)	49	26 November 2013	Non-executive Director	Advising on business opportunities for investment, development and expansion of our Group
Mr. ZENG Haisheng (曾海聲)	55	26 November 2013	Independent non- executive Director	Providing independent judgment on the issues of strategy, performance, resources and standard of conduct of our Company
Mr. TSANG Hin Man Terence (曾憲文)	51	26 November 2013	Independent non- executive Director	Providing independent judgment on the issues of strategy, performance, resources and standard of conduct of our Company
Mr. CHAN Sing Nun (陳星能)	39	26 November 2013	Independent non- executive Director	Providing independent judgment on the issues of strategy, performance, resources and standard of conduct of our Company

During the Track Record Period, the management responsibilities of the Group were vested largely with the executive Directors who are responsible for the overall corporate development, strategic planning, and all management and administrative affairs of the Group. After Listing, the Board will continue to have the responsibility and general powers for the management and conduct of the Group's business.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### Executive Directors

**Mr. HONG Mingxian** (洪明顯), aged 39, was appointed as our executive Director on 4 December 2012. Mr. Hong is the chairman of our Company and the spouse of Ms. Shi (one of and our Controlling Shareholders). Mr. Hong is responsible for the overall strategic formulation, management and planning of our Group. Mr. Hong attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in July 2004. Mr. Hong is a member of the Chinese People's Political Consultative Conference for the Xiamen City Siming District Committee (中國人民政治協商會議廈門市思明區委員會), the founding chairman of Xiamen City Quanzhou Chamber of Commerce (廈門市泉州商會), the honorary chairman of Fujian Youth Entrepreneurship Promotion Association (福建青年創業促進會), the vice chairman of Xiamen City Siming District Federation of Industry and Commerce (Chamber of Commerce) (廈門市思明區工商聯(商會)) and the managing vice chairman of Economic Promotion Association for Overseas Chinese with Hometown in Xiamen (廈門市僑鄉經濟促進會). Mr. Hong has about 8 years' experience in corporate management before he joined Differ Guarantee in September 2008. From August 2007 and September 2009, Mr. Hong worked at a property development company based in Jiangsu Province, PRC and last held the position of executive director. Mr. Hong has not held any directorship in any public listed company in the past three years.

**Mr. NG Chi Chung** (吳志忠), aged 41, was appointed as an executive Director on 26 November 2013. Mr. Ng is the chief executive officer of our Company. Mr. Ng is responsible for the overall business development and management of our Group. Mr. Ng attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in January 2008. Mr. Ng has previously worked at various companies in Hong Kong and Shishi, Fujian Province, and has over 10 years' experience in corporate management. From 2002 to 2008, Mr. Ng was a member of the senior management of a vehicle trading company based in Shishi. Mr. Ng joined Differ Guarantee in September 2008. Mr. Ng has not held any directorship in any public listed company in the past three years.

**Mr. CAI Huatan** (蔡華談), aged 54, was appointed as an executive Director on 26 November 2013. Mr. Cai is the compliance officer of our Company. He is also responsible for overall expanding strategy formulation of our Group. Mr. Cai graduated from a postgraduate programme in economic law from the Law School of Sichuan University (四川大學) in 1996. Before he joined Differ Guarantee in September 2008, Mr. Cai has approximately 30 years of experience in management and public administration. From 1980 to 2005, Mr. Cai worked for various departments of the governments of Shishi and Quanzhou. Since 2000, Mr. Cai has been a director of a property development company in Shishi. Mr. Cai has not held any directorship in any public listed company in the past three years.

### Non-executive Directors

**Mr. CAI Jianfeng** (蔡劍鋒), aged 46, was appointed as a non-executive director on 26 November 2013. Mr. Cai Jianfeng has over 15 years of experience in the manufacturing industry. He has been a vice-chairman of Shishi Lingxiu General Chamber of Commerce (石獅市靈秀商會) since 2005. Mr. Cai Jianfeng is also a member of the Chinese People Political Consultative Committee of Shishi City (石獅市政协協商會議). He has not held any directorship in any public listed company in the past three years. Mr. Cai Jianfeng is a brother-in-law of Mr. Cai.



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

**Mr. WU Qinghan** (吳清函), aged 49, was appointed as a non-executive director on 26 November 2013. Mr. Wu has over 25 years experience in trading and manufacturing. He has been the chairman of a manufacturing company in Shishi since 2000. He has been the chairman of Shishi Lingxiu General Chamber of Commerce (石獅市靈秀商會) since 2005. Mr. Wu was a director of Differ Holding from April 2010 to May 2012 and a director of Differ Guarantee from July 2009 to January 2013, and as such, Mr. Wu is not designated as an independent non-executive Director. He has not held any directorship in any public listed company in the past three years.

### Independent non-executive Directors

**Mr. ZENG Haisheng** (曾海聲), aged 55, was appointed as a non-executive director on 26 November 2013. Mr. Zeng graduated from a postgraduate programme in economic law from the Law School of Sichuan University (四川大學) in October 1996. Since 2006, Mr. Zeng has been the chairman of an investment company in Xiamen. Mr. Zeng has not held any directorship in any public listed company in the past three years.

**Mr. Tsang Hin Man Terence** (曾憲文), aged 51, was appointed as our independent non-executive Director on 26 November 2013. Mr. Tsang was admitted as a solicitor in Hong Kong since 1993 and he is currently the sole proprietor of Tsang & Co., H.M.. Mr. Tsang obtained a bachelor's degree in science from the University College London, the University of London in 1986. He also holds a bachelor's degree in law from the Polytechnic of Central London (now known as the University of Westminster), London. Other than his directorship in the Company, Mr. Tsang is currently an independent non-executive director of Lee & Man Handbags Holding Limited (Stock code: 1488). Save as the above, Mr. Tsang has not held any directorship in any public listed company in the past three years.

**Mr. CHAN Sing Nun** (陳星能), aged 39, joined our Group as an independent non-executive Director on 26 November 2013. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. Mr. Chan has over 14 years' experience in auditing, accounting and financial management. Mr. Chan currently is a director of an audit firm in Hong Kong. Mr. Chan has not held any directorship in any public listed company in the past three years.

### SENIOR MANAGEMENT

**Mr. CAI Xiacheng** (蔡廈程), aged 31, is the chief operations officer of our Group and is responsible for the daily operation of our Group. Mr. Cai had about 5 years of experience in the finance industry before he joined our Group in February 2012. He is the son-in-law of Mr. Cai Huatan. He has not held any directorship in any public listed company in the past three years.

**Mr. TAM Wai Tak Victor** (譚偉德), aged 36, is the financial controller and company secretary of our Group. Mr. Tam joined our Group in late January 2013. He is responsible for financial reporting and company secretarial matters of our Group. Mr. Tam graduated with a bachelor of arts in accounting & finance (first class honours) from the University of Glamorgan (now known as the University of South Wales) in June 2001. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

From January 2002 to February 2005, Mr. Tam was employed as an audit assistant at a local audit firm and was subsequently promoted to senior auditor. From April 2005 to January 2010, he assumed the positions of senior accountant and manager at Grant Thornton where he acted as audit in-charge/manager to lead the audit teams in providing professional audit services. From January 2010 to November 2010, he worked as a financial controller for a private company. From January 2011 to January 2013, he joined BDO Limited as an audit manager and was subsequently promoted to senior manager. Mr. Tam has not held any directorship in any public listed company in the past three years.

**Mr. TONG Yuqiang (佟玉強)**, aged 42, is the general finance manager of our Group and is responsible for the accounting and financial management of our Group. Mr. Tong is a member of the Chinese Institute of Certified Public Accountants. Mr. Tong obtained a diploma in industrial accounting in 1992 from Sichuan Industrial Institute (四川工業學院) (now known as Xihua University (西華大學)). Before joining our Group in February 2012, Mr. Tong had about 20 years' experience in accounting, financial management and corporate management in various corporations in the PRC. Mr. Tong has not held any directorship in any public listed company in the past three years.

**Mr. YOU Jin (游臻)**, aged 46, is our chief business risk control officer and is assisting Mr. Cai for the overall risk management of our Group. Mr. You obtained his bachelor degree and master degree in enterprise management and business management from Xiamen University (廈門大學) in 1989 and 2000 respectively. Before joining our Group in March 2010, Mr. You had over 6 years' experience working at risk management positions in two guarantee companies in the PRC. Mr. You has not held any directorship in any public listed company in the past three years.

**Mr. DAI Yunshan (戴雲山)**, aged 56, is our chief operating officer in guarantee business and is responsible for guarantee business management. Mr. Dai attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in April 1991. Mr. Dai had about 30 years of experience in the banking and guarantee industry. Mr. Dai had taken various managerial positions in a Chinese bank and two guarantee companies since 1979 before he joined our Group in January 2012. Mr. Dai has not held any directorship in any public listed company in the past three years.

**Mr. Chu Sung Fai (朱宋輝)**, aged 55, is our chief operating officer in pawn business and is responsible for the overall pawn business management of the Group. Mr. Chu obtained a diploma in management in 1983 from the Open University of Fujian (福建廣播電視大學) (a long distance learning course). Before joining our Group in 2011, Mr. Chu had about 12 years' experience working at managerial positions in two real estate companies in the PRC. Mr. Chu has not held any directorship in any public listed company in the past three years.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### DIRECTOR'S REMUNERATION

Each of our executive Directors and non-executive Directors has entered into a service agreement with our Company for an initial fixed term of 3 years from 26 November 2013, and will continue thereafter until terminated by not less than 3 months' written notice to the other party. Each of our executive and non-executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 31 December 2013 at the discretion of the Directors of not more than 10 per cent). An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. Each of our executive Directors and non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by our Group from time to time or in discharge of his duties to our Group under the service contract. Each of our independent non-executive Directors has entered into a letter of appointment with our Company. The terms and conditions of such letters of appointment are similar in all material respects. Each of our independent non-executive Directors is appointed with an initial term of three years commencing from 26 November 2013 subject to termination in certain circumstances as stipulated in the relevant letters of appointment. Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

<b>Executive Directors</b>	<i>HK\$</i>
Mr. Hong	450,000
Mr. Cai	300,000
Mr. Ng	375,000
<b>Non-executive Directors</b>	<i>HK\$</i>
Mr. Cai Jianfeng	96,000
Mr. Wu Qinghan	96,000
<b>Independent non-executive Directors</b>	<i>HK\$</i>
Mr. Tsang Hin Man Terence	96,000
Mr. Chan Sing Nun	96,000
Mr. Zeng Haisheng	96,000

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### EMPLOYEES

As at 31 December 2011, 31 December 2012, 31 July 2013 and the Latest Practicable Date, we had approximately 56, 71, 91 and 97 employees (excluding independent non-executive Directors) respectively. The following table shows a breakdown of the number of our employees by functions:

Function	Number of employees as at 31 December 2011	Number of employees as at 31 December 2012	Number of employees as at 31 July 2013	Number of employees as at the Latest Practicable Date
Administrative and accounting	16	20	31	34
Risk management, legal and compliance	6	8	10	11
Entrusted loan and pawn loan business	13	14	15	16
Financial consultation and finance lease business	6	11	12	14
Guarantee business	15	18	23	22

We consider that our employees are important to our business success. During the Track Record Period, we did not experience any significant difficulties in recruiting our employees or any significant staff turnover.

During the Track Record Period, we experienced one incident of labour dispute involving one former employee of our Group who submitted an arbitration application to Xiamen Labour Dispute Arbitration Committee (廈門市勞動爭議仲裁委員會) in February 2011 claiming that our Group (i) had not paid wages to him on time involving an aggregate amount of RMB3,030; (ii) had not paid him overtime allowances involving an aggregate amount of RMB1,595.11; and (iii) had unlawfully charged him clothing costs involving an amount of RMB425. Our Directors consider that such dispute took place due to the lack of a written staff manual provided to the former employee, resulting from the former employee's misunderstanding of our Group's internal policies. On 15 March 2011, a hearing was held at Xiamen Labour Dispute Arbitration Committee and on the same date, our Group and the former employee reached a settlement agreement pursuant to which our Group would pay the former employee a sum of RMB1,300 (which was determined based on mutual agreement between our Group and the former employee after our Group considered that the involved amount was minimal and decided to avoid potentially costly and lengthy litigation) and the former employee agreed to withdraw his labour dispute arbitration application. The case was fully settled in March 2011. Our Directors consider that such incident was an one-off incident which did not cause any material adverse impact on our Group's financial position, business operations or employee relations. To prevent recurrence of similar incidents in the future, our Group has set out and provided written staff manuals to our staffs. Save as the incident disclosed in this paragraph, we believe that our employee relations are satisfactory in general.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

We participate in the PRC government-sponsored social security system as required under the relevant PRC laws and regulations. The social security system in the PRC includes retirement, work injury, medical care, unemployment and other insurance coverage for the employees.

### **BOARD COMMITTEES**

#### **Audit committee**

Our Company established an audit committee pursuant to a resolution of our Directors passed on 26 November 2013 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C3.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules has been adopted. The primary duties of the audit committee mainly include making recommendations to our Board on the appointment and removal of external auditor, reviewing the financial statements and material advice in respect of financing reporting and overseeing internal control procedures of our Company. The audit committee of our Company has three members, namely, Mr. Zeng Haisheng, Mr. Chan Sing Nun and Mr. Tsang Hin Man Terence, all of whom are independent non-executive Directors. Mr. Chan Sing Nun is the chairman of the audit committee.

#### **Remuneration committee**

Our Company established a remuneration committee pursuant to a resolution of our Directors passed on 26 November 2013 in compliance with Rule 5.34 of the GEM Listing Rules. Written terms of reference in compliance with paragraph B1.1 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules has been adopted. The primary duties of the remuneration committee mainly include making recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, reviewing performance-based remuneration and ensuring none of our Directors determine their own remuneration. The remuneration committee has three members, namely, Mr. Tsang Hin Man Terence, Mr. Zeng Haisheng, and Mr. Chan Sing Nun, all of whom are independent non-executive Directors. Mr. Tsang Hin Man Terence is the chairman of the remuneration committee.

#### **Nomination committee**

Our Company established a nomination committee pursuant to a resolution of our Directors passed on 26 November 2013. The primary duties of the nomination committee mainly include reviewing the structure, size and composition of our Board on a regular basis, identifying individuals suitably qualified to become Board members, accessing the independence of independent non-executive Directors, and making recommendations to our Board on matters relating to the appointment or re-appointment of Directors. The nomination committee has three members, namely, Mr. Zeng Haisheng, Mr. TSANG Hin Man Terence and Mr. Chan Sing Nan, all of whom are independent non-executive Directors. Mr. Zeng Haisheng is the chairman of the nomination committee.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed the Sponsor as our compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company will consult with and seek advice from the compliance adviser on a timely basis in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where the listed issuer proposes to use the proceeds of the initial public offering in a manner different from that detailed in the listing document or where the business activities, developments or results of the listed issuer deviate from any forecast, estimate, or other information in the listing document; and
- (4) where the Stock Exchange makes an inquiry of the listed issuer under Rule 17.11 of the GEM Listing Rules.

The term of appointment of the compliance adviser of our Company shall commence on the Listing Date and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Placing (but without taking into account Shares to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) and the Capitalisation Issue, the following persons will have an interest or short position in our Shares and the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, 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 members of our Group other than our Company:

### Long position in Shares

Name	Capacity	Number of Shares	Percentage of interests
Expert Corporate Limited	Beneficial owner ( <i>Note 1</i> )	450,000,000 Shares	45%
Ms. Shi	Interest of controlled corporation ( <i>Note 1</i> )	450,000,000 Shares	45%
Mr. Hong	Interest of spouse ( <i>Note 2</i> )	450,000,000 Shares	45%
Ever Ultimate Limited	Beneficial owner ( <i>Note 3</i> )	300,000,000 Shares	30%
Mr. Cai	Interest of controlled corporation ( <i>Note 3</i> )	300,000,000 Shares	30%

*Notes:*

1. These Shares were held by Expert Corporate Limited, which was wholly and beneficial owned by Ms. Shi. By virtue of the SFO, Ms. Shi is deemed to be interested in the 450,000,000 Shares under the SFO.
2. Mr. Hong is the spouse of Ms. Shi.
3. These Shares were held by Ever Ultimate Limited, which was wholly and beneficial owned by Mr. Cai. By virtue of the SFO, Mr. Cai is deemed to be interested in the 300,000,000 Shares under the SFO.

<b>SHARE CAPITAL</b>
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**SHARE CAPITAL**

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following the Capitalisation Issue and the Placing will be as follows:

<i>Number of Shares</i>	<i>Total nominal value</i>
<i>Authorised:</i>	
<u>5,000,000,000</u> Shares	<u>50,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid:</i>	
1,100 Shares in issue as at the date of this prospectus	11
749,998,900 Shares to be issued under the Capitalisation Issue	7,499,989
<u>250,000,000</u> Placing Shares to be issued under the Placing	<u>2,500,000</u>
<u>1,000,000,000</u> Shares	<u>10,000,000</u>

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following the Capitalisation Issue and the Placing will be as follows:

<i>Number of Shares</i>	<i>Total nominal value</i>
<i>Authorised:</i>	
<u>5,000,000,000</u> Shares	<u>50,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid:</i>	
1,100 Shares in issue as at the date of this prospectus	11
749,998,900 Shares to be issued under the Capitalisation Issue	7,499,989
<u>287,500,000</u> Placing Shares to be issued under the Placing	<u>2,875,000</u>
<u>1,037,500,000</u> Shares	<u>10,375,000</u>

**Minimum public float**

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).



## SHARE CAPITAL

### **Ranking**

The Placing Shares and the Shares which may be issued under the Over-allotment Option will rank equally with all Shares now in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlements under the Capitalisation Issue.

### **Share Option Scheme**

We have conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in the section headed “Share Option Scheme” in Appendix V to this prospectus.

### **General mandate to issue Shares**

Subject to the Placing becoming unconditional, our Directors have been granted a general unconditional mandate to allot and issue and deal with our unissued Shares with an aggregate nominal value of not more than:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares that may be issued pursuant to the exercise of the Over-allotment Option; and
- (b) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements providing for the allotment of Shares in lieu of the whole or in part of any cash dividends or options to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted or upon the exercise of the Over-allotment Option.

For further details of this general mandate, see the paragraph headed “Written resolutions of all Shareholders passed on 26 November 2013” in the section headed “Further information about the Company” in Appendix V to this prospectus.

### **General mandate to repurchase Shares**

Subject to the Placing becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares that may be issued pursuant to the exercise of the Over-allotment Option.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM

## SHARE CAPITAL

Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by our Company of its own securities” in the section headed “Further information about the Company” in Appendix V to this prospectus.

The general mandate to issue and repurchase Shares will expire:

- (a) at the conclusion of the next annual general meeting of our Company;
- (b) at the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Articles to be held; or
- (c) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of these general mandates, please refer to the paragraphs headed “Written resolutions of all Shareholders passed on 26 November 2013” and “Repurchase by our Company of its own securities” in the section headed “Further information about our Company” in Appendix V to this prospectus.

## FINANCIAL INFORMATION

*The following discussion of the financial position and results of operations of our Company should be read in conjunction with our Company's audited consolidated financial information as of and for each of the two years ended 31 December 2011 and 2012, and the seven months ended 31 July 2013 including the notes thereto, included in Appendix I to this prospectus. The financial information has been prepared in accordance with the basis of presentation and accounting policies, which has complied with the HKFRSs issued by the HKICPA, as set out in the Accountants' Report. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Company's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this prospectus.*

### OVERVIEW

As an integrated financing service provider, we are principally engaged in the provision of (i) guarantee services, (ii) pawn loan services, (iii) financial consultation services, (iv) entrusted loan services and (v) finance lease services to our customers. We are headquartered in Xiamen and our operations are mainly located in Xiamen, Quanzhou and Shishi.

Our turnover for each of the two years ended 31 December 2012 and the seven months ended 31 July 2013 were approximately RMB21.2 million, RMB56.4 million and RMB39.0 million respectively. Our net profits for each of the two years ended 31 December 2012 and the seven months ended 31 July 2013 were approximately RMB10.1 million, RMB31.2 million and RMB20.3 million respectively.

### BASIS OF PRESENTATION

Pursuant to the Reorganisation, our Company became the holding company of the subsidiaries now comprising our Group.

Our Group is regarded as a continuing entity resulting from the Reorganisation since the insertions of certain new holding companies at the top of Differ Guarantee have not resulted in any change in economic substance. Accordingly, our Group's financial information has been prepared using the merger basis of accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the current group structure had always been in existence.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group, as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where there is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2011 and 2012 and 31 July 2013 have been prepared to present the state of affairs of our Group as if the current group structure had been in existence as at the respective dates.

The assets and liabilities of the companies comprising our Group are consolidated using the existing book values. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

## FINANCIAL INFORMATION

### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

#### Source of funding and expansion of operation

The size of our Group's guarantee business is restricted by the size of our Group's net assets in accordance with the Xiamen Interim Measures. As at the Latest Practicable Date, the registered capital of Differ Guarantee was RMB150.0 million. Pursuant to the Xiamen Interim Measures, the maximum guarantee amount for each individual customer should not exceed 10% of the net assets value of Differ Guarantee. In addition, the size of our pawn loan operation is directly restricted by the size of our registered capital in accordance with the Pawning Measures. As at the Latest Practicable Date, the registered capital of Differ Pawn was RMB30 million. Pursuant to the Pawning Measures, the maximum single outstanding real-estate pawn loan made by Differ Pawn should not exceed 10% of its registered capital. Besides, Differ Pawn is only allowed to make multiple loans to one customer with the outstanding balance of not exceed 25% of its registered capital.

The size of our entrusted loan and financial consultation business is not subject to any regulatory threshold. However, our Group's businesses and operations are restricted by the size of our Group's funding.

Our source of funding for our businesses and operations are mainly contributed by capital injection from the Shareholders and our internally generated funds. Our Directors plan to further develop our finance lease business, strengthen our entrusted loan business and enhance our guarantee services in our home market in Fujian Province. We should maintain sufficient funds for further expansion of the aforesaid businesses. Our profitability and financial results will depend on our ability to obtain sufficient funding on reasonable terms.

#### Economic environment

Our operations mainly focus on SMEs and individual customers in the PRC and will be affected significantly by the general economic, political, monetary policies and regulatory developments in the PRC.

Please refer to the section "Risk factors" of this prospectus for further information on the above factors and other factors that may affect our revenue.

### CRITICAL ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial information for the Track Record Period are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

#### Subsidiaries

Subsidiaries are entities controlled by our Group. Our Group controls an entity when it 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. The financial statements of the subsidiaries are included in the financial information from the date that control commences until the date that control ceases.

## FINANCIAL INFORMATION

### Impairment of non-financial assets

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line method to write off the cost of each item of property, plant and equipment to its estimated residual value over its estimated useful life, as follows:

Buildings	20 years
Leasehold improvement	The shorter of the lease terms and 5 years
Motor vehicles	4 to 5 years
Furniture, fixtures and office equipment	3 to 5 years

The assets' estimated residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## FINANCIAL INFORMATION

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

### **Prepaid land lease**

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight line method over the term of the lease except where an alternative basis is more representative of the time pattern of benefits to be derived by our Group from use of the land.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

#### *Finance lease as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of our Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on our Group's net investment outstanding in respect of the leases.

#### *Operating lease charges as lessee*

Where our Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

### **Share capital**

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of capital are deducted from capital (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

### **Employee benefits**

Our Group operates a defined contribution retirement benefit scheme ("MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employee's basic salaries.

## FINANCIAL INFORMATION

The employees of our Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of employees' salaries to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. Our Group's obligations under these plans are limited to the fixed percentage contributions payable.

### **Financial assets**

Our Group's financial assets are classified into loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at the end of reporting period.

All financial assets are recognised when, and only when, our Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date.

Derecognition of financial assets occurs when the rights to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

### *Impairment loss on financial assets*

At the end of each reporting period, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of our Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of

## FINANCIAL INFORMATION

the financial asset is reduced through the use of an allowance account. When any part of the financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### **Financial liabilities**

Our Group's financial liabilities include accruals, deposits received, other payables, interest-bearing bank borrowings and amounts due to shareholders.

Financial liabilities are recognised when our Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with our Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the loans using the effective interest method.

Borrowings are classified as current liabilities unless our Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of each reporting period.

All other financial liabilities are recognised initially at their fair value, net of directly attributable transaction costs incurred and subsequently measured at amortised cost, using the effective interest method.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.



## FINANCIAL INFORMATION

### **Provisions and contingent liabilities**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of our Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **Accounting for income tax**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of reporting period between the carrying amounts of assets and liabilities in the financial information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary difference, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where our Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## FINANCIAL INFORMATION

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

- (a) Income from financial guarantee is recognised over the contract period on a time apportionment basis.
- (b) Interest income (as the case may be, including the administration fees that are an integral part of the effective interest rate) from entrusted loan, pawn loan and finance lease services and other financial assets which yield interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.
- (c) Consultancy service income is recognised using the percentage of completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

## FINANCIAL INFORMATION

### Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and our Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are deducted from the cost in arriving at the carrying amount of the assets.

### Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### Foreign currencies

Items included in the financial statements of each of our Group's entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The functional currency of our Company is Hong Kong dollars (“**HK\$**”). The financial information is presented in RMB since most of the companies comprising our Group are operating in RMB environment and the functional currency of most of the companies comprising our Group is RMB.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from our Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

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### Related parties

- (a) A person or a close member of that person's family is related to our Group if that person:
  - (i) has control or joint control over our Group;
  - (ii) has significant influence over our Group; or
  - (iii) is a member of key management personnel of our Group or the parent of our Company.
- (b) An entity is related to our Group if any of the following conditions apply:
  - (i) The entity and our Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of our Group or an entity related to our Group;
  - (vi) The entity is controlled or jointly controlled by a person identified in (a); or
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

### **Finance lease arrangement where our Group purchases certain machinery from the customer and lease it back to the customer immediately afterwards**

According to HK(SIC) Int 27 — Evaluating the Substance of Transactions Involving the Legal Form of a Lease issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the substance of an arrangement needs to be considered in order to determine whether it includes the conveyance of the right to use an asset for an agreed period of time. In a finance lease arrangement where our Group purchases certain machinery from the customer and lease it back to the customer immediately afterwards, the customer's risks and rewards incident to owning the underlying assets do

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not substantively change, and the customer has to repurchase the assets at a nominal consideration at the end of the lease period. The substance of the arrangement is that the customer borrows cash, secured by the underlying assets and repayable in instalments over the lease period and in a final lump sum at the end of the lease period. Therefore, such finance lease arrangement should not be accounted for as a lease under HKAS 17 Lease issued by the HKICPA. Instead, it should be accounted for as loan receivables and measured at the amortised cost using effective interest rate method in the financial information. The Reporting Accountants have given an opinion on the financial information of our Group as a whole, including the accounting treatment in relation to such finance lease arrangement, in the Accountants' Report set out in Appendix I to the Prospectus.

In respect of the recognition of the finance lease income, please refer to the paragraph headed "Revenue recognition" above. Specifically, interest income from finance lease services is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by our Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, our Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with our Group's accounting policy on "Provisions and contingent liabilities"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with our Group's policy on "Revenue Recognition".

Where our Group issues a financial guarantee, the contracted fee of the guarantee is initially recognised as deferred income. Where the contracted fee is received or receivable for the issuance of the guarantee, it is recognised in accordance with our Group's policies applicable to that category of asset. Where no such contracted fee is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of the corresponding liability.

The contracted fee of the financial guarantee initially recognised as deferred income is amortised and recognised as revenue in profit or loss over the term of the guarantee as income from financial guarantee issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon our Group under the guarantee and the amount of that claim on our Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation in accordance with our Group's accounting policy on "Revenue Recognition", where appropriate.

The total amount of financial guarantees issued by our Group is not recorded on our Group's consolidated statements of financial position because (i) according to HKAS 39, a financial guarantee contract issued by our Group is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the guarantee contract; (ii) the contracted fee that is mutually agreed

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between our Group and its customer in respect of a financial guarantee issued by our Group can be regarded as the fair value of the financial guarantee contract; and (iii) as such, when our Group issues a financial guarantee, the contracted fee of the guarantee is initially recognised as deferred income in our Group's consolidated statements of financial position, rather than the entire amount of guarantee issued according to the accounting standards.

### DESCRIPTIONS OF SELECTED INCOME STATEMENT LINE ITEMS

Our revenue is mainly derived from our (i) guarantee services, (ii) pawn loan services, (iii) financial consultation services, (iv) entrusted loan services and (v) finance lease services to our customers. The following table sets out our Group's turnover breakdown by category during the Track Record Period.

	<b>Year ended 31 December</b>		<b>Seven months ended</b>	
	<b>2011</b>	<b>2012</b>	<b>31 July</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<b>2012</b>	<b>2013</b>
			<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Guarantee income	6,710	8,449	4,421	8,359
Pawn loan income	1,642	6,016	1,827	7,014
Financial consultation service income	7,647	19,094	9,105	8,396
Entrusted loan income	5,245	22,365	10,640	12,066
Finance lease income	—	492	—	3,137
	<u>21,244</u>	<u>56,416</u>	<u>25,993</u>	<u>38,972</u>

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### Guarantee income

Our guarantee income increased by approximately 25.9% from approximately RMB6,710,000 for the year ended 31 December 2011 to approximately RMB8,449,000 for the year ended 31 December 2012. Our guarantee income also increased by approximately 89.1% from approximately RMB4,421,000 for the seven months ended 31 July 2012 to approximately RMB8,359,000 for the seven months ended 31 July 2013. Our Directors consider that the growth in our guarantee income was mainly attributable to the following reasons:

*(i) Tight credit policies adopted by the PRC Government and major PRC banks*

Since 2012, the PRC has adopted a tight credit policy which increases the difficulties in obtaining financing by SMEs from banks. Under the prevailing restrictive credit environment, it was reported that banks in the PRC had curtailed lending to SMEs and tend to grant loans only to large and established corporations with good reputation and credit records. It has therefore become more difficult for SMEs to obtain bank loans. As a result, our Directors believe that some of the SMEs might have turned to pursue alternative financing channels, including our Group's guarantee services, pawn loans, entrusted loans, financial consultation services and finance lease. For instance, banks are generally more willing to lend to SMEs whose borrowings are guaranteed by licensed financing guarantee companies such as Differ Guarantee.

*(ii) Enhanced cooperation with cooperating banks*

Since 2013, some of the cooperating banks of our Group have agreed to increase the maximum guarantee limit applicable to the guarantees issued by us to the relevant banks' borrower customers, which contributed to our increased guarantee amount and therefore increased guarantee income.

*(iii) Increased marketing efforts*

Since 2012, our Group has increased our marketing efforts to promote our services as there has been a significant increase in our advertising expenses from approximately RMB269,000 for the year ended 31 December 2011 to approximately RMB1,270,000 for the year ended 31 December 2012.

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### **Pawn loan income**

Our pawn loan income increased by approximately 266.4% from approximately RMB1,642,000 for the year ended 31 December 2011 to approximately RMB6,016,000 for the year ended 31 December 2012. Our pawn loan income also increased by approximately 283.9% from approximately RMB1,827,000 for the seven months ended 31 July 2012 to approximately RMB7,014,000 for the seven months ended 31 July 2013. Our Directors consider that the growth in our pawn loan income was mainly attributable to the following reasons:

*(i) Increase in the registered capital of Differ Pawn*

The registered capital of Differ Pawn was increased from RMB10 million to RMB30 million on 16 July 2012. The Pawning Measures impose certain requirements on the maximum loan amount of a single pawn loan and the maximum total outstanding amount of certain types of pawn loans subject to a certain percentage of the registered capital of the pawnshop (for further details, please refer to the section headed “Business — Pawn loans — Key regulatory requirements applicable to our pawn loan business” of this prospectus). As such, the increase in the registered capital of Differ Pawn allows Differ Pawn to grant larger amount of pawn loans and thereby generating more pawn loan interest income.

*(ii) Tight credit policies adopted by the PRC Government and major PRC banks*

Please refer to the paragraph headed “Guarantee income” above.

*(iii) Increased marketing efforts*

Please refer to the paragraph headed “Guarantee income” above.

### **Financial consultation service income**

Our financial consultation service income increased by approximately 149.7% from approximately RMB7,647,000 for the year ended 31 December 2011 to approximately RMB19,094,000 for the year ended 31 December 2012. Our Directors consider that the growth in our financial consultation income was mainly due to the following reasons:

*(i) Tight credit policies adopted by the PRC Government and major PRC banks*

Please refer to the paragraph headed “Guarantee income” above. For instance, our Directors believe that some customers might have sought our Group’s financial consultation services in assisting them in obtaining financing in view of the tight credit environment in the banking sector.

*(ii) Increased marketing efforts*

Please refer to the paragraph headed “Guarantee income” above.



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For the seven months ended 31 July 2013, our financial consultation service income was approximately RMB8,396,000, representing a decrease of approximately 7.8% from approximately RMB9,105,000 for the seven months ended 31 July 2012. Our Directors consider that such decline was primarily due to the following reasons:

- (i) *Focus on consultation transactions for which a fee was charged based on a percentage of financing obtained and on a success basis*

During the seven months ended 31 July 2013, we had successfully assisted 8 customers in obtaining approximately RMB400 million of financing and charged our customers based on certain percentage, which ranged from 1% to 3%, of the amount of financing successfully obtained by them as a result of our consultation. Although the number of financial consultation services of the above nature increased from 5 for the seven months ended 31 July 2012 to 8 for the seven months ended 31 July 2013, our Group had only provided 3 financial consultation services of a fixed-fee nature as compared with 21 financial consultation services of the same nature for the corresponding period in 2012.

- (ii) *Increase in value-added tax (“VAT”)*

The financial consultation service provided by our Group is subject to 6% VAT instead of 5% business tax starting from 1 February 2013 and the VAT is directly deducted from the consultation service income, contributing to the decrease in our financial consultation service income.

### **Entrusted loans income**

Our entrusted loan income increased by approximately 326.4% from approximately RMB5,245,000 for the year ended 31 December 2011 to approximately RMB22,365,000 for the year ended 31 December 2012. Our entrusted loan income also increased by approximately 13.4% from approximately RMB10,640,000 for the seven months ended 31 July 2012 to approximately RMB12,066,000 for the seven months ended 31 July 2013. Our Directors consider that the growth in our entrusted loan income was mainly attributable to the following reasons:

- (i) *Relatively small revenue base in 2011*

Our Group commenced the entrusted loan business from early 2011. As our entrusted loan business was in its early development stage in 2011, we had a relatively small revenue base of entrusted loan income for the year ended 31 December 2011.

- (ii) *Tight credit policies adopted by the PRC Government and major PRC banks*

Please refer to the paragraph headed “Guarantee income” above.

- (iii) *Increased marketing efforts*

Please refer to the paragraph headed “Guarantee income” above.

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### **Finance lease income**

We recorded finance lease income of approximately RMB492,000 for the year ended 31 December 2012, compared to nil for the year ended 31 December 2011. We also recorded finance lease income of approximately RMB3,137,000 for the seven months ended 31 July 2013, compared to nil for the seven months ended 31 July 2012. This was because our Group only commenced the finance lease business in the second half of 2012.

### **Other income**

Other income for the Track Record Period mainly included bank interest income, government grant, exchange gain and sundry income.

### **Employee benefit expenses**

Employee benefit expenses for the Track Record Period mainly included staff salaries, directors' emoluments and other benefits.

### **Depreciation and amortisation expenses**

Depreciation and amortisation for the Track Record Period included depreciation for the buildings, leasehold improvement, motor vehicles and office equipment and amortisation of prepaid land lease located at Xiamen.

### **Operating lease expenses**

Operating lease expenses for the Track Record Period mainly represented office rental expenses.

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### Other expenses

Other expenses for the Track Record Period mainly comprised business and other taxes, listing expenses, advertising expenses and other operating expenses.

The following table sets out our other expenses breakdown:

	<b>Year ended 31 December</b>		<b>Seven months ended 31 July</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Advertising expenses	269	1,270	967	359
Bank charges	141	328	213	54
Business and other taxes	1,384	3,736	1,429	1,892
Entertainment expense ( <i>note</i> )	391	278	210	586
Legal and professional fee	293	456	420	228
Listing expenses	—	2,816	—	3,250
Motor vehicle expense	347	201	28	64
Office expense	54	32	16	23
Telecommunication fee	230	212	126	160
Travelling expense	242	223	87	201
Water and electricity	336	362	191	189
Others	<u>582</u>	<u>136</u>	<u>70</u>	<u>80</u>
	<u>4,269</u>	<u>10,050</u>	<u>3,757</u>	<u>7,086</u>

*Note:* During the Track Record Period, our entertainment expenses mainly comprised (i) costs in relation to the building and managing of relationship with existing and potential customers as well as cooperating banks; and (ii) accommodation and catering expenses for professional parties during the course of the preparation for the Listing.

### Income tax

Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and BVI.

No provision for Hong Kong profit tax has been made as our Group did not generate any assessable profit subject to Hong Kong profits tax during the Track Record Period.

Profits from our Group's PRC subsidiaries are subject to PRC income tax. The applicable tax rate of our PRC subsidiaries is 25%.

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### RESULTS OF OPERATIONS

Our Group's consolidated results for the Track Record Period are as follows:

	<b>Year ended 31 December</b>		<b>Seven months ended</b>	
			<b>31 July</b>	
	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Revenue	21,244	56,416	25,993	38,972
Other income	2,059	3,224	1,159	2,348
Employee benefit expenses	(3,362)	(5,287)	(2,696)	(4,326)
Depreciation and amortisation expense	(825)	(1,817)	(1,028)	(1,187)
Operating lease expense	(900)	(313)	(181)	(181)
Other expenses	(4,269)	(10,050)	(3,757)	(7,086)
Finance costs	(229)	(526)	(404)	—
	<u>13,718</u>	<u>41,647</u>	<u>19,086</u>	<u>28,540</u>
Profit before income tax				
Income tax expense	<u>(3,667)</u>	<u>(10,409)</u>	<u>(4,783)</u>	<u>(8,209)</u>
Profit for the year/period attributable to the owners of the Company	<u>10,051</u>	<u>31,238</u>	<u>14,303</u>	<u>20,331</u>
Other comprehensive income attributable to the owners of the Company to be reclassified to profit or loss in subsequent periods				
— Exchange differences on translating foreign operation	<u>—</u>	<u>221</u>	<u>—</u>	<u>256</u>
Total comprehensive income for the year/period attributable to the owners of the Company	<u>10,051</u>	<u>31,459</u>	<u>14,303</u>	<u>20,587</u>
Earnings per share — Basic and diluted (RMB cents)*	<u>1.34</u>	<u>4.17</u>	<u>1.91</u>	<u>2.71</u>

\* The calculations of basic earnings per share for the two years ended 31 December 2012 and the seven months ended 31 July 2013 are based on the profit attributable to the owners of the Company of approximately RMB10,051,000, RMB31,238,000 and RMB20,331,000 respectively and on 750,000,000 ordinary shares issuable (being the number of shares of the Company immediately prior to the listing of our Shares on the Stock Exchange) as if these shares had been issued throughout the Track Record Period. Diluted earnings per share is the same as the basic earnings per share because our Group had no potential ordinary shares during the Track Record Period.

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### Year ended 31 December 2012 compared with year ended 31 December 2011

#### *Revenue*

The revenue increased significantly for the year ended 31 December 2012 as compared with the year ended 31 December 2011. For FY2012, our Group's total revenue amounted to approximately RMB56.4 million, representing a significant increase of approximately RMB35.2 million, or 165.6%, from approximately RMB21.2 million for the year ended 31 December 2011. Such increase was mainly attributable to the effect of the following reasons:

#### *Guarantee services*

For the two years ended 31 December 2012, we mainly provided financing guarantee services. Apart from financing guarantee services, we also provided other guarantee services, such as procedural preservative guarantee services to our customers and counter-guarantee service to a related company which is owned indirectly by Ms. Shi and Mr. Cai during the year ended 31 December 2012. Our Group's guarantee services income increased from approximately RMB6.7 million for the year ended 31 December 2011 to RMB8.4 million for the year ended 31 December 2012. The increase in guarantee services income was mainly due to the following reasons:

- (i) the number of financing guarantee contracts with revenue contribution increased from 99 for the year ended 31 December 2011 to 113 for the year ended 31 December 2012;
- (ii) the total amount guaranteed by us in respect of our new financing guarantee contracts increased from approximately RMB221.1 million for the year ended 31 December 2011 to RMB403.4 million for the year ended 31 December 2012; and
- (iii) the income from other guarantee services in total amount of approximately RMB1 million for the year ended 31 December 2012.

#### *Pawn loan services*

For the two years ended 31 December 2012, our Group's pawn loan income was approximately RMB1.6 million and RMB6.0 million respectively. We mainly provided real estate pawn loan and movable property pawn loan services during the two years ended 31 December 2012. The pawn loan income comprised the interest income and comprehensive fee income. The increase of pawn loan services income was mainly due to the following reasons:

- (i) the number of pawn loan contracts increased from 38 for the year ended 31 December 2011 to 51 for the year ended 31 December 2012;
- (ii) the total amount of new pawn loans granted during the year increased from approximately RMB21.7 million for the year ended 31 December 2011 to RMB70.3 million for the year ended 31 December 2012; and

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- (iii) the maximum pawn loan amount to a single customer increased to RMB7.5 million for the later part of the year ended 31 December 2012 as a result of increase of registered capital of Differ Pawn from RMB10 million to RMB30 million during the year ended 31 December 2012.

### *Financial consultation services*

The financial consultation service income of our Group increased from approximately RMB7.6 million for the year ended 31 December 2011 to RMB19.1 million for the year ended 31 December 2012. The increase in financial consultation services income was mainly due to the increase in the number of financial consultation services from 11 for the year ended 31 December 2011 to 35 for the year ended 31 December 2012. As the Group expanded the financial consultation business, the number of new clients referred to us by third parties also increased during that period.

### *Entrusted loan services*

Our Group commenced entrusted loan services from early 2011. For the two years ended 31 December 2012, the Group's entrusted loan income was approximately RMB5.2 million and RMB22.4 million respectively. The increase of entrusted loan income was mainly due to the following reasons:

- (i) the number of entrusted loan contracts with revenue contribution increased from 7 for the year ended 31 December 2011 to 20 for the year ended 31 December 2012; and
- (ii) the total amount of new entrusted loans granted increased from approximately RMB117 million for the year ended 31 December 2011 to RMB400 million for the year ended 31 December 2012.

### *Finance lease services*

Our Group only commenced the finance lease business in the second half of 2012. For the year ended 31 December 2012, we had only one finance lease transaction involving manufacturing machineries from our customer and the finance lease services income was approximately RMB492,000.

### *Other income*

For the two years ended 31 December 2012, our Group's other income were approximately RMB2.1 million and RMB3.2 million respectively. It mainly represented the bank interest income and government grants. The increase of other income was mainly due to three government grants received for our guarantee business amounting to RMB1.7 million for the year ended 31 December 2012.

### *Employee benefit expenses*

For the two years ended 31 December 2012, our Group's employee benefit expenses were approximately RMB3.4 million and RMB5.3 million respectively. Our Group's employee benefit expenses mainly comprised staff salaries, directors' emoluments and other benefits. The increase in employee benefit expenses was mainly due to the fact that our Group employed more staff for business expansion and the proposed Listing.

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### *Depreciation and amortisation*

For the two years ended 31 December 2012, the Group's depreciation and amortisation expenses were approximately RMB0.8 million and RMB1.8 million respectively. Our Group purchased a building (land portion is classified as prepaid land lease) in Xiamen i.e., our current headquarters in late 2011. Depreciation and amortisation increased as full year depreciation and amortisation were charged for the year ended 31 December 2012.

### *Operating lease expense*

For the two years ended 31 December 2012, the Group's operating lease expense were approximately RMB0.9 million and RMB0.3 million respectively. The decrease of operating lease expense was mainly due to the fact that the Group purchased its headquarters in Xiamen, after which the Group moved into the new office and terminated the tenancy agreement of old office in late 2011.

### *Other expenses*

For the year ended 31 December 2012, our Group's other expenses was approximately RMB10.1 million, representing an increase of approximately RMB5.8 million, or 135.4%, from approximately RMB4.3 million for the year ended 31 December 2011. Such increase was mainly due to increase in our business and other taxes and Listing expenses. Business tax is calculated based on 5% of turnover. As the turnover increased during the year ended 31 December 2012, the business and other taxes also increased from RMB1.4 million for the year ended 31 December 2011 to RMB3.7 million for the year ended 31 December 2012 accordingly. In addition, the increase of other expenses was also due to approximately RMB2.8 million expenses incurred in connection with the professional fees for the Listing.

### *Finance costs*

For the year ended 31 December 2012, our Group's finance costs was approximately RMB0.5 million, representing an increase of approximately RMB0.3 million, or 129.7%, from approximately RMB0.2 million for the year ended 31 December 2011. The increase was mainly due to increase of interest paid for bank borrowings.

### *Profit before income tax*

As a result of the above, our Group's profit before income tax was approximately RMB41.6 million for the year ended 31 December 2012, representing an increase of approximately RMB27.9 million, or 203.6%, from approximately RMB13.7 million for the year ended 31 December 2011.

### *Income tax expense*

For the two years ended 31 December 2012, our Group's income tax were approximately RMB3.7 million and RMB10.4 million respectively, representing an increase of approximately RMB6.7 million, or approximately 183.9%. The income tax is calculated based on the PRC corporate income tax rate of 25%. The increase of income tax expenses was in line with increase of profit before income tax during the period. Our Group's effective income tax rate were approximately 26.7% and 25.0% for the two years ended 31 December 2012 respectively.

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### *Profit for the year*

As a net effect of the above, our Group's profit for the year was approximately RMB31.2 million for the year ended 31 December 2012, representing an increase of approximately RMB21.1 million, or 210.8%, from approximately RMB10.1 million for the year ended 31 December 2011.

### **Seven months ended 31 July 2013 compared with seven months ended 31 July 2012**

#### *Revenue*

The revenue increased from approximately RMB26.0 million for the seven months ended 31 July 2012 to approximately RMB39.0 million for the seven months ended 31 July 2013, representing an increase of approximately RMB13.0 million or 49.9%. The increase was attributable to the net effect of the following reasons:

#### *Guarantee services*

We mainly provided the financing guarantee services during the seven months ended 31 July 2012 and 2013. Our Group's guarantee service income increased by 89.1% from approximately RMB4.4 million for the seven months ended 31 July 2012 to RMB8.4 million for the seven months ended 31 July 2013. Our Group continued to expand our financing guarantee services in our home market in Fujian Province. The increase in income from our guarantee services was mainly attributable to the following reasons:

- (i) the number of financing guarantee contracts with revenue contribution increased from 82 for the seven months ended 31 July 2012 to 115 for the seven months ended 31 July 2013; and
- (ii) the number of new financing guarantee contracts granted by us during the period increased from 35 for the seven months ended 31 July 2012 to 43 for the seven months ended 31 July 2013 and the total guaranteed amount of new contracts increased from approximately RMB203.7 million for the seven months ended 31 July 2012 to RMB276.5 million for the seven months ended 31 July 2013.

#### *Pawn loan services*

Our Group's pawn loan service income increased by 283.9% from approximately RMB1.8 million for the seven months ended 31 July 2012 to RMB7.0 million for the seven months ended 31 July 2013. Although we have refrained from granting any new motor vehicle pawn loan since June 2012, we have further developed our movable property pawn loans business by accepting other collateral such as gold and antiques. In addition, the maximum pawn loan amount to a single customer increased from approximately RMB2.5 million for the seven months ended 31 July 2012 to RMB7.5 million for the seven months ended 31 July 2013 due to the increase in registered capital of Differ Pawn in July 2012. The increase in pawn loan service income was mainly attributable to the following reasons:

- (i) the number of pawn loan contracts with revenue contribution increased from 31 for the seven months ended 31 July 2012 to 38 for the seven months ended 31 July 2013; and



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- (ii) the number of new pawn loan contracts granted by us during the period increased from 15 for the seven months ended 31 July 2012 to 25 for the seven months ended 31 July 2013 and the total amount of pawn loans granted of new contracts increased from approximately RMB22.7 million for the seven months ended 31 July 2012 to RMB54.5 million for the seven months ended 31 July 2013.

### *Financial consultation services*

Our Group's financial consultation service income decreased by 7.8% from approximately RMB9.1 million for the seven months ended 31 July 2012 to RMB8.4 million for the seven months ended 31 July 2013.

During the seven months ended 31 July 2013, we have successfully assisted eight customers in obtaining approximately RMB400 million of financing and charged our customers based on certain percentage, ranged from 1% to 3%, of the amount of financing obtained as a result of our consultation. Although the number of financial consultation services of above nature increased from 5 for the seven months ended 31 July 2012 to 8 for the seven months ended 31 July 2013, the Group has only provided 3 financial consultation services of fixed-fee nature as compared with 21 financial consultation services of the same nature for the corresponding period of last year. In addition, the financial consultation service provided by the Group is subject to 6% VAT instead of 5% business tax from 1 February 2013 and the VAT is directly deducted from the consultation service income. As the net effect of the above, the financial consultation service income decreased slightly during the period.

### *Entrusted loan services*

Our Group's entrusted loan service income increased by 13.4% from approximately RMB10.6 million for the seven months ended 31 July 2012 to RMB12.1 million for the seven months ended 31 July 2013. The increase of entrusted loan service income was mainly attributable to the following reasons:

- (i) the number of entrusted loan contracts with revenue contribution increased from 12 for the seven months ended 31 July 2012 to 13 for the seven months ended 31 July 2013; and
- (ii) although the number of new entrusted loan contracts granted by us during the period decreased from 8 for the seven months ended 31 July 2012 to 7 for the seven months ended 31 July 2013, the total amount of entrusted loans granted of new contracts increased from approximately RMB195 million for the seven months ended 31 July 2012 to RMB222 million for the seven months ended 31 July 2013.

### *Finance lease services*

For the seven months ended 31 July 2012 and 2013, our Group's finance lease service income was nil and RMB3.1 million respectively. For the seven months ended 31 July 2013, we have five finance lease transactions with revenue contribution for the period. We purchased certain manufacturing machineries from our customers or suppliers designated by our customers and leased such machineries back to our customers for a lease period from 24 months to 36 months for a monthly rental payment.

## FINANCIAL INFORMATION

### *Other income*

Other income increased from approximately RMB1.2 million for the seven months ended 31 July 2012 to approximately RMB2.3 million for the seven months ended 31 July 2013, representing an increase of approximately RMB1.1 million or 102.6%. Our Group's other income mainly represented the bank interest income and the government grant. The increase in other income was mainly due to the fact that we have received the government grant of RMB1.57 million during the seven months ended 31 July 2013 but only RMB0.21 million government grant received during the seven months ended 31 July 2012.

### *Employee benefit expenses*

The employee benefit expenses increased from approximately RMB2.7 million for the seven months ended 31 July 2012 to approximately RMB4.3 million for the seven months ended 31 July 2013, representing an increase of approximately RMB1.6 million or 60.5%. Our Group's employee benefit expenses mainly comprised staff salaries, directors' emoluments and other benefits. The increase in employee benefit expenses was mainly attributable to the increase in directors' emoluments and other staff salaries as our Group hired more staff for business expansion.

### *Depreciation and amortisation*

For the seven months ended 31 July 2012 and 2013, our Group's depreciation and amortisation expenses were approximately RMB1.0 million and RMB1.2 million respectively. As there were no significant additions and disposals of property, plant and equipment and prepaid land lease, the depreciation and amortisation for the seven months ended 31 July 2013 have slightly increased as compared with the seven months ended 31 July 2012.

### *Operating lease expense*

For the seven months ended 31 July 2012 and 2013, our Group's operating lease expense were approximately RMB0.2 million and RMB0.2 million respectively. As same properties are leased by the Group for the seven months ended 31 July 2012 and 2013, the operating lease expense for the seven months ended 31 July 2013 has no change as compared with the seven months ended 31 July 2012.

### *Other expenses*

The other expenses increased from approximately RMB3.8 million for the seven months ended 31 July 2012 to approximately RMB7.1 million for the seven months ended 31 July 2013, representing an increase of approximately RMB3.3 million or 88.6%. The increase in other expenses was mainly attributable to increase in business and other taxes and entertainment expenses which was in line with our business expansion. In addition, there was approximately RMB3.3 million of Listing expenses incurred during the seven months ended 31 July 2013.

### *Finance costs*

For the seven months ended 31 July 2012 and 2013, our Group's finance costs were approximately RMB0.4 million and nil respectively. Since the bank loans have been fully repaid during FY2012, there was no financial cost for the seven months ended 31 July 2013.

## FINANCIAL INFORMATION

### *Profit before income tax*

As a result of the above, our Group's profit before income tax for the period increased by approximately RMB9.5 million or 49.5%, from approximately RMB19.1 million for the seven months ended 31 July 2012 to approximately RMB28.5 million for the seven months ended 31 July 2013.

### *Income tax expense*

Our Group's income tax expense for the seven months ended 31 July 2013 was approximately RMB8.2 million, representing an increase of approximately RMB3.4 million or 71.6%, from approximately RMB4.8 million for the seven months ended 31 July 2012. The increase was in line with the increase of the Group's profit before income tax for the relevant period. Our Group's effective income tax rate for the seven months ended 31 July 2012 and 2013 were approximately 25.1% and 28.8% respectively. The increase in effective income tax rate was mainly due to more other expenses incurred (mainly Listing expenses) from the Group's HK subsidiary in Hong Kong which had no revenue during the period.

### *Profit for the period*

As a net effect of the above, our Group's profit for the period was approximately RMB20.3 million for the seven months ended 31 July 2013, representing an increase of approximately RMB6.0 million, or 42.1%, from approximately RMB14.3 million for the seven months ended 31 July 2012.

## FINANCIAL INFORMATION

### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we principally finance our business through capital contribution from shareholders, borrowings from banks and profits generated from our operations.

The following table sets out the selected cash flow information as extracted from our Group's consolidated statements of cash flows for the Track Record Period.

	<b>Year ended 31 December</b>		<b>Seven months ended</b>	
	<b>2011</b>	<b>2012</b>	<b>31 July</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<b>2012</b>	<b>2013</b>
			<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Operating profit before working capital changes	12,994	42,607	19,730	28,968
Net cash (used in)/generated from operating activities	(57,100)	(63,732)	(55,099)	15,152
Net cash generated from investing activities	22,549	47,770	34,412	12,542
Net cash generated from/(used in) financing activities	10,175	48,971	50,113	(10,000)
Net (decrease)/increase in cash and cash equivalents	(24,376)	33,009	29,426	17,694
Cash and cash equivalents at beginning of the year/period	40,168	15,792	15,792	48,996
Effect of foreign exchange rates, net	—	195	—	(57)
Cash and cash equivalents at end of the year/period	15,792	48,996	45,218	66,633

#### **Net cash flow from operating activities**

Our Group's cash inflows from operating activities are mainly attributable from our (i) guarantee loan services, (ii) pawn loan services, (iii) financial consultation services, (iv) entrusted loan services and (v) finance lease services to our customers.

For the year ended 31 December 2011, our Group recorded a net cash outflow from operating activities of approximately RMB57.1 million, which comprised operating profit before working capital changes of RMB13.0 million, adjusted for net working capital outflow of RMB71.9 million and interest received and income tax paid of RMB2.0 million and RMB0.2 million respectively.

The net working capital outflow was attributable to: (i) increase in loan and account receivables, net of deferred income of RMB50.7 million due mainly to expansion of our pawn loan and entrusted loan business; (ii) increase in prepayments and other receivables of RMB1.7 million; (iii) increase in restricted bank deposits of RMB16.5 million for expansion of our guarantee business and (iv) decrease in accruals, other payables and receipt in advance of RMB3.0 million.

## FINANCIAL INFORMATION

For the year ended 31 December 2012, our Group recorded a net cash outflow from operating activities of approximately RMB63.7 million, which comprised operating profit before working capital changes of RMB42.6 million, adjusted for net working capital outflow of RMB104.1 million and interest received and income tax paid of RMB1.4 million and RMB3.6 million respectively.

The net working capital outflow was attributable to: (i) increase in loan and account receivables, net of deferred income of approximately RMB99.7 million due mainly to increase of pawn loan, entrusted loan and finance lease receivables; (ii) increase in prepayments and other receivables of RMB9.2 million. The above was partly offset by the cash inflow from (iii) increase in accruals, other payables and receipt in advance of approximately RMB2.2 million and (iv) decrease in restricted bank deposits of approximately RMB2.7 million.

For the seven months ended 31 July 2013, our Group recorded a net cash inflow from operating activities of approximately RMB15.2 million, which comprised operating profit before working capital changes of RMB29.0 million, adjusted for net working capital outflow of RMB3.4 million and interest received and income tax paid of RMB0.8 million and RMB11.2 million respectively.

The net working capital outflow was attributable to: (i) increase in loan and account receivables, net of deferred income of approximately RMB29.5 million mainly due to significant increase in finance lease receivables; (ii) decrease in prepayments and other receivables of approximately RMB9.5 million; (iii) decrease in restricted bank deposits of approximately RMB2.6 million mainly due to net effect of early termination of the counter-guarantee transaction which resulted in the release of restricted bank deposits of approximately RMB22 million but partly offset by the significant increase of deposits due to expansion of our financing guarantee business; and (iv) increase in accruals, deposits received, other payables and receipt in advance of approximately RMB14.0 million mainly due to deposits of finance lease business of RMB10.5 million and payable to the designated suppliers for machineries of our finance lease customer of RMB3.3 million.

### **Net cash flow from investing activities**

For the year ended 31 December 2011, net cash of approximately RMB22.5 million was generated from investment activities and it was mainly attributable to (i) decrease in amount due from a director of RMB25.9 million due to repayment from director, Mr. Hong; (ii) decrease in time deposits of approximately RMB11 million due to more restricted bank deposits are used for guarantee business; (iii) proceeds from disposals of property, plant and equipment of approximately RMB0.1 million. The above was partly offset by (iv) purchase of property, plant and equipment (mainly building in Xiamen) and prepaid land lease of approximately RMB7.1 million and RMB5.8 million respectively, and (v) deposits paid for acquisition of property, plant and equipment of RMB1.6 million.

For the year ended 31 December 2012, net cash of approximately RMB47.8 million was generated from investment activities and it was mainly attributable to (i) decrease in amount due from a director of RMB51.1 million due to repayment from director, Mr. Hong; (ii) proceeds from disposals of property, plant and equipment of RMB0.1 million. The above was partly offset by (iii) purchase of property, plant and equipment (mainly furniture, fixtures and office equipment) and prepaid land lease of approximately RMB2.2 million and RMB0.3 million respectively, and (iv) increase in amount due from a related company of RMB0.9 million.

## FINANCIAL INFORMATION

For the seven months ended 31 July 2013, net cash of approximately RMB12.5 million was generated from investment activities and it was mainly attributable to (i) decrease in amount due from a related company due to repayment of approximately RMB5.8 million from the related company, Fujian VC; and (ii) decrease in amount due from a director of approximately RMB6.8 million due to repayment from director, Mr. Hong. The above was partly offset by (iii) purchase of property, plant and equipment of approximately RMB0.1 million.

### Net cash flow from financing activities

For the year ended 31 December 2011, net cash of approximately RMB10.2 million was generated from financing activities and it was mainly attributable to (i) increase of bank loans (net of repayment) of RMB8.4 million for acquisition of headquarter in Xiamen; and (ii) capital injection from owners of RMB2 million due to capital injection of Differ Import & Export. The above was partially offset by (iii) interest payment in the amount of RMB0.2 million during the year.

For the year ended 31 December 2012, net cash of approximately RMB49.0 million was generated from financing activities and it was mainly attributable to (i) capital injection from owners of RMB38.0 million due to capital injection of Differ Pawn and Differ Import & Export; and (ii) increase in amount due to shareholders of RMB19.9 million due to incorporation of Differ Lease. The above was partly offset by (iii) repayment of bank loans of RMB8.4 million; and (iv) interest payment in the amount of RMB0.5 million during the year.

For the seven months ended 31 July 2013, a net cash of approximately RMB10 million was used in financing activities and it was mainly attributable to deemed distribution to the owners in pursuant to Reorganisation, representing the registered capital of RMB10 million of Differ Import & Export.

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets out our outstanding financing guarantee amounts as at the end of each year/period during the Track Record Period and such balances were not accounted for as our Group's liabilities in our Group's consolidated statements of financial position:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding financing guarantee amount	246,590	408,310	484,100

## FINANCIAL INFORMATION

Our Group's consolidated statements of financial position as at 31 December 2011 and 2012 and 31 July 2013 are set out as follows:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10,774	13,044	12,187
Prepaid land lease	8,246	8,140	7,902
Restricted bank deposits	2,627	—	5,300
Loan and account receivables	—	3,130	37,638
Deposits paid for acquisition of property, plant and equipment	1,601	—	—
	<u>23,248</u>	<u>24,314</u>	<u>63,027</u>
<b>Current assets</b>			
Loan and account receivables	58,384	158,538	157,241
Prepayments and other receivables	3,059	12,306	2,805
Amount due from a related company	—	5,812	—
Amount due from a director	92,778	6,822	—
Restricted bank deposits	96,170	96,112	88,245
Cash and cash equivalents	15,792	48,996	66,633
	<u>266,183</u>	<u>328,586</u>	<u>314,924</u>
<b>Current liabilities</b>			
Accruals, other payables, receipt in advance and deferred income	4,143	10,164	15,571
Amount due to shareholders	—	19,875	19,562
Interest-bearing bank borrowings	1,086	—	—
Provision for taxation	3,717	10,481	7,501
	<u>8,946</u>	<u>40,520</u>	<u>42,634</u>
<b>Net current assets</b>	<u>257,237</u>	<u>288,066</u>	<u>272,290</u>
<b>Total assets less current liabilities</b>	<u>280,485</u>	<u>312,380</u>	<u>335,317</u>

<b>FINANCIAL INFORMATION</b>
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	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current liabilities</b>			
Deposits received and deferred income	246	—	12,350
Interest-bearing bank borrowings	7,318	—	—
	7,564	—	12,350
<b>Net assets</b>	<b>272,921</b>	<b>312,380</b>	<b>322,967</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	—	—	—
Reserves	272,921	312,380	322,967
<b>Total equity</b>	<b>272,921</b>	<b>312,380</b>	<b>322,967</b>

The following table sets out our outstanding financing guarantee amounts as at the end of each year/period during the Track Record Period and such balances were not accounted for as our Group's liabilities in our Group's consolidated statements of financial position:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding financing guarantee amount	246,590	408,310	484,100

### **Property, plant and equipment**

The property, plant and equipment were approximately RMB10.8 million, RMB13.0 million and RMB12.2 million as at 31 December 2011 and 2012 and 31 July 2013 respectively. It comprised buildings, leasehold improvement, motor vehicles and furniture, fixtures and office equipment located in Fujian Province of the PRC. The increase in property, plant and equipment as at 31 December 2012 was mainly due to increase of leasehold improvement for the new office in Xiamen, while the decrease from 31 December 2012 to 31 July 2013 was mainly due to depreciation charge for property, plant and equipment.

### **Prepaid land lease**

Prepaid land lease represented land portion of our Group's headquarters in Xiamen. The amount decreased as at 31 December 2012 and 31 July 2013 was mainly due to amortisation of prepaid land lease.



## FINANCIAL INFORMATION

### **Restricted bank deposits**

Total non-current and current restricted bank deposits were approximately RMB98.8 million, RMB96.1 million and RMB93.5 million as at 31 December 2011 and 2012 and 31 July 2013 respectively. Restricted bank deposits which have maturity date over one year were classified as non-current assets. For the guarantee business, the banks required our Group to make pledged deposits based on percentage, ranging from 10% to 20%, of the guaranteed principal amount as securities for the guarantee services provided to the customers. During the guaranteed period, our Group is not allowed to withdraw the deposits.

The restricted bank deposits as at 31 December 2012 has no significant change as compared with 31 December 2011, while the decrease in restricted bank deposits from 31 December 2012 to 31 July 2013 was mainly due to release of restricted bank deposits of approximately RMB22.2 million from our counter-guarantee service. We provided the counter-guarantee service to a related company which is owned indirectly by Ms. Shi and Mr. Cai by acting as the counter-guarantor for the customer in favour of a bank in Quanzhou in order to facilitate the customer in obtaining certain performance guarantee services from the bank. The guarantee amount was approximately RMB22.2 million and our Group should also place the equivalent amount to the bank as restricted deposits. The guarantee agreement was early terminated in April 2013 and the restricted bank deposits were released. The aforesaid decrease was partly offset by the significant increase of restricted bank deposits for financial guarantee transactions due to expansion of our financing guarantee business.

### **Deposits paid for acquisition of property, plant and equipment**

Deposits paid for acquisition of property, plant and equipment were approximately RMB1.6 million, nil and nil as at 31 December 2011 and 2012 and 31 July 2013 respectively. The amount represented the prepayment for the leasehold improvement of our Group's headquarters in Xiamen as at 31 December 2011.

### **Loan and account receivables**

Total non-current and current loan and account receivables were approximately RMB58.4 million, RMB161.7 million and RMB194.9 million as at 31 December 2011 and 2012 and 31 July 2013 respectively. Loan and account receivables comprised (i) principals of pawn loans, (ii) principals of entrusted loans, (iii) principals of finance leases and (iv) accounts receivables of interest and the consultation fee and guarantee fee receivables. Pawn loan, entrusted loan and finance lease principal receivables are recognised immediately when the loans are drawn down. Interest receivables are accrued with reference to the principal outstanding at the effective interest rate applicable and must be settled monthly. Consultation fee receivables are recognised when the services rendered.

## FINANCIAL INFORMATION

The detail breakdown is as follows:

	As at 31 December		As at 31 July	Subsequent settlement of receivables balance outstanding as at 31 July 2013 up to the Latest Practicable Date	
	2011	2012	2013	RMB'000	% settled
	RMB'000	RMB'000	RMB'000		
<b>Current assets</b>					
Pawn loan receivables, gross and net ( <i>note</i> )	9,930	33,250	35,850	7,750	21.6
Entrusted loan receivables, gross and net ( <i>note</i> )	43,717	120,000	97,000	64,000	66.0
Finance lease receivables, gross and net ( <i>note</i> )	—	4,048	23,244	7,388	31.8
Account receivables, gross and net ( <i>note</i> )	<u>4,737</u>	<u>1,240</u>	<u>1,147</u>	<u>1,147</u>	100.0
	<u>58,384</u>	<u>158,538</u>	<u>157,241</u>	<u>80,285</u>	51.1
<b>Non-current assets</b>					
Finance lease receivables, gross and net ( <i>note</i> )	<u>—</u>	<u>3,130</u>	<u>37,638</u>	<u>—</u>	—

*Note:* In accordance with Hong Kong Financing Reporting Standards, an entity should disclose an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period. “Gross” represented the principal amount of loans and lease receivables, while “net” represented the amount of loans and lease receivables after provision for impairment. Since the Directors are of the opinion that no provision for impairment is necessary, the gross and net balances of loan and lease receivables are the same, and are presented as “gross and net” accordingly.

Our loan and account receivables increased from approximately RMB58.4 million as at 31 December 2011 to RMB161.7 million as at 31 December 2012 mainly due to the net effect of the following reasons:

- (i) Increase in pawn loan principal receivables from approximately RMB9.9 million as at 31 December 2011 to RMB33.3 million as at 31 December 2012. Due to the capital injection of RMB20 million to Differ Pawn during the year ended 31 December 2012, the average outstanding pawn loan increased from RMB0.6 million as at 31 December 2011 to RMB2.6 million as at 31 December 2012.
- (ii) Increase in entrusted loan principal receivables from approximately RMB43.7 million as at 31 December 2011 to RMB120 million as at 31 December 2012. Since our Group started the entrusted loan business from April 2011, there were only four outstanding entrusted loans in average loan amount of RMB10.9 million as at 31 December 2011. As at 31 December 2012, there were six outstanding entrusted loans in average loan amount of RMB20.0 million due to expansion of our entrusted loan business.

## FINANCIAL INFORMATION

- (iii) Increase in finance lease principal receivables from nil as at 31 December 2011 to RMB7.2 million as at 31 December 2012 due to the fact that we commenced our finance lease business in the second half of 2012. There was only one sale-and-lease-back contract signed with a third party with principal amount of RMB8.5 million which will be repayable in 24 installments.
- (iv) Decrease in account receivables from approximately RMB4.7 million as at 31 December 2011 to approximately RMB1.2 million as at 31 December 2012 due to decrease of interest receivables from approximately RMB1.3 million to approximately RMB1.0 million and the consultation fee receivables decreased from approximately RMB3.4 million to RMB0.2 million.

Our loan and account receivables decreased from approximately RMB161.7 million as at 31 December 2012 to RMB194.9 million as at 31 July 2013 mainly due to the net effect of the following reasons:

- (i) Increase in pawn loan receivables from approximately RMB33.3 million as at 31 December 2012 to RMB35.9 million as at 31 July 2013 mainly due to increase in real estate pawn loans receivables from approximately RMB10.2 million as at 31 December 2012 to RMB20.4 million as at 31 July 2013.
- (ii) Decrease in entrusted loan receivables from approximately RMB120 million as at 31 December 2012 to RMB97 million as at 31 July 2013. Although the average entrusted loan amount increased from RMB20 million as at 31 December 2012 to RMB32.3 million as at 31 July 2013, there were only three outstanding entrusted loans as at 31 July 2013 as compared with six outstanding entrusted loans as at 31 December 2012.
- (iii) Increase in finance lease principal receivables from approximately RMB7.2 million as at 31 December 2012 to RMB60.9 million due to the fact that we have four new finance lease transactions during the seven months ended 31 July 2013 as compared with 1 finance lease transactions for the corresponding period of last year. The principal amount of such four finance lease transactions ranged from RMB3 million to RMB29.2 million and will be repayable by 36 installments.
- (iv) Decrease in account receivables from approximately RMB1.2 million as at 31 December 2012 to RMB1.1 million as at 31 July 2013 due to net effect of (a) increase in interest receivables from approximately RMB1.0 million to RMB1.1 million and (b) the consultation fee receivables decreased from approximately RMB0.2 million to Nil.

## FINANCIAL INFORMATION

Based on the loan commencement date set out in the relevant contracts, ageing analysis of our Group's loan and account receivables as of each reporting date is as follows:

	<b>As at 31 December</b>				<b>As at 31 July</b>	
	<b>2011</b>		<b>2012</b>		<b>2013</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
0 to 30 days	3,357	5.8	48,790	30.2	47,647	24.4
31 to 90 days	24,130	41.3	72,300	44.7	77,515	39.8
91 to 180 days	25,180	43.1	40,578	25.1	48,250	24.8
Over 180 days	<u>5,717</u>	<u>9.8</u>	<u>—</u>	<u>—</u>	<u>21,467</u>	<u>11.0</u>
	<u><u>58,384</u></u>	<u><u>100.0</u></u>	<u><u>161,668</u></u>	<u><u>100.0</u></u>	<u><u>194,879</u></u>	<u><u>100.0</u></u>

Ageing analysis of our Group's loan and account receivables, prepared based on due date, that were not impaired is as follows:

	<b>As at 31 December</b>				<b>As at 31 July</b>	
	<b>2011</b>		<b>2012</b>		<b>2013</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Neither past due nor impaired	32,667	56.0	161,668	100.0	194,879	100.0
1 to 90 days past due	<u>25,717</u>	<u>44.0</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>58,384</u></u>	<u><u>100.0</u></u>	<u><u>161,668</u></u>	<u><u>100.0</u></u>	<u><u>194,879</u></u>	<u><u>100.0</u></u>

Loan and account receivables that were past due but not impaired relate to customers that have good track record and collateral with our Group. Based on past experience, our Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

### **Prepayments and other receivables**

Prepayments and other receivables were approximately RMB3.1 million, RMB12.3 million and RMB2.8 million as at 31 December 2011 and 2012 and 31 July 2013 respectively. As at 31 December 2011, the amount mainly represented refundable deposits of leasehold improvement of RMB2 million and other miscellaneous prepayments. The balance was unsecured, interest free and subsequently settled during FY2012.

As at 31 December 2012, the amount mainly represented other receivable from an independent third party company amounted to approximately RMB10.5 million and other miscellaneous prepayments. Our Group signed a purchase agreement with an independent third party company to purchase machineries and originally planned to lease them to a customer for our finance lease business. Our Group has paid approximately RMB10.5 million as prepayment. However, the purchase agreement was subsequently cancelled in late 2012 and the prepaid amount has been fully refunded in January 2013.

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As at 31 July 2013, the amount mainly represented the prepayments of Listing expenses of approximately RMB1.9 million (that are directly attributable to the issue of new Shares and will therefore be charged against equity upon Listing) and other miscellaneous prepayments and receivables.

### **Amount due from a Director**

Amount due from a Director were approximately RMB92.8 million, RMB6.8 million and nil as at 31 December 2011 and 2012 and 31 July 2013 respectively. As at 31 December 2011 and 2012, the amount represented the cash advance to Mr. Hong. The decrease from RMB92.8 million as at 31 December 2011 to RMB6.8 million as at 31 December 2012 and further decrease to nil as at 31 July 2013 was due to the repayment of amount due from Mr. Hong during the relevant periods.

### **Amount due from a related company**

Amount due from a related company were approximately nil, RMB5.8 million and nil as at 31 December 2011 and 2012 and 31 July 2013 respectively. As at 31 December 2012, the amount represented outstanding balance with Fujian VC. Fujian VC, a former subsidiary of the Group, was disposed at 7 May 2012 pursuant to the Reorganisation.

### **Accruals, deposits received, other payables, receipt in advance and deferred income**

Total current and non-current accruals, deposits received, other payables, receipt in advance and deferred income were approximately RMB4.4 million, RMB10.2 million and RMB27.9 million as at 31 December 2011 and 2012 and 31 July 2013 respectively. Accruals, deposits received, other payables and receipt in advance mainly comprised deposits from our finance lease customers, payables to the designated suppliers for machineries of our finance lease customers, business and other tax payables, various payables such as salaries and Listing expenses and receipt in advance of service income.

The increase in amount by approximately RMB5.8 million as at 31 December 2012 was mainly due to (i) accruals and payable of Listing expenses of approximately RMB1.3 million as at 31 December 2012; and (ii) increase in deferred income from approximately RMB3.3 million as at 31 December 2011 to approximately RMB6.8 million as at 31 December 2012 mainly due to expansion of our financing guarantee business.

The increase in amount by approximately RMB17.8 million as at 31 July 2013 was mainly due to (i) deposits from our new finance lease customers amounted to RMB10.4 million as at 31 July 2013; (ii) payables to the designated suppliers for machineries of our finance lease customer of approximately RMB3.3 million; and (iii) increase in deferred income of approximately RMB3.7 million as at 31 July 2013 due to further expansion of our financing guarantee and finance lease businesses. Deferred income and deposits from finance lease customers which have maturity date over one year were classified as non-current liabilities.

### **Amount due to shareholders**

Amount due to shareholders were approximately nil, RMB19.9 million and RMB19.6 million as at 31 December 2011 and 2012 and 31 July 2013 respectively. The amount due to shareholders represented the capital contribution to the registered share capital of Differ Lease of approximately RMB19.6

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million (equivalent to HK\$24.4 million). Total registered capital of Differ Lease is HK\$128 million and the remaining capital of HK\$103.6 million shall be contributed by Differ Hong Kong on or before 18 April 2014.

The amount due to shareholders of RMB19.6 million as at 31 July 2013 was fully capitalised prior to Listing.

### **Interest-bearing bank borrowings**

Total current and non-current interest-bearing bank borrowings were approximately RMB8.4 million, nil and nil as at 31 December 2011 and 2012 and 31 July 2013 respectively. As at 31 December 2011, the loans were borrowed from a PRC bank to finance the acquisition of Group's headquarter in Xiamen. The loans have been fully settled during the year ended 31 December 2012.

As at the Latest Practicable Date, our Group did not have any unutilized bank loans. Our Directors consider that it has sufficient working capital for its operations even without any unutilized banking facilities. Our Directors further consider that our Group will be able to obtain banking facilities if it wishes given that (i) our Group has previously obtained bank borrowings during the Track Record Period (although such bank borrowings were secured by, among other things, personal guarantee from Mr. Hong); (ii) our Group decided to fully repay such bank borrowings during the year ended 31 December 2012 as our Directors considered that our Group had sufficient cash and working capital and there was no need to incur interest expenses for unnecessary bank borrowings; and (iii) in our Group's guarantee business, our Group is able to obtain various maximum guarantee limit from cooperating banks even without any personal guarantee provided by our Controlling Shareholders.

In addition, in respect of some of our Group's businesses, the amount of loans and guarantees that our Group is allowed to grant to its customers is restricted by the relevant laws and regulations to be within a certain multiple of the net asset value or registered capital of the relevant operating subsidiary of our Company. For instance, it is a requirement that the outstanding financing guarantee amount of a financing guarantee company shall not exceed 10 times of its net assets. In addition, the total outstanding amount of pawn loans secured by real estates may not exceed the registered capital of the pawn loan provider. Due to such regulatory requirements, our Group prefers equity financing (which can increase its registered capital and net asset value and therefore allow our Group to expand its loan and guarantee business) rather than debt financing (which will not increase its registered capital or net asset value).

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### SUMMARY OF KEY FINANCIAL RATIOS

Set out below is the summary of the key financial ratios of our Group during the Track Record Period:

	As at/ For the year ended 31 December		As at/ For the seven months ended 31 July	
	2011	2012	2012	2013
	(unaudited)			
Revenue growth <sup>(1)</sup>	N/A	165.6%	N/A	49.9%
Net profit growth <sup>(2)</sup>	N/A	210.8%	N/A	42.1%
Net profit margin <sup>(3)</sup>	47.3%	55.4%	55.0%	52.2%
Return on equity <sup>(4)</sup>	3.7%	10.0%	4.8%	6.3%
Return on total assets <sup>(5)</sup>	3.5%	8.9%	4.3%	5.4%
Current ratio <sup>(6)</sup>	29.8	8.1	N/A	7.4

*Notes:*

1. Revenue growth is calculated as the difference between the revenue of respective years/periods and the revenue of previous corresponding years/periods divided by the revenue of previous corresponding years/periods.
2. Net profit growth is calculated as the difference between the net profit of respective years/periods and the net profit of previous corresponding years/periods divided by the net profit of previous corresponding years/periods.
3. Net profit margin is calculated as the profit for year/period attributable to the owners of the Company divided by the revenue of the respective years/periods.
4. Return on equity is calculated as the profit attributable to the owners of the Company divided by the equity attributable to the owners of the Company of the respective years/periods.
5. Return on total assets is calculated as the profit attributable to the shareholders of the Company divided by the total assets of the Group of the respective years/periods.
6. Current ratio is calculated as the total current assets divided by the total current liabilities as at the respective dates.

Details of revenue growth and net profit growth of our Group are set out in the paragraphs headed “Revenue” and “Profit for the year” under the subsection headed “Year ended 31 December 2012 compared with year ended 31 December 2011” and “Revenue” and “Profit for the period” under subsection headed “Seven months ended 31 July 2013 compared with seven months ended 31 July 2012” above in this section.

#### *Net profit margin*

Our Group’s net profit margin increased from approximately 47.3% for the year ended 31 December 2011 to approximately 55.4% for the year ended 31 December 2012. Our revenue increased by approximately 165.6% from RMB21.2 million for the year ended 31 December 2011 to RMB56.4 million for the year ended 31 December 2012. By contrast, our profit for the year increased by 210.8% from RMB10.1 million for the year ended 31 December 2011 to RMB31.2 million for the year ended 31 December 2012. Due to the business expansion and workdone for the Listing, there were sharp increase

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in employee benefit expenses, depreciation and amortisation, operating expenses, Listing expenses and income tax expenses. However, the increase of the revenue is more than the total amounts of the above-mentioned expenses, the net profit margin increased accordingly.

Our Group's net profit margin decreased from approximately 55.0% for the seven months ended 31 July 2012 to approximately 52.2% for the seven months ended 31 July 2013. Although our revenue increased by approximately 49.9% from approximately RMB26.0 million for the seven months ended 31 July 2012 to approximately RMB39.0 million for the seven months ended 31 July 2013, our other expenses increased by a more-than-proportionate percentage of approximately 88.6% from RMB3.8 million for the seven months ended 31 July 2012 to approximately RMB7.1 million for the seven months ended 31 July 2013 due mainly to Listing expenses incurred.

### *Return on equity and return on total assets*

Our Group's return on equity increased from approximately 3.7% for the year ended 31 December 2011 to approximately 10.0% for the year ended 31 December 2012 and our Group's return on total assets increased from approximately 3.5% for the year ended 31 December 2011 to approximately 8.9% for the year ended 31 December 2012. The significant increase of return on equity and return on total assets were mainly due to the remarkable growth and expansion of financial consultation business which contributed to a substantial increase in revenue and net profit for the year ended 31 December 2012. We did not require substantial amount of capital to finance our financial consultation business.

Our Group's return on equity increased from approximately 4.8% for the seven months ended 31 July 2012 to approximately 6.3% for the seven months ended 31 July 2013 and our Group's return on total assets increased from approximately 4.3% for the seven months ended 31 July 2012 to approximately 5.4% for the seven months ended 31 July 2013. The significant increase in return on equity and return on total assets were mainly due to our tremendous growth in our turnover for the seven months ended 31 July 2013 as compared with the corresponding period of the preceding year, whereas our equity and total assets only increased steadily during the same period.

### *Current ratio*

Our Group's current ratio decreased from approximately 29.8 as at 31 December 2011 to approximately 8.1 as at 31 December 2012. The significant decrease of current ratio was mainly due to significantly increase of amount due to shareholders from nil as at 31 December 2011 to RMB19.9 million as at 31 December 2012 for the contribution of registered capital in Differ Lease and increase of provision of taxation from approximately RMB3.7 million as at 31 December 2011 to approximately RMB10.5 million as at 31 December 2012.

Our Group's current ratio decreased from approximately 8.1 as at 31 December 2012 to approximately 7.4 as at 31 July 2013. The decrease in current ratio was mainly attributable to (i) significant decrease of amounts due from a related company and a director of RMB12.6 million as a result of repayment from Fujian VC and Mr. Hong respectively, and (ii) significant increase of accruals, other payables, receipt in advance and deferred income of approximately RMB5.4 million due to significant increase of deferred income of guarantee business and payables to designated suppliers for machineries of our finance lease customer.



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### COMPARISON OF OUR GROUP'S PERFORMANCE AGAINST COMPARABLE COMPANIES

Our Directors have selected China Success Finance Group Holdings Limited (“**China Success**”) (stock code: 3623), China Huirong Financial Holdings Limited (“**China Huirong**”) (stock code: 1290), Flying Financial Service Holdings Limited (“**Flying Financial**”) (stock code: 8030), China Assurance Finance Group Limited (“**China Assurance**”) (stock code: 8090) and Credit China Holdings Limited (“**Credit China**”) (stock code: 8207) as comparable companies (the “**Comparable Companies**”) for the purpose of comparing and analyzing our financial performance for the year ended 31 December 2012. Although the scale of operations, geographical markets and future prospects of China Success, China Huirong, Flying Financial, China Assurance and Credit China and their averages (the “**Industry Average**”) may not be directly comparable to those of our Group, our Directors consider that the business natures of the Comparable Companies are similar to ours and that the Comparable Companies may serve as a reference against which our financial and operating performance can be gauged. It should be noted that the business component, scale of operations, market and future prospects of our Group are not exactly the same as those of the Comparable Companies and as such, the Comparable Companies should be used to provide a general reference only.

For the year ended 31 December 2012	Our Group	China Success	China Huirong	Flying Financial	China Assurance	Credit China	Industry Average
Revenue growth	165.6%	6.7%	53.0%	9.0%	(46.8%)	16.9%	7.8%
Net profit growth	210.8%	38.1%	45.5%	(15.0%)	(150.4%)	13.1%	(13.7%)
Net profit margin	55.4%	83.4%	46.1%	43.6%	N/A	54.3%	56.8%
Return on equity	10.0%	11.8%	15.9%	11.6%	N/A	21.7%	15.3%
Return on total assets	8.9%	10.2%	11.1%	10.7%	N/A	12.4%	11.1%
Current ratio	8.1	6.7	3.3	11.9	3.1	4.2	5.8

#### *Revenue growth*

Our Group's revenue growth was significantly higher than those of the Comparable Companies and the Industry Average. The strong revenue growth of our Group could be attributable to organic growth and strong demand for our services, in particular our Group's pawn loans, entrusted loans and financial consultation services, as our Group recorded increases in its number of customers and number of contracts for each of our business segments. Besides, the revenue growth of our Group being higher than those of the Comparable Companies may be attributable to the fact that we had the smallest revenue base for the year ended 31 December 2011 as compared to the Comparable Companies where our Group's revenue for the year ended 31 December 2011 was approximately RMB21.2 million while the revenue of China Success, China Huirong, Flying Financial, China Assurance and Credit China for the year ended 31 December 2011 were approximately RMB53.5 million, RMB136.2 million, RMB86.8 million, RMB45.1 million and RMB258.7 million respectively.

#### *Net profit growth*

Our Group's net profit growth was significantly higher than those of the Comparable Companies and the Industry Average, which was mainly attributable to our strong revenue growth for the year ended 31 December 2012.

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### *Net profit margin*

The net profit margin of our Group was generally in line with that of each of the Comparable Companies. The calculation of net profit margin of China Assurance is not applicable as China Assurance incurred net loss for the year ended 31 December 2012.

### *Return on equity and return on total assets*

Our Group's return on equity and return on total assets were lower than the Industry Average. As compared with Flying Financial and Credit China, a lesser proportion of our Group's revenue was generated from financial consultation business. Since substantial amount of capital is not required to finance the financial consultation business, the return on equity of Flying Financial and Credit China were higher. Also, the return on equity of Credit China and China Huirong is higher than that of our Group and Flying Financial, which could be mainly due to the fact that China Huirong and Credit China financed their operations by a larger amount of borrowings, which amounted to approximately RMB220.5 million and RMB301.6 million as at 31 December 2012 (comprising borrowings and corporate bonds), representing approximately 25.4% and 22.8% of their total assets respectively, while our Group had no borrowings as at 31 December 2012. In addition, our Group had relatively large amount of loan receivables and restricted bank deposits due to the business nature of pawn loan, entrusted loan, finance lease and financing guarantee. As a result, the return on equity and return on total assets of our Group was lower than those of the Comparable Companies.

### *Current ratio*

The current ratio of our Group was higher than the Industry Average, which was mainly attributable to the relatively high level of net current assets of our Group. The current ratio of China Assurance was the lowest. Since the core business of China Assurance is the provision of guarantee service and due to its business nature, China Assurance had no loan receivables and it has a relatively low level of cash and receivables as compared with our Group, Flying Financial and Credit China. Despite the fact that the core business of China Success is also the provision of guarantee service, China Success is operating in a larger scale as compared to China Assurance. Therefore, China Success had to maintain a higher level of cash and pledged bank deposits for the financial guarantees which they provide to customers for their borrowing from banks, resulting in a higher level of current assets. The current ratio of China Huirong was substantially lower than that of our Group and Flying Financial, which could be mainly due to its relatively larger amount of borrowings, which amounted to approximately RMB220.5 million as at 31 December 2012, representing approximately 25.4% of its total asset. The current ratio of Credit China was also substantially lower than that of our Group and Flying Financial, which could be mainly due to the fact that Credit China had relatively higher amount of current liabilities as a result of its significantly higher amount of accruals and other payables (consisting mainly of refundable deposits received from customers and secured deposits received) and its borrowings (amounting to RMB48.8 million as at 31 December 2012 or 15.9% of its current liabilities). On the contrary, our Group had no such payables or borrowings as at 31 December 2012.

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## FINANCING GUARANTEE

The following table sets out our outstanding financing guarantee amounts as at the end of each year/period during the Track Record Period and such balances were not accounted for as our Group's liabilities in our Group's consolidated statements of financial position:

	<b>As at 31 December 2011 RMB'000</b>	<b>As at 31 December 2012 RMB'000</b>	<b>As at 31 July 2013 RMB'000</b>
Outstanding financing guarantee amount	246,590	408,310	484,100

Such outstanding financing guarantee amounts are not disclosed as contingent liabilities in the accountants' report set out in Appendix I to this prospectus because:

- (i) paragraph IN1 of HKAS 37 "Provision, contingent liabilities and contingent assets" states that "*HKAS 37 prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets except for those covered by another accounting standard*";
- (ii) paragraph 2 of HKAS 37 "Provision, contingent liabilities and contingent assets" further states that "*This Standard does not apply to financial instruments (including guarantees) that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement*";
- (iii) paragraph 9 of HKAS 39 "Financial Instruments: Recognition and Measurement" defines that "*A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.*" Our Group's financing guarantee contracts meet such definition stated in paragraph 9 of HKAS 39 and as such, our Group's financing guarantee contracts are within the scope of HKAS 39;
- (iv) pursuant to paragraph 2 of HKAS 37, since our Group's financing guarantee contracts are within the scope of HKAS 39, HKAS 37 does not apply to our Group's financing guarantee contracts;
- (v) HKAS 39 does not prescribe any requirements for the disclosure of contingent liabilities in the accountants' report; and
- (vi) accordingly, since HKAS 37 (which prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets except for, among others, those covered by another accounting standard) does not apply and HKAS 39 does not prescribe any requirements for the disclosure of contingent liabilities, no disclosure of contingent liabilities in respect of the financing guarantees issued by us is necessary in the accountants' report.

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### INDEBTEDNESS

As at 31 October 2013, being the latest practicable date for the purpose of our indebtedness statement, our Group had outstanding indebtedness of (i) amount due to shareholders of approximately RMB19.6 million, which were unsecured, interest free and was fully capitalised after the Track Record Period; and (ii) total guarantee amounts of approximately RMB525.8 million, which were secured by the collateral of the customers of RMB1,030.8 million.

Save as disclosed above, our Group did not have any other outstanding mortgages, charges, debentures, bank overdrafts, loan, liabilities under acceptance or other indebtedness, hire purchase and finance lease commitments or any other guarantees or other material contingent liabilities.

### CAPITAL EXPENDITURE

Our Group's capital expenditure for the Track Record Period mainly represented the acquisition cost of buildings and prepaid land lease in Xiamen. Our Group's capital expenditures for the two years ended 31 December 2012 and the seven months ended 31 July 2013 were approximately RMB18.0 million, RMB4.1 million and RMB0.1 million respectively. We expect that no material capital expenditure will be incurred from the Latest Practicable Date to the year ending 31 December 2013.

### CONTRACTUAL COMMITMENTS

#### (i) Operating lease commitments

Future minimum rental payable under non-cancellable operating lease of our Group in respect of buildings at the end of each reporting period are as follows:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	229	95	44
Within two to fifth year	199	—	—
	428	95	44

Our Group leases certain properties under operating leases. The leases run for an initial period of 1 to 5 years, with options to renew the lease terms at the expiry dates or at dates as mutually agreed between our Group and the respective landlords. None of these leases include any contingent rentals.

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**(ii) Capital commitments**

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commitments for the acquisition of property, plant and equipment:			
Contracted, but not provide for	589	—	19

**(iii) Other commitments**

As at each reporting date, our Group entered into certain unexecuted loan agreements with independent third parties. Based on contracted amounts of the loan agreements, our Group had the following commitments:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2011</b>	<b>2012</b>	<b>31 July</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provide for	—	20,000	—

**MARKET RISKS**

**Interest rate risk**

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of the changes in market interest rates. Our Group's bank balances and restricted bank deposits were bearing floating interest rate. Our Group also borrows loans issued at floating interest rates. Exposure to floating interest rate exists when there are unexpected adverse interest rate movements. Our Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no undue exposures to significant interest rate movements and rates are approximately fixed when necessary.

**Credit risk**

It is our Group's policy that all customers who wish to obtain loans from our Group are subject to management review. Receivable balances are monitored on an ongoing basis and our Group's exposure to bad debts is not significant. Our Group holds collaterals directly or indirectly to cover its risks associated with loan and account receivables.

All collateral of pawn loan receivables were held directly by our Group. For entrusted loan receivables, our Group holds collateral of the customers directly or indirectly through bank. In case of default, the bank would assist our Group to recover the loan. Based on the arrangement of our Group and the bank, the bank may apply to the court for enforcement of the loan agreement and sale of the collateral.

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### **Liquidity risk**

Management of our Group monitors current and expected liquidity requirements to ensure that our Group maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Our Directors confirmed that our Group did not have any material defaults in payment of trade and non-trade payables and bank borrowings and/or breaches of the finance covenants during the Track Record Period.

### **DIVIDEND AND DIVIDEND POLICY**

Our Group did not declare any dividends to shareholders during the Track Record Period. Shareholders will be entitled to receive dividends as declared by our Board, who will consider various factors including the financial condition, capital requirements and earnings of our Group, in order to determine in its discretion the payment and amount of any such dividends.

Dividends may be paid out of our distributable profits as permitted under the relevant laws. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

### **Impact of Listing expenses**

Our Directors are of the view that the financial results of our Group for the year ending 31 December 2013 will be affected by the non-recurring expenses in relation to the Listing. The estimated expenses in relation to the Listing are approximately HK\$19.5 million (or RMB15.6 million), of which approximately HK\$7.9 million (or RMB6.3 million) is directly attributable to the issue of new Shares to the public and is to be accounted for as a deduction from equity. The remaining estimated Listing expenses of approximately HK\$3.5 million (or RMB2.8 million), HK\$4.1 million (or RMB3.3 million) and HK\$4.0 million (or RMB3.2 million) were or will be charged to the profit and loss account of our Group for the year ended 31 December 2012, the seven months ended 31 July 2013 and the five months ending 31 December 2013 respectively.

Accordingly, the financial results of our Group for the year ending 31 December 2013 are expected to be affected by the estimated expenses in relation to the Listing. Our Directors would like to emphasise that such listing expense is a current estimate for reference only and the final amount to be charged to the profit and loss account of the Group for the year ending 31 December 2013 is subject to change.

### **WORKING CAPITAL**

Our Directors are of the opinion that, taking into consideration of the financial resources presently available to our Group, including its operating cash flow and the expected proceeds from the Placing, we have sufficient working capital for our present working capital requirements for at least the next twelve months from the date of this prospectus.

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The following table sets out our Group's current assets and current liabilities as at 31 October 2013:

	<b>As at 31 October 2013</b> <i>RMB'000</i>
<b>Current assets</b>	
Loan and account receivables	139,913
Prepayments and other receivables	2,883
Restricted bank deposits	117,634
Cash and cash equivalents	<u>68,469</u>
	<u>328,899</u>
<b>Current liabilities</b>	
Accruals, other payables, receipt in advance and deferred income	16,440
Amount due to shareholders	19,562
Provision for taxation	<u>6,528</u>
	<u>42,530</u>
<b>Net current assets</b>	<u><u>286,369</u></u>

### DISCLOSURE PURSUANT TO CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation pursuant to Rules 17.15 to 17.21 of the GEM Listing Rules.

### DISTRIBUTABLE RESERVES

Our Company was incorporated on 4 December 2012. In the opinion of our Directors, there were no distributable reserves available for distribution to shareholders as at 31 July 2013.

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### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Placing on the net tangible assets of our Group attributable to owners of our Company as if the Placing had taken place on 31 July 2013. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group attributable to owners of our Company had the Placing been completed as of 31 July 2013 or at any future dates.

Based on the Placing Price of HK\$0.78 per Share	Unadjusted audited consolidated net tangible assets attributable to the owners of our Company as at 31 July 2013 <i>RMB'000</i> <i>(note 1)</i>	Estimated net proceeds from the Placing <i>RMB'000</i> <i>(note 2)</i>	Unaudited pro forma adjusted net tangible assets attributable to the owners of our Company <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets per Share	
				<i>RMB</i> <i>(note 3)</i>	<i>HK\$</i> <i>(note 6)</i>
	<u>322,967</u>	<u>146,074</u>	<u>469,041</u>	<u>0.47</u>	<u>0.59</u>
	<u>322,967</u>	<u>110,974</u>	<u>433,941</u>	<u>0.43</u>	<u>0.54</u>

*Notes:*

- (1) The unadjusted audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 July 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Placing are based on the indicative Placing Price of HK\$0.60 and HK\$0.78 per Share respectively, after deduction of the underwriting fees and other related expenses payable by our Company. No account has been taken of any Shares which may be issued upon the exercise of Over-allotment Option or options that may be granted under the Share Option Scheme.
- (3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchase by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.



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- (4) The property and land interests of our Group as at 31 October 2013 were valued by Asset Appraisal Limited. Details of the valuation in respect of these property and land interests were set out in Appendix III to this prospectus.

By comparing the above valuation and the unaudited net book values of the buildings and land use rights as at 31 October 2013, the revaluation surplus of the property and land interest of approximately RMB13.3 million will not be included in the Group's financial information for the year ending 31 December 2013.

Had all the property and land interests been stated at such valuations, an additional depreciation or amortisation of approximately RMB0.67 million would be charged for the year ending 31 December 2013.

- (5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of our Group entered into subsequent to 31 July 2013.
- (6) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong Dollars at an exchange rate of RMB0.8 to HK\$1.0, being the same exchange rate used in this prospectus.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that after the end of the Track Record Period and up to the date of this prospectus, there was no material adverse change in our financial or trading position and there was no event that would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus. Specifically, our Directors confirm that after the end of the Track Record Period and up to the date of this prospectus, there was no material decrease in the valuation of the collaterals provided to our Group; our Group was not aware of any event or circumstance that would materially affect the abilities of guarantors or counter-guarantors to honour their guarantees provided to our Group; and there was no provision for impairment for loan and account receivables.

## FUTURE PLANS AND USE OF PROCEEDS

### BUSINESS OBJECTIVE AND STRATEGIES

Our business objective is to become one of the leading financing solution providers in Fujian Province. We plan to increase our market share and enhance our market position in Fujian Province for our business.

We intend to achieve our business objective by adopting the following strategies:

#### **1. Further development of our finance lease business**

Our Group has commenced our finance lease business through our operating arm Differ Lease since 2012. As at the Latest Practicable Date, we had entered into six finance lease transactions with six corporate customers in total principal amount of approximately RMB73 million. Our Directors consider that finance lease service is a short-term financing alternatives favoured by SMEs customers in Fujian Province and the expansion of our finance lease business is consistent with our business objective and is in the interest of the Company and the Shareholders as a whole. The registered capital of Differ Lease is HK\$128 million, of which HK\$24.4 million was contributed on 6 July 2012. The remaining HK\$103.6 million is required to be contributed within 2 years from the date of establishment of Differ Lease (i.e. within 2 years from 19 April 2012). We intend to contribute a further HK\$35.6 million of the registered capital of Differ Lease by the end of 2013 by using our own internal resources. It is expected that upon Listing, the remaining outstanding amount of registered capital of Differ Lease will be HK\$68 million. We intend to fully contribute such amount by applying approximately 44% of the net proceeds (based on the Placing Price of HK\$0.69 per Share being the mid-point of the stated range of the Placing Price) from the Placing.

After contributing the funds into Differ Lease, the funds will be used for providing financing to our customers in the form of finance lease services. Our Directors believe that since Fujian Province is our home market, we can maximise the use of our resources by increasing our market share for finance lease services.

#### **2. Strengthening of our entrusted loan business**

In light of the growth of the PRC economy and the anticipated growing demand for financing services to PRC customers, our Directors plan to expand our entrusted loan business by injecting addition funds into Differ Holding or Differ VC. We intend to apply approximately 30% of our proceeds for further development of our entrusted loan business.

#### **3. Enhancement of our guarantee services**

The size of our Group's guarantee business is restricted by the size of our Group's net assets in accordance with the Interim Measures. As at the Latest Practicable Date, the registered capital of Differ Guarantee was RMB150 million. Pursuant to the Interim Measures, the maximum guarantee amount for each individual customer should not exceed 10% of the net assets of Differ Guarantee.

## FUTURE PLANS AND USE OF PROCEEDS

Differ Guarantee will continue to be our financing guarantee arm to carry out our financing guarantee business in Fujian Province. Since the financing guarantee business is to provide a guarantee on the amount of loan of a third party borrower from commercial banks, the fees we charged are not as high as those we charged for secured financings. However, Differ Guarantee, as a licensed loan guarantee provider, can provide financing guarantees of up to ten times of its registered capital according to the relevant rules and regulations of the PRC.

After the Placing, we will negotiate with banks to increase our restricted bank deposits by making use of the proceeds from the Placing so as to increase the guarantee limit in banks. We also plan to increase our market share for guarantee services in our home markets in Fujian Province by expanding our marketing network. We plan to increase the restricted bank deposits and the number of our staff by 1 to 2 during our course of expansion in the second half of 2014. We intend to apply approximately 20% of our proceeds (based on the Placing Price of HK\$0.69 per Share being the mid-point of the stated range of the Placing Price) for further development of our guarantee business.

#### **4. Improvement on risk management**

In order to manage effectively and improve the rapid expanding business platform of our Group, we plan to recruit more professionals and maintain a strong management team.

To enhance our Group's credit and operational risk management system, our Group plans to (i) strengthen our Group's risk management committee; (ii) further improve the present system to deal with default risk more effectively and efficiently, including taking possession of and liquidating collaterals; and (iii) standardise the products and services wherever possible.

Our Group expects to use approximately 3% of our proceeds (based on the Placing Price of HK\$0.69 per Share being the mid-point of the stated range of the Placing Price) to recruit additional staff with higher qualification and more resources to improve credit risk management from the Latest Practicable Date to 31 December 2015.

For further details of our Group's future development plan, please refer to the paragraph headed "Implementation plan" below.

## FUTURE PLANS AND USE OF PROCEEDS

### IMPLEMENTATION PLAN

In light of the business objective and future plans of our Group, we will seek to attain the milestones contained in this paragraph from the Latest Practicable Date to 31 December 2015. Investors should note that the milestones and their scheduled times for attainment are formulated on the bases and assumptions referred to in the sub-section headed “Bases and assumptions” below. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed “Risk factors” of this prospectus. Our Group’s actual course of business may vary from the business objective set out in this prospectus. There can be no assurance that the plans of our Group will materialise in accordance with the expected time frame or that the objective of our Group will be accomplished at all. Based on our business objective and the current outlook of the financing industry in the PRC, our Directors intend to carry out the following implementation plans:

#### 1. Further development of our finance lease business

	From the Latest Practicable Date to 31 December 2013 <i>HK\$ million</i>	For the period from 1 January 2014 to 30 June 2014 <i>HK\$ million</i>	For the period from 1 July 2014 to 31 December 2014 <i>HK\$ million</i>	For the period from 1 January 2015 to 30 June 2015 <i>HK\$ million</i>	For the period from 1 July 2015 to 31 December 2015 <i>HK\$ million</i>
—Fully contribute the outstanding registered capital of Differ Lease	—	68.0	—	—	—

#### 2. Strengthening of our entrusted loan business

	From the Latest Practicable Date to 31 December 2013 <i>HK\$ million</i>	For the period from 1 January 2014 to 30 June 2014 <i>HK\$ million</i>	For the period from 1 July 2014 to 31 December 2014 <i>HK\$ million</i>	For the period from 1 January 2015 to 30 June 2015 <i>HK\$ million</i>	For the period from 1 July 2015 to 31 December 2015 <i>HK\$ million</i>
—Inject funding into Differ VC and/or Differ Holding to make available for the expansion business of entrusted loan	30.0	15.0	—	—	—
—Recruit new marketing and sales staff for our entrusted loan business	—	0.3	—	—	—

## FUTURE PLANS AND USE OF PROCEEDS

### 3. Enhancement of our guarantee services

	From the Latest Practicable Date to 31 December 2013 <i>HK\$ million</i>	For the period from 1 January 2014 to 30 June 2014 <i>HK\$ million</i>	For the period from 1 July 2014 to 31 December 2014 <i>HK\$ million</i>	For the period from 1 January 2015 to 30 June 2015 <i>HK\$ million</i>	For the period from 1 July 2015 to 31 December 2015 <i>HK\$ million</i>
—Negotiate with banks to increase our restricted bank deposits by making use of the proceeds from the Placing so as to increase the guarantee limit	10.0	10.0	10.0	—	—
—Recruit additional marketing and sales staff for our guarantee business	—	—	0.2	—	—

### 4. Improvement on risk management

	From the Latest Practicable Date to 31 December 2013 <i>HK\$ million</i>	For the period from 1 January 2014 to 30 June 2014 <i>HK\$ million</i>	For the period from 1 July 2014 to 31 December 2014 <i>HK\$ million</i>	For the period from 1 January 2015 to 30 June 2015 <i>HK\$ million</i>	For the period from 1 July 2015 to 31 December 2015 <i>HK\$ million</i>
—Recruit new staff for risk management	—	1.0	1.0	1.0	1.5

## BASES AND ASSUMPTIONS

The business objectives set out by our Directors are based on the following bases and assumptions:

- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no change in the effectiveness of the licences and permits obtained by us;
- we will continue to be able to renew all licences;
- there will be no change in the funding requirement for each of our future plans described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;

## FUTURE PLANS AND USE OF PROCEEDS

- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- we will not be materially affected by the risk factors as set out under the section headed “Risk factors” in this prospectus.

### REASONS FOR THE PLACING AND USE OF PROCEEDS

The Placing will enhance our capital base and provide us with additional working capital to implement the future plans set out in the paragraph headed “Business objective and strategies” above.

### USE OF PROCEEDS

The net proceeds from the Placing based on the Placing Price of HK\$0.69 per Share (being the mid-point of the stated range of the Placing Price), after deducting related expenses, are estimated to be approximately HK\$153.0 million (assuming the Over-allotment Option is not exercised). Our Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to		For the six months ending			Total
	31 December 2013	30 June 2014	31 December 2014	30 June 2015	31 December 2015	
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Further development of finance lease business	—	68.0	—	—	—	68.0
Strengthening of our entrusted loan business	30.0	15.3	—	—	—	45.3
Enhancement of guarantee services	10.0	10.0	10.2	—	—	30.2
Improvement on risk management	—	1.0	1.0	1.0	1.5	4.5
Net proceeds reserved for general working capital of our Group	5.0	—	—	—	—	5.0
	<u>45.0</u>	<u>94.3</u>	<u>11.2</u>	<u>1.0</u>	<u>1.5</u>	<u>153.0</u>

## **FUTURE PLANS AND USE OF PROCEEDS**

Our Directors and the Sponsor consider that the net proceeds from the issue of the Placing Shares of about HK\$153.0 million and our internal resources will be sufficient to finance our business plans as scheduled up to the three years ending 31 December 2015.

In the event that the Placing Price is set at the high-end and the low-end of the proposed Placing Price range, we will receive net proceeds of approximately HK\$175.0 million and HK\$131.1 million, after deducting related expenses, respectively. If the Placing Price is set at the high-end or low-end of the proposed Placing Price, save for the further development of finance lease business remaining as approximately HK\$68 million we intend to adjust the allocation of the net proceeds to the usage in the proportions stated above.

If the Over-allotment Option is exercised in full, the net proceeds from the Placing will increase to approximately HK\$178.3 million assuming that the Placing Price is determined at the mid-point of the indicative range of the Placing Price. We intend to apply the additional net proceeds from the exercise of the Over-allotment Option in our short-term financing services.

To the extent that the net proceeds from the issue of the Placing Shares are not immediately required for the above purpose, it is the present intention of our Directors that such proceeds will be used in our financing services and/or placed on short-term interest bearing deposits or treasury products with authorised financial institutions.

## UNDERWRITING

### UNDERWRITERS, JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

Fortune (HK) Securities Limited  
Kingston Securities Limited  
Sinomax Securities Limited  
(in alphabetical order)

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company is offering the Placing Shares for subscription by way of Placing, on and subject to the terms and conditions in the Underwriting Agreement and this prospectus at the Placing Price.

Subject to, among other conditions, the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Underwriting Agreement being satisfied or waived on or before the 30th day after the date of this prospectus (or such later date as our Company and Kingston Securities (for itself and on behalf of the Underwriters) may agree), the Underwriters have severally agreed to subscribe for or procure subscribers for their respective applicable proportions of the Placing Shares on the terms and conditions of the Placing.

#### Grounds for termination

Kingston Securities (for itself and on behalf of the Underwriters) shall have the right upon giving a written notice to our Company to terminate the Underwriting Agreement if any of the following events occur at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on Monday, 9 December 2013):

- (A) if it has come to the notice of Kingston Securities:
  - (i) any matter or event showing any of the representations, warranties and undertakings contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any material aspect when given or repeated or there has been a breach of any of such representations, warranties and undertakings or any other provision of the Underwriting Agreement by any party to the Underwriting Agreement other than the Underwriters which, in any such cases, is considered, in the absolute opinion of Kingston Securities (for itself and on behalf of the Underwriters), to be material in the context of the Placing; or
  - (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the absolute opinion of Kingston Securities (for itself and on behalf of the Underwriters) in the context of the Placing; or



## UNDERWRITING

- (iii) any statement contained in this prospectus reasonably considered to be material by the Kingston Securities which is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the absolute opinion of Kingston Securities (for itself and on behalf of the Underwriters) to be material; or
  - (iv) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, the executive Directors and our Controlling Shareholders pursuant to the indemnities contained in the Underwriting Agreement; or
  - (v) any breach by any party to the Underwriting Agreement other than the Underwriters of any provision of the Underwriting Agreement which is considered in the absolute opinion of Kingston Securities (for itself and on behalf of the Underwriters), to be material; or
  - (vi) any adverse change or a prospective adverse change in the business, results of operation, financial or trading position, or prospects of our Group as a whole the effect of which is, in the absolute opinion of Kingston Securities (for itself and on behalf of the Underwriters), so material and adverse as to make it impracticable or inadvisable to proceed with the Placing; or
  - (vii) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, or if granted, the approval is subsequently withdrawn, qualified or withheld; or
  - (viii) any person (other than the Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus or to the issue of this prospectus; or
- (B) if there develops, occurs, exists or comes into effect:
- (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI, the PRC or any relevant jurisdiction; or
  - (ii) any change (whether or not permanent) in local, national or international stock market conditions; or
  - (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange or other major stock exchanges in the United States, the United Kingdom or the PRC due to exceptional financial circumstances or otherwise; or
  - (iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI, the PRC or elsewhere; or

## UNDERWRITING

- (v) any change or development or event involving a prospective change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC or elsewhere; or
- (vii) a general moratorium on commercial banking business activities in Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC or elsewhere declared by the relevant authorities; or
- (viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, pandemic, act of terrorism, earthquake, strike or lock-out; or
- (ix) any litigation or claim of any third party being threatened or instigated against any member of our Group, our Executive Directors and/or our Controlling Shareholders; or
- (x) any change or development involving a prospective change, or materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or
- (xi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting Hong Kong, the British Virgin Islands, the Cayman Islands and the PRC; or
- (xii) any imposition of economic or other sanctions, in whatever form, directly or indirectly, by or to Hong Kong, the British Virgin Islands, the Cayman Islands, the PRC; or
- (xiii) a petition is presented for the winding up or liquidation of any member of our Group, or any member of our Group make any compromise or arrangement with our Company's or our creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

## UNDERWRITING

(xiv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which such member of our Group is liable prior to its stated maturity, or any loss or damage sustained any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person),

which, individually or in the aggregate, in the absolute opinion of Kingston Securities (for itself and on behalf of the Underwriters):

- (a) is or will or is likely to be materially adverse to the business, financial condition or prospects of our Company and/or our Group taken as a whole; or
- (b) has or will have or is likely to have a material adverse effect on the success of the Placing; or
- (c) makes or will make or is likely to make it inappropriate, inadvisable or inexpedient to proceed with the Placing.

### Undertakings

Each of our Controlling Shareholders has undertaken to and covenanted with our Company, the Joint Lead Managers and the Underwriters that save as provided in Rule 13.18 of the GEM Listing Rules, he/she/it shall not and shall procure that the relevant registered holder(s) of the Shares shall not:

- (a) in the period commencing on the date by reference to which disclosure of the shareholding of each of our Controlling Shareholders is made in this prospectus and ending on the date which is 6 months from the Listing Date (the “**First 6-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner (the “**Relevant Securities**”) and
- (b) in the period of 6 months commencing on the date immediately following the date on which the First 6-Month Period expires (the “**Second 6-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a Controlling Shareholder.

Each of our Controlling Shareholders has also undertaken to and covenanted with our Company, the Joint Lead Managers and the Underwriters that, during the relevant periods specified in paragraphs (a) and (b) above, if and when he/she/it pledges or charges any direct or indirect interest in the Relevant Securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it must immediately inform our Company and Kingston Securities (for itself and on behalf of the Underwriters) in writing of such pledge and charge, the number of the Relevant Securities so being pledged or charged and other details as required by Rule 17.43(1) to (4) of the GEM Listing Rules and, having pledged or charged any interest in the Relevant Securities, if and when he/she/it becomes aware that the pledgee or chargee

## UNDERWRITING

thereof has disposed of or intends to dispose of such interest, immediately inform our Company and Kingston Securities (for itself and on behalf of the Underwriters) in writing of such disposal or such intention of disposal and the number of the Relevant Securities affected.

Our Company has undertaken to and covenanted with the Joint Lead Managers and the Underwriters, and each of our Controlling Shareholders and the executive Directors has undertaken to and covenanted with the Joint Lead Managers and the Underwriters to procure that, save with the prior written consent of Kingston Securities (for itself and on behalf of the Underwriters) (such consent not to be unreasonably withheld or delayed) or save for Shares issued pursuant to the Placing, the Capitalisation Issue, the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme, our Company or any of our subsidiaries will not (a) allot or issue or agree to allot or issue any shares or any other securities in our Company or grant or agree to grant any option, warrant or other right carrying the right to subscribe for, or otherwise convert into, or exchange for, any shares or any other securities of our Company or any of our subsidiaries during the First 6-month Period; (b) issue any share or securities in our Company or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise convert into or exchange for shares or securities in our Company or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such shares or securities during the Second 6-Month Period so as to result in our Controlling Shareholders ceasing to be the controlling shareholder (which has the meaning ascribed to it under the GEM Listing Rules) of our Company or our Company ceasing to hold a controlling interest of 30% or more in any major subsidiary (which shall have the same meaning as in Rule 17.27(2) of the GEM Listing Rules) of our Group; (c) during the First 6-Month Period purchase any Shares or any other securities of our Company; and (d) offer to or agree to do any of the foregoing or announce any intention to do so.

### **Commission and expenses**

The Underwriters will receive a commission of 2.5% on the aggregate Placing Price of all the Placing Shares now being offered, out of which they will, as the case may be, pay any sub-underwriting commissions and selling concession. The Sponsor will, in addition, receive a documentation fee. The Underwriting commission, documentation fee, Stock Exchange listing fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expense relating to the Placing, assuming the Placing Price of HK\$0.69 (being the mid-point of the stated range of the Placing Price), are estimated to approximately HK\$19.5 million.

### **Underwriters' interests in our Company**

Save for its interests and obligation under the Underwriting Agreement and save as disclosed in this prospectus, none of the Underwriters or any of its associates is interested beneficially or non-beneficially in any shares in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of our Group.

### **Compliance adviser's agreement**

Under a compliance adviser's agreement dated 2 December 2013 and made between Messis Capital and our Company (the "Compliance Adviser's Agreement"), our Company appoints Messis Capital and Messis Capital agrees to act as the compliance adviser to our Company for the purpose of the GEM

## UNDERWRITING

Listing Rules for a fee from the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, i.e. 31 December 2015.

### **Sponsor's interest in our Company**

Save for the advisory and documentation fees to be paid to Messis Capital as the Sponsor to the Placing, its obligations under the Underwriting Agreement and the Compliance Adviser's Agreement and any interests in securities that may be subscribed by it and/or its associates pursuant to the Placing, neither Messis Capital nor any of its associates has or may, as a result of the Placing, have any interest in any class of securities of our Company or any other company in our Group (including options or rights to subscribe for such securities).

No director or employee of Messis Capital who is involved in providing advice to our Company has or may, as a result of the Placing, have any interest in any class of securities of our Company or other company in our Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

No director or employee of Messis Capital has a directorship in our Company or any other company in our Group.

## STRUCTURE OF THE PLACING

### PLACING PRICE

The Placing Price plus a 1% brokerage fee, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy make up total price payable on subscription. The Shares will be traded in board lots of 5,000 Shares each.

### DETERMINATION OF THE PLACING PRICE

The Placing Price is expected to be fixed by the Price Determination Agreement to be entered into between Kingston Securities (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, which is currently scheduled on Tuesday, 3 December 2013, or such later date as Kingston Securities (for itself and on behalf of the Underwriters) and our Company may agree.

**If, for any reason, Kingston Securities (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Placing Price by that date or such later date as agreed by the Company and Kingston Securities (for itself and on behalf of the Underwriters), the Placing will not become unconditional and will lapse.**

**Prospective investors should be aware that the Placing Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Placing Price range as stated in this prospectus.** The Placing Price will not be more than HK\$0.78 per Placing Share and is expected to be not less than HK\$0.60 per Placing Share, unless otherwise announced.

Our Company expects to announce the final Placing Price and the level of indication of interests in the Placing on or before Friday, 6 December 2013 on our Company's website at [www.dingfeng-cn.com](http://www.dingfeng-cn.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). **If for any reason the Price Determination Date is changed, our Company will as soon as practicable cause to be published on the website of the Stock Exchange a notice of the change and if applicable the revised date.**

### THE PLACING

#### Placing

The Placing comprises 250,000,000 Placing Shares conditionally offered by our Company for subscription by way of private placements to professional, institutional or other investors. The Placing Shares will represent 25% of our Company's enlarged issued share capital immediately after completion of the Placing and the Capitalisation Issue. The Placing is fully underwritten by the Underwriters subject to the Placing Price having been agreed between our Company and Kingston Securities (for itself and on behalf of the Underwriters).

Pursuant to the Placing, it is expected that the Underwriters or selling agents nominated by them, on behalf of our Company will conditionally place the Placing Shares at the Placing Price (plus a 1% brokerage fee, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy) with selected professional and institutional investors in Hong Kong. Professional, institutional and other investors generally include brokers, dealers, high net worth individuals and companies (including fund managers) whose ordinary business involves dealing and investing in shares and other securities.

## **STRUCTURE OF THE PLACING**

### **Basis of Allocation**

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell the Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional, and institutional shareholder base for the benefit of our Company and our Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that no more than 50% of the Shares in public hands at the time of the Listing will be owned by the three largest public shareholder. No allocations of the Placing Shares will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

The Placing is subject to the conditions as stated in the section headed “Structure of the Placing — Conditions of the Placing” below.

### **OVER-ALLOTMENT OPTION**

Kingston Securities or its agent on behalf of the Underwriters can exercise the Over-allotment Option, which will be exercisable at any time within a period commencing from the date of this prospectus and ending on the 30th day after the date of this prospectus. Pursuant to the Over-allotment Option, Kingston Securities or its agent will have the right to require our Company to allot and issue up to an aggregate of 37,500,000 additional new Shares, representing in aggregate up to 15% of the number of Shares initially available under the Placing to cover over-allocations in the Placing, if any. These Shares will be issued at the Placing Price.

If the Over-allotment Option is exercised, in full or in part, our Company will make an announcement as and when appropriate.

If the Over-allotment Option is exercised in full, the additional Placing Shares will represent approximately 3.61% of our Company’s enlarged number of Shares in issue following completion of the Placing and the Capitalisation Issue and the exercise of such Over-allotment Option but without taking into account any Shares which may fall to be issued upon the exercise of any option that may be granted under the Share Option Scheme.

### **STOCK BORROWING**

In connection with the Placing, Kingston Securities may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by Kingston Securities or its agent for itself and on behalf of the Underwriters, or by making purchases in the secondary market at prices that do not exceed the Placing Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the Placing, Kingston Securities may borrow up to 37,500,000 Shares from Expert Corporate Limited, equivalent to the maximum number of

## STRUCTURE OF THE PLACING

Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement entered into between Kingston Securities and Expert Corporate Limited on the conditions that:

- (i) such stock borrowing arrangement will only be effected by Kingston Securities for settlement of over-allocations of Shares in connection with the Placing;
- (ii) the maximum number of Shares which may be borrowed from Expert Corporate Limited by Kingston Securities under the Stock Borrowing Agreement must not exceed the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;
- (iii) the same number of Shares so borrowed must be returned to Expert Corporate Limited or its nominees, as the case may be, no later than 5:00 p.m. of the 3rd Business Day following the earlier of: (a) the last day for exercising the Over-allotment Option; (b) the day on which the Over-allotment Option is exercised in full or (c) such earlier time as may be agreed in writing between Kingston Securities and Expert Corporate Limited;
- (iv) the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- (v) no payments or other benefits will be made to Expert Corporate Limited by Kingston Securities or any of the Underwriters in relation to such stock borrowing arrangement.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Placing, Kingston Securities and/or its affiliates and agents, for itself and on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the date of this prospectus (the “**Stabilisation Period**”). Upon expiry of the Stabilisation Period, when no further stabilizing action may be taken, demand for the Shares, and therefore its price, could fall. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements.

Kingston Securities may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which Kingston Securities will maintain such a position during the Stabilisation Period, are at the discretion of Kingston Securities and is uncertain. In the event that Kingston Securities liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares. Any such stabilising activity is required to be brought to an end within 30 days after the date of this prospectus. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 37,500,000 Shares, which is 15% of the Placing Shares initially available under the Placing.



## STRUCTURE OF THE PLACING

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilising) Rules under the SFO. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares issued pursuant to the exercise of the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Placing Shares should note that:

- Kingston Securities, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which Kingston Securities, or any person acting for it, will maintain such a position;
- liquidation of any such long position by Kingston Securities may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the Stabilising Period which will begin on the Listing Date and is expected to expire on the 30th day after the date of this prospectus. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Placing Price either during or after the Stabilising Period by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Placing Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the Stabilising Period.

## STRUCTURE OF THE PLACING

### CONDITIONS OF THE PLACING

Acceptance of your applications is conditional upon, among other things:

**(a) Listing**

The Listing Division granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein including any Shares which may fall to be issued pursuant to the Capitalisation Issue and upon exercise of the Over-allotment Option and exercise of the options that may be granted under the Share Option Scheme;

**(b) Price Determination Agreement**

The Price Determination Agreement having been executed by our Company and Kingston Securities (for itself and on behalf of the Underwriters) and becoming effective on the Price Determination Date; and

**(c) Underwriting Agreement**

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sponsor and Kingston Securities, for itself and on behalf of the Underwriters) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise prior to 8:00 a.m. (Hong Kong time) on the Listing Date). Details of the Underwriting Agreement, their conditions and grounds for termination, are set out in the section headed “Underwriting” in this prospectus.

In each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Listing Division will be notified immediately. Notice of the lapse of the Placing will be published by our Company at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.dingfeng-cn.com](http://www.dingfeng-cn.com) on the next Business Day following such lapse.

### COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the GEM are expected to commence on Monday, 9 December 2013. Shares will be traded in board lots of 5,000 Shares each.

## STRUCTURE OF THE PLACING

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interest.

Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

*The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.*



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3 December 2013

The Directors  
Differ Group Holding Company Limited

Messis Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “**Financial Information**”) of Differ Group Holding Company Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), including the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2011, 2012 and the seven months ended 31 July 2013 (the “**Relevant Periods**”), and the consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 31 July 2013 and the statements of financial position of the Company as at 31 December 2012 and 31 July 2013, together with notes thereon, for inclusion in the prospectus of the Company dated 3 December 2013 (the “**Prospectus**”) in connection with the initial listing of the shares of the Company on the Growth Enterprise Market (“**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company was incorporated in the Cayman Islands on 4 December 2012 as an exempted company with limited liability under the laws of the Cayman Islands in the name of Differ Holding Group Company Limited. The name of the Company was changed to Differ Group Holding Company Limited pursuant to a resolution dated 7 March 2013.

Pursuant to a corporate reorganisation (the “**Reorganisation**”) as described in note 2.1 of section II of this report, the Company became the holding company of the subsidiaries now comprising the Group. The Company has not carried on any business since the date of its incorporation saves for the aforementioned Reorganisation.

The Group is principally engaged in provision of entrusted loan, financial consultancy, guarantee, pawn loan and finance lease services in the People’s Republic of China (the “**PRC**”). The Company and its subsidiaries have adopted 31 December as their financial year end date. Particulars of the subsidiaries comprising the Group are set out in note 1 of section II of this report.

No audited financial statements have been prepared for the Company and RongXin Company Limited (“**RongXin**”) as they are newly incorporated and have not been involved in any significant business transactions except for the Reorganisation.

The statutory financial statements of Differ Financial Holdings Limited (“**Differ Hong Kong**”) for the period from 22 September 2011 (date of incorporation) to 31 December 2012 were audited by BDO Limited, certified public accountants. These statutory financial statements were prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The statutory financial statements of Differ Hong Kong for the period from 22 September 2011 to 31 December 2012 were qualified for Differ Hong Kong’s failure to prepare consolidated financial statements as required by Hong Kong Accounting Standard 27 “Consolidated and Separate Financial Statements” issued by the HKICPA. Such qualifications have been removed in this report because, for the purpose of this report, the financial information of Differ Hong Kong’s subsidiaries have been consolidated in the Financial Information.

The statutory financial statements of Differ Holding (Xiamen) Company Limited\* (“**Differ Holding**”) (鼎豐控股(廈門)有限公司), formerly known as 鼎豐控股股份有限公司, Xiamen Differ Venture Capital Company Limited\* (“**Differ VC**”) (廈門市鼎豐創業投資有限公司) and Differ Guarantee Company Limited\* (“**Differ Guarantee**”) (鼎豐擔保股份有限公司) for the years ended 31 December 2011 and 2012, the statutory financial statements of Xiamen Differ Financial Leasing Company Limited\* (“**Differ Lease**”) (廈門市鼎豐融資租賃有限公司) for the period from 19 April 2012 (date of establishment) to 31 December 2012, and the statutory financial statements of Xiamen Differ Import and Export Development Company Limited\* (“**Differ Import & Export**”) (廈門鼎豐進出口發展有限公司), formerly known as 福建鼎豐置業有限公司, for the year ended 31 December 2012 were audited by Xiamen Power Certified Public Accountants Company Limited (廈門普和會計師事務所有限公司), a firm of certified public accountants registered in the PRC. The statutory financial statements of Fujian Differ Pawn Company Limited\* (“**Differ Pawn**”) (福建鼎豐典當有限公司) for the years ended 31 December 2011 and 2012 were audited by Quanzhou Fangzheng Certified Public Accountants Company Limited (泉州方正會計師事務所有限公司), a firm of certified public accountants registered in the PRC. All these statutory financial statements were prepared in accordance with the relevant accounting principles and accounting rules applicable to enterprises established in the PRC.

Differ Guarantee (Quanzhou) Company Limited\* (“**Quanzhou Guarantee**”) (鼎豐擔保(泉州)有限公司), established in the PRC and a former subsidiary of Differ Guarantee, was liquidated on 29 November 2011 and subsequently deregistered on 16 July 2012. The principal activity of Quanzhou Guarantee was provision of financial guarantees but it did not commence its operation since establishment to the date of liquidation. No statutory financial statements for the years ended 31 December 2011 and 2012 were issued.

Fujian Differ Venture Capital Company Limited\* (“**Fujian VC**”) (福建省鼎豐創業投資有限公司), established in the PRC and a former subsidiary of Differ Holding, was disposed on 7 May 2012 pursuant to the Reorganisation as described in note 2.1 of section II. The principal activity of Fujian VC was investment holding and it has equity interest in Differ Pawn throughout the Relevant Periods. The statutory financial statements for the year ended 31 December 2011 were audited by 泉州豐澤明華聯合會計師事務所, a firm of certified public accountants registered in the PRC. The statutory financial statements were prepared in accordance with the relevant accounting principles and accounting rules applicable to enterprises established in the PRC.

\* The English name of the subsidiaries established in the PRC represent management’s best effort at translating the Chinese name of such subsidiaries as no English name has been registered.

For the purpose of the Financial Information of this report, the directors of the Company have prepared the consolidated financial statements (the “**Underlying Financial Statements**”) of the Group for the Relevant Periods in accordance with the basis set out in note 2.2 of section II and accounting policies set out in note 5 of section II which conform with HKFRSs issued by the HKICPA. The Financial Information set out in this report has been prepared by the directors based on the Underlying Financial Statements with no adjustments made thereon.

### **RESPECTIVE RESPONSIBILITY OF DIRECTORS AND REPORTING ACCOUNTANTS**

The directors of the Company are responsible for the contents of the Prospectus, including the preparation and the true and fair presentation of the Financial Information prepared in accordance with the basis of presentation set out in note 2.2 of section II and accounting policies set out in note 5 of section II and the disclosure requirements of the Hong Kong Companies Ordinance and applicable Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “**Listing Rules**”), and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you.

### **BASIS OF OPINION**

For the purpose of this report, we have carried out audit procedures on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing (the “**HKSAs**”) issued by the HKICPA. We have examined the Financial Information in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA and have carried out such additional procedures on the Financial Information as we considered necessary.

### **OPINION**

In our opinion, the Financial Information set out below, for the purpose of this report, prepared on the basis of presentation set out in note 2.2 of section II and in accordance with accounting policies set out in note 5 of section II below, give a true and fair view of the consolidated results and cash flows of the Group for the Relevant Periods and of the state of affairs of the Group as at 31 December 2011, 2012 and 31 July 2013 and the Company as at 31 December 2012 and 31 July 2013.

### **COMPARATIVE FINANCIAL INFORMATION**

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the seven months ended 31 July 2012 together with the notes thereto (the “**Comparative Financial Information**”), which has been prepared in accordance with the basis of presentation set out in note 2.2 of Section II below and the accounting policies set out in note 5 of Section II below, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. The directors of the Company are responsible for the preparation and presentation of the Comparative Financial Information in accordance with basis of presentation set out in note 2.2 of Section II below and the accounting policies set out in note 5 of Section II below, and

the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. Our responsibility is to express a conclusion on the Comparative Financial Information based on our review. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the Comparative Financial Information. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

## I. FINANCIAL INFORMATION

## Consolidated Statements of Comprehensive Income

	Notes	Year ended 31 December		Seven months ended 31 July	
		2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Revenue	8	21,244	56,416	25,993	38,972
Other income	8	2,059	3,224	1,159	2,348
Employee benefit expenses		(3,362)	(5,287)	(2,696)	(4,326)
Depreciation and amortisation expense		(825)	(1,817)	(1,028)	(1,187)
Operating lease expense		(900)	(313)	(181)	(181)
Other expenses		(4,269)	(10,050)	(3,757)	(7,086)
Finance costs	9	<u>(229)</u>	<u>(526)</u>	<u>(404)</u>	<u>—</u>
Profit before income tax	10	13,718	41,647	19,086	28,540
Income tax expense	12	<u>(3,667)</u>	<u>(10,409)</u>	<u>(4,783)</u>	<u>(8,209)</u>
Profit for the year/period attributable to the owners of the Company		<u>10,051</u>	<u>31,238</u>	<u>14,303</u>	<u>20,331</u>
Other comprehensive income attributable to the owners of the Company to be reclassified to profit or loss in subsequent periods					
— Exchange differences on translating foreign operation		<u>—</u>	<u>221</u>	<u>—</u>	<u>256</u>
Total comprehensive income for the year/period attributable to the owners of the Company		<u>10,051</u>	<u>31,459</u>	<u>14,303</u>	<u>20,587</u>
Earnings per share					
— Basic and diluted (RMB cents)	14	<u>1.34</u>	<u>4.17</u>	<u>1.91</u>	<u>2.71</u>



## Consolidated Statements of Financial Position

	<i>Notes</i>	<b>As at 31 December</b>		<b>As at</b>
		<b>2011</b>	<b>2012</b>	<b>31 July</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current assets</b>				
Property, plant and equipment	15	10,774	13,044	12,187
Prepaid land lease	16	8,246	8,140	7,902
Restricted bank deposits	17	2,627	—	5,300
Loan and account receivables	18	—	3,130	37,638
Deposits paid for acquisition of property, plant and equipment		<u>1,601</u>	<u>—</u>	<u>—</u>
		<u>23,248</u>	<u>24,314</u>	<u>63,027</u>
<b>Current assets</b>				
Loan and account receivables	18	58,384	158,538	157,241
Prepayments and other receivables	19	3,059	12,306	2,805
Amount due from a related company	20	—	5,812	—
Amount due from a director	20	92,778	6,822	—
Restricted bank deposits	17	96,170	96,112	88,245
Cash and cash equivalents	21	<u>15,792</u>	<u>48,996</u>	<u>66,633</u>
		<u>266,183</u>	<u>328,586</u>	<u>314,924</u>
<b>Current liabilities</b>				
Accruals, other payables, receipt in advance and deferred income	22	4,143	10,164	15,571
Amount due to shareholders	23	—	19,875	19,562
Interest-bearing bank borrowings	24	1,086	—	—
Provision for taxation		<u>3,717</u>	<u>10,481</u>	<u>7,501</u>
		<u>8,946</u>	<u>40,520</u>	<u>42,634</u>
<b>Net current assets</b>		<u>257,237</u>	<u>288,066</u>	<u>272,290</u>
<b>Total assets less current liabilities</b>		<u>280,485</u>	<u>312,380</u>	<u>335,317</u>

		As at 31 December		As at
		2011	2012	31 July
	Notes	RMB'000	RMB'000	2013
				RMB'000
<b>Non-current liabilities</b>				
Deposits received and deferred income	22	246	—	12,350
Interest-bearing bank borrowings	24	<u>7,318</u>	<u>—</u>	<u>—</u>
		<u>7,564</u>	<u>—</u>	<u>12,350</u>
<b>Net assets</b>		<u><u>272,921</u></u>	<u><u>312,380</u></u>	<u><u>322,967</u></u>
<b>EQUITY</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital	25	—	—	—
Reserves	26	<u>272,921</u>	<u>312,380</u>	<u>322,967</u>
<b>Total equity</b>		<u><u>272,921</u></u>	<u><u>312,380</u></u>	<u><u>322,967</u></u>

## Statements of Financial Position

		As at 31 December 2012	As at 31 July 2013
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Current liabilities</b>			
Accruals and other payables		<u>59</u>	<u>90</u>
<b>Net current liabilities and net liabilities</b>		<u><u>(59)</u></u>	<u><u>(90)</u></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	25	—	—
Accumulated losses	26	<u>(59)</u>	<u>(90)</u>
<b>Capital deficiency</b>		<u><u>(59)</u></u>	<u><u>(90)</u></u>

## Consolidated Statements of Changes in Equity

	Share capital RMB'000	Capital reserve RMB'000 (note 26)	Merger reserve RMB'000 (note 26)	Statutory reserve RMB'000 (note 26)	Translation reserve RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 January 2011	—	30,000	228,000	303	—	2,567	260,870
Profit for the year and total comprehensive income for the year	—	—	—	—	—	10,051	10,051
Transfer to statutory reserve	—	—	—	636	—	(636)	—
Incorporation of a subsidiary (note 2.1(g))	—	2,000	—	—	—	—	2,000
At 31 December 2011 and 1 January 2012	—	32,000	228,000	939	—	11,982	272,921
Profit for the year	—	—	—	—	—	31,238	31,238
Other comprehensive income for the year	—	—	—	—	221	—	221
Total comprehensive income for the year	—	—	—	—	221	31,238	31,459
Transfer to statutory reserve	—	—	—	2,909	—	(2,909)	—
Deregistration of a subsidiary (note 1(c))	—	(30,000)	—	—	—	—	(30,000)
Arising from Reorganisation (note 2.1(d))	—	228,000	(228,000)	—	—	—	—
Arising from Reorganisation (note 2.1(e))	—	30,000	—	—	—	—	30,000
Capital injection to a subsidiary (note 2.1(g))	—	8,000	—	—	—	—	8,000
At 31 December 2012	—	268,000	—	3,848	221	40,311	312,380
Profit for the period	—	—	—	—	—	20,331	20,331
Other comprehensive income for the period	—	—	—	—	256	—	256
Total comprehensive income for the period	—	—	—	—	256	20,331	20,587
Transfer to statutory reserve	—	—	—	2,463	—	(2,463)	—
Arising from Reorganisation (note 2.1(g))	—	(10,000)	—	—	—	—	(10,000)
At 31 July 2013	—	258,000	—	6,311	477	58,179	322,967
At 1 January 2012	—	32,000	228,000	939	—	11,982	272,921
Profit for the period and total comprehensive income for the period (unaudited)	—	—	—	—	—	14,303	14,303
Transfer to statutory reserve (unaudited)	—	—	—	1,283	—	(1,283)	—
Deregistration of a subsidiary (note 1(c))	—	(30,000)	—	—	—	—	(30,000)
Arising from Reorganisation (note 2.1(d))	—	228,000	(228,000)	—	—	—	—
Arising from Reorganisation (note 2.1(e))	—	30,000	—	—	—	—	30,000
Capital injection to a subsidiary (note 2.1(g)) (unaudited)	—	8,000	—	—	—	—	8,000
At 31 July 2012 (unaudited)	—	268,000	—	2,222	—	25,002	295,224

\* Retained profits included amounts of approximately RMB9,562,000, RMB16,009,000 and RMB20,092,000 as at 31 December 2011, 2012 and 31 July 2013 respectively which were set aside in accordance with the relevant rules governing the financial guarantee business in the PRC as reserve for non-matured obligation and guarantee indemnity reserve and were not distributable.

## Consolidated Statements of Cash Flows

	Notes	Year ended 31 December		Seven months ended 31 July	
		2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
<b>Cash flows from operating activities</b>					
Profit before income tax		13,718	41,647	19,086	28,540
Adjustments for:					
Bank interest income	8	(2,042)	(1,377)	(788)	(759)
Interest expenses	9	229	526	404	—
Depreciation of property, plant and equipment	10	825	1,425	798	949
Amortisation of prepaid land lease	10	—	392	230	238
Loss/(gain) on disposal of property, plant and equipment	10	264	(6)	—	—
Operating profit before working capital changes		12,994	42,607	19,730	28,968
Increase in loan and account receivables, net of deferred income		(50,715)	(99,714)	(82,587)	(29,525)
(Increase)/Decrease in prepayments and other receivables		(1,724)	(9,247)	(18,656)	9,501
(Increase)/Decrease in restricted bank deposits		(16,486)	2,685	28,527	2,567
(Decrease)/Increase in accruals, deposits received, other payables and receipt in advance		(3,048)	2,205	66	14,071
Cash (used in)/generated from operations		(58,979)	(61,464)	(52,920)	25,582
Interest received		2,042	1,377	788	759
Income tax paid		(163)	(3,645)	(2,967)	(11,189)
<b>Net cash (used in)/generated from operating activities</b>		<b>(57,100)</b>	<b>(63,732)</b>	<b>(55,099)</b>	<b>15,152</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	(a)	(7,060)	(2,198)	(2,116)	(92)
Purchase of prepaid land lease	(b)	(5,816)	(286)	(286)	—
Proceeds from disposals of property, plant and equipment		103	110	—	—
Deposits paid for acquisition of property, plant and equipment		(1,601)	—	—	—
Decrease in amount due from a director	(c),(d)	25,923	51,081	42,337	6,822
(Increase)/Decrease in amount due from a related company	(e)	—	(937)	(5,523)	5,812
Decrease in time deposits with original maturity of more than three months		11,000	—	—	—
<b>Net cash generated from investing activities</b>		<b>22,549</b>	<b>47,770</b>	<b>34,412</b>	<b>12,542</b>

	Year ended 31 December		Seven months ended		
	Notes	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
<b>Cash flows from financing activities</b>					
Interest paid		(229)	(526)	(404)	—
Increase in amount due to shareholders		—	19,901	19,901	—
Drawdown of interest-bearing bank borrowings		8,690	—	—	—
Repayment of interest-bearing bank borrowings		(286)	(8,404)	(634)	—
Capital injection from owners	(e)	2,000	38,000	31,250	—
Deemed distribution to the owners		—	—	—	(10,000)
<b>Net cash generated from/(used in) financing activities</b>		<u>10,175</u>	<u>48,971</u>	<u>50,113</u>	<u>(10,000)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(24,376)	33,009	29,426	17,694
<b>Cash and cash equivalents at beginning of the year/period</b>		40,168	15,792	15,792	48,996
Effect of foreign exchange rates, net		—	195	—	(57)
<b>Cash and cash equivalents at end of the year/period</b>		<u>15,792</u>	<u>48,996</u>	<u>45,218</u>	<u>66,633</u>

Notes:

**Major non-cash transactions**

- (a) During the years ended 31 December 2011 and 2012, an amount of approximately RMB2,701,000 and RMB1,601,000 respectively were transferred from deposits paid to property, plant and equipment (note 15).
- (b) During the year ended 31 December 2011, an amount of approximately RMB2,430,000 was transferred from deposits paid to prepaid land lease (note 16).
- (c) During the year ended 31 December 2012, due to the deregistration of Quanzhou Guarantee (note 1(c)), RMB30,000,000 was derecognised as capital reserve and credited to the amount due from a director.
- (d) During the year ended 31 December 2012, part of the consideration from disposal of Fujian VC amounting to RMB49,973,000 was offset with amount due from a director (note 29).
- (e) During the seven months ended 31 July 2012, the consideration of RMB6,750,000 for the transfer of 67.5% equity interest of Differ Pawn held by Differ Guarantee (note 2.1(e)) was included in the amount due from a related company. This amount was subsequently settled after 31 July 2012.

## II. NOTES TO FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 December 2012. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is principally engaged in provision of entrusted loan, financial consultancy, guarantee, pawn loan and finance lease services.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out as follows:

Name	Place and date of incorporation/ establishment	Particulars of issued and fully paid up share capital/ registered capital	Attributable equity interest		Principal activities
			direct	indirect	
<b>Limited liability company</b>					
RongXin	British Virgin Island ("BVI"), 6 November 2012	1,000 ordinary shares of USD1 each	100%	—	Investment holding
Differ Hong Kong	Hong Kong, 22 September 2011	1 ordinary share of HK\$1	—	100%	Investment holding
Differ Holding	PRC, 12 April 2010	RMB228,000,000	—	100%	Investment holding and provision of entrusted loan and financial consultancy services
Differ VC	PRC, 5 May 2010	RMB30,000,000	—	100%	Investment holding and provision of entrusted loan services
Differ Guarantee	PRC, 11 June 2007	RMB150,000,000	—	100%	Provision of guarantee services
Differ Lease	PRC, 19 April 2012	HK\$24,400,000 (note (a))	—	100%	Provision of finance lease services
Differ Import & Export (note 2.1(g))	PRC, 22 December 2011	RMB30,000,000	—	100%	Sale and exportation of enforced inventories
<b>Joint-stock limited company</b>					
Differ Pawn	PRC, 15 May 2002	RMB30,000,000	—	100% (note (b))	Provision of pawn loan services

*Notes:*

- (a) Total registered capital is HK\$128,000,000 and the remaining unpaid capital of HK\$103,600,000 shall be contributed by Differ Hong Kong on or before 18 April 2014.
- (b) Differ Pawn became a wholly owned subsidiary of the Group since May 2010. Pursuant to the Reorganisation as set out in note 2.1(e), control over Differ Pawn was arranged through structured agreements.
- (c) Quanzhou Guarantee was a wholly owned subsidiary of the Group which was liquidated on 29 November 2011 and subsequently deregistered on 16 July 2012. Prior to the deregistration, 30% equity interest of Quanzhou Guarantee of RMB30,000,000 was held under the common control of Mr. Hong Mingxian (“**Mr. Hong**”), the controlling shareholder, via 福建愛都工貿有限公司 (Fujian Aidu Industry and Trade Company Limited) (“**Aidu**”) such that the contribution by Aidu was recognised as capital reserve of the Group. On deregistration, RMB30,000,000 was derecognised as capital reserve and credited to the amount due from a director.
- (d) Fujian VC was a wholly owned subsidiary of the Group. Pursuant to the Reorganisation as set out in note 2.1(e), the Group disposed its entire interest in Fujian VC on 7 May 2012.

**2. GROUP REORGANISATION AND BASIS OF PRESENTATION****2.1 Group Reorganisation**

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Stock Exchange. The reorganisation involved the followings:

*(a) Establishment of Differ Holding and Differ VC*

Differ Holding was established on 12 April 2010 as an investing vehicle of Differ Guarantee and it was effectively held by Ms. Shi Hongjiao (“**Ms. Shi**”), spouse of Mr. Hong, a director of the Company, and Mr. Cai Huatan (“**Mr. Cai**”), a director of the Company.

Differ VC was established on 5 May 2010 by Differ Holding and Mr. Hong. On 27 May 2010, the equity interest of Mr. Hong in Differ VC was transferred to Differ Holding.

*(b) Acquisition of Differ Guarantee by Differ Holding*

On 11 July 2010, Differ Holding acquired directly or indirectly the entire equity interest in Differ Guarantee from its then shareholders.

*(c) Establishment of Differ Hong Kong*

Differ Hong Kong was incorporated in Hong Kong on 22 September 2011 by Thrive Expand Limited (“**Thrive Expand**”), a company owned as to 60% by Expert Corporate Limited (which in turn was wholly owned by Ms. Shi) and as to 40% by Ever Ultimate Limited (which in turn was wholly owned by Mr. Cai), with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each.

*(d) Acquisition of Differ Holding by Differ Hong Kong*

On 15 June 2012, Differ Hong Kong acquired Differ Holding at a cash consideration of RMB228,000,000, which was equivalent to the register capital of Differ Holding. The fund to effect the acquisition of Differ Holding was contributed by the shareholders of Differ Holding and this contribution of RMB228,000,000 was used to settled the consideration of such acquisition. As the shareholders of Differ Holding already obtained back their cash contribution through completion of disposal of their interest in Differ Holding to Differ Hong Kong, the transaction did not result in any financial liabilities of the Group and the contribution was regarded as capital reserve of the Group (note 26).



(e) *Structured Agreements with Differ Pawn*

For the majority of the time during the Relevant Periods (i.e., from 1 January 2011 up to 7 May 2012), Differ Pawn's registered capital was RMB10,000,000 which was owned as to 67.5% by Differ Guarantee and as to 32.5% by Fujian VC, both of which were subsidiaries of the Group.

On 7 May 2012, Fujian VC ceased to be a company within the Group when a change in its shareholding structure took place. In order for the Group to retain management and control of Differ Pawn since 7 May 2012, the first set of structured agreements were entered into by Differ Holding, Differ Pawn, Differ Guarantee and Fujian VC ("**Previous Structured Agreements**"). Under the Previous Structured Agreements, all economic benefits and risks arising from the business, financial and operating activities of Differ Pawn were transferred to Differ Holding.

On 16 July 2012, the transfer of 67.5% equity interest in Differ Pawn of Differ Guarantee was transferred to Aidu. At the date of transfer, Aidu was owned as to 60% by Mr. Hong and as to 40% by Ms. Cai Danni (蔡丹妮) (Mr. Cai's daughter). Following such transfer, the Previous Structured Agreements were terminated on 16 July 2012, and simultaneously replaced by the second set of Structured Agreements entered into by Differ Holding, Differ Pawn, Aidu and Fujian VC ("**Structured Agreements**").

After the abovementioned share transfers of Differ Pawn, the new shareholders, namely Fujian VC and Aidu, agreed to increase the registered capital of Differ Pawn from RMB10,000,000 to RMB30,000,000. As a result of the increase in registered capital, the Group accounted for the amount of registered capital of Differ Pawn of RMB30,000,000 as capital injection from owners.

Further details of the Structured Agreements are set out in the section headed "Structured Agreements" of the Prospectus.

The Structured Agreements altogether enable the Company to exercise control over Differ Pawn. The Structured Agreements, taken as a whole, permit the financial results of Differ Pawn and economic benefits of its business to flow to Differ Holding. In addition, all the directors and top management in Differ Pawn should be assigned by Differ Holding. Through the Structured Agreements, Differ Holding is exposed to variable returns from its involvement with Differ Pawn and has the ability to affect those returns through its power over Differ Pawn.

(f) *Establishment of RongXin and the Company*

On 6 November 2012, RongXin was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 6 November 2012, 600 shares and 400 shares of RongXin credited as fully paid at par were issued and allotted to Ms. Shi and Mr. Cai respectively.

On 4 December 2012, the Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the same date, the Company issued and allotted in nil paid one share to the subscriber, which was transferred to Ms. Shi at nil consideration on the same date. The Company also issued and allotted in nil paid another 599 shares and 400 shares to Ms. Shi and Mr. Cai respectively.

(g) *Acquisition of Differ Import & Export*

Differ Import & Export was established as a limited liability company in the PRC on 22 December 2011 with initial registered capital of RMB2,000,000 which was owned as to 60% by Mr. Hong and as to 40% by Ms. Cai Danni. On 14 March 2012, Mr. Hong and Ms. Cai Danni agreed to increase the registered capital of Differ Import & Export from RMB2,000,000 to RMB10,000,000. The registered capital of RMB2,000,000 and RMB8,000,000 paid by Mr. Hong during the years ended 31 December 2011 and 2012 were regarded as capital reserve of the Group.

On 1 February 2013, Differ Guarantee acquired the entire interest of Differ Import & Export at a consideration of RMB10,000,000. After the share transfers, Differ Guarantee agreed to increase the registered capital of Differ Import & Export from RMB10,000,000 to RMB30,000,000.

The consideration paid by the Group of RMB10,000,000 was accounted for as deemed distribution to Mr. Hong and Ms. Cai Danni pursuant to Reorganisation.

(h) *Acquisition of Differ Hong Kong by Rong Xin*

On 20 November 2013, RongXin acquired entire issued share capital of Differ Hong Kong from Thrive Expand.

(i) *Acquisition of RongXin by the Company*

On 26 November 2013, the Company acquired the entire issued share capital of RongXin from Ms. Shi and Mr. Cai.

## 2.2 Basis of presentation

Pursuant to the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

The Group is regarded as a continuing entity resulting from the Reorganisation since the insertions of certain new holding companies at the top of Differ Guarantee have not resulted in any change in economic substance. Accordingly, the Financial Information and Comparative Financial Information has been prepared using the merger basis of accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the current group structure had always been in existence.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 31 July 2013 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence as at the respective dates.

The assets and liabilities of the companies comprising the Group are consolidated using the existing book values. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated on consolidation. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the controlling shareholders.

## 3. BASIS OF PREPARATION

The Financial Information and Comparative Financial Information have been prepared in accordance with the basis of presentation set out in note 2.2 and in accordance with the accounting policies in note 5 which comply with HKFRSs, which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. The Financial Information and Comparative Financial Information also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. All HKFRSs effective for the accounting periods commencing from 1 January 2013 and relevant to the Group, have been adopted by the Group in the preparation of the Financial Information and Comparative Financial Information consistently throughout the Relevant Periods to the extent required or allowed by the transitional provisions in the HKFRSs. The Financial Information and Comparative Financial Information have been prepared under the historical cost convention.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information and Comparative Financial Information. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information and Comparative Financial Information are disclosed in note 6.

The Financial Information and Comparative Financial Information are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

#### 4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The following new/revised standards, potentially relevant to the Group's Financial Information and Comparative Financial Information, have been issued but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 32	Financial instruments — Presentation — Offsetting financial assets and financial liabilities <sup>1</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities <sup>1</sup>
Amendments to HKAS 36 HKFRS 9	Impairment of assets — Recoverable amount disclosures for non-financial assets <sup>1</sup> Financial instruments <sup>2</sup>

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 January 2015

#### Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

#### HKFRS 9 — Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

The directors of the Company are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors of the Company have preliminarily concluded that the initial application of these new and amended HKFRSs is not expected to have a material impact on the Group's Financial Information and Comparative Financial Information.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Information and Comparative Financial Information are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

### **Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods. As explained in note 2 above, the acquisition of the subsidiaries under common control has been accounted for using merger accounting.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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. The financial statements of the subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

### **Impairment of non-financial assets**

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line method to write off the cost of each item of property, plant and equipment to its estimated residual value over its estimated useful life, as follows:

Buildings	20 years
Leasehold improvement	The shorter of the lease terms and 5 years
Motor vehicles	4 to 5 years
Furniture, fixtures and office equipment	3 to 5 years

The assets' estimated residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

#### **Prepaid land lease**

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight line method over the term of the lease except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

#### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

##### *Finance lease as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

##### *Operating lease charges as lessee*

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

#### **Share capital**

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of capital are deducted from capital (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

#### **Employee benefits**

The Group operates a defined contribution retirement benefit scheme ("MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employee's basic salaries.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of employees' salaries to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

**Financial assets**

The Group's financial assets are classified into loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at the end of reporting period.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date.

Derecognition of financial assets occurs when the rights to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

*Impairment loss on financial assets*

At the end of each reporting period, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Financial liabilities**

The Group's financial liabilities include accruals, deposits received, other payables, interest-bearing bank borrowings and amount due to shareholders.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the loans using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of each reporting period.

All other financial liabilities are recognised initially at their fair value, net of directly attributable transaction costs incurred and subsequently measured at amortised cost, using the effective interest method.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **Provisions and contingent liabilities**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

All provisions are reviewed at the end of reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### **Accounting for income tax**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of reporting period between the carrying amounts of assets and liabilities in the Financial Information and Comparative Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary difference, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) Income from financial guarantee (as the case may be, including assessment fee related to issuance of financial guarantee) is recognised over the contract period on a time apportionment basis.
- (b) Interest income (as the case may be, including the administration fees that are an integral part of the effective interest rate) from entrusted loan, pawn loan and finance lease services and other financial assets which yield interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.
- (c) Consultancy service income is recognised using the percentage of completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

### **Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are deducted from the cost in arriving at the carrying amount of the assets.



**Borrowing costs**

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

**Foreign currencies**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is Hong Kong dollars ("HK\$"). The Financial Information and Comparative Financial Information are presented in RMB since most of the companies comprising the Group are operating in RMB environment and the functional currency of most of the companies comprising the Group is RMB.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

**Related parties**

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the parent of the Company.
- (b) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
- (vi) The entity is controlled or jointly controlled by a person identified in (a); or
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

#### **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with the Group's accounting policy on "Provisions and contingent liabilities"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the Group's policy on "Revenue Recognition".

Where the Group issues a financial guarantee, the contracted fee of the guarantee is initially recognised as deferred income. Where the contracted fee is received or receivable for the issuance of the guarantee, it is recognised in accordance with the Group's policies applicable to that category of asset. Where no such contracted fee is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of the corresponding liability.

The contracted fee of the financial guarantee initially recognised as deferred income is amortised and recognised as revenue in profit or loss over the term of the guarantee as income from financial guarantee issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation in accordance with the Group's accounting policy on "Revenue Recognition", where appropriate.

#### **Segment reporting**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

The measurement policies the Group uses for reporting segment results under HKFRS 8 "Operating Segments" are the same as those used in its financial statements prepared under HKFRSs.

### **6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Financial Information and Comparative Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Subsidiary**

As detailed in note 2.1(e), Differ Pawn is accounted for as a subsidiary as a consequence of the Structured Agreements. Significant judgments have been exercised by the management in accessing and concluding Differ Pawn is a subsidiary of the Group.

**Impairment of receivables**

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer and the related parties. If the financial conditions of the customers and other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

**Impairment of non-financial assets**

The Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value-in-use of the cash-generating unit to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

**Estimated useful lives of property, plant and equipment**

In determining the useful lives of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is made based on the experience of the Group with similar assets that are used in a similar way. Depreciation charge is revised if the estimated useful lives of items of property, plant and equipment are different from the previous estimation. Useful lives are reviewed, at the end of each reporting period, based on changes in circumstances.

**Estimation of provision for financial guarantee issued**

The Group's management reviews the creditworthiness of its customers and re-assesses the fair value of collateral of individual customers for financial guarantee issued by the Group from time to time. The best evidence of fair value of collateral is current prices in an active market for similar collateral in the same location and condition. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of source including public accessible sources, such as interest searches, recent transaction prices, statistics on recent market development and market quote. If the Group's management considers the financial conditions of the customers of the Group deteriorate or they would default in payment or contracts, provisions will be made and the amount is based on the exposure which is the maximum guarantee amounts less the estimated fair value of the collateral.

**Tax**

Determining income tax provisions requires the Group to make judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

**Stage of completion of consultancy services**

Revenue from consultancy services is recognised according to the percentage of completion of consultancy services. The revenue recognition on an uncompleted consultancy service is dependent on estimating the total work to be performed of the consultancy contract, as well as the work done to date. In order to ensure that the percentage of completion of consultancy services is accurate and up-to-date, the management frequently reviews and estimates the progress of the consultancy services rendered based on their past experience and the nature of the consultancy service provided by the Group.

**7. SEGMENT INFORMATION**

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group's executive directors in order to allocate resources and assess performance of the segment. For the Relevant Periods, executive directors have determined that the Group has only one single business component/reportable segment as the Group is only engaged in provision of financial services which includes the provision of entrusted loan, financial consultancy, guarantee, pawn loan and finance lease services. The executive directors allocate resources and assess performance on an aggregated basis. The Group's revenue from external customers is divided into four group of products which is disclosed in note 8.

The Company is an investment holding company and the principal place of the Group's operation is in the PRC. For the purpose of segment information disclosures under HKFRS 8, the Group regarded the PRC as its country of domicile. All the Group's revenue and non-current assets are principally attributable to the PRC, being the single geographical region.

The geographical location of customers is based on the location at which the services were provided. The total revenue from external customers is mainly sourced from the PRC. The total revenue is disclosed in note 8.

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenue. During each of the Relevant Periods, revenue derived from these customers are as follows:

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Customer A	—	9,918	3,019	8,372
Customer B	N/A	N/A	3,227	—
Customer C	—	N/A	—	4,695
Customer D	N/A	N/A	2,901	—

**8. REVENUE AND OTHER INCOME**

Revenue, which is also the Group's turnover, represents income from the Group's principal activities. Revenue and other income recognised during the Relevant Periods are as follows:

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Revenue				
Interest income	6,887	28,381	12,467	19,080
Consultancy service income	7,647	19,094	9,105	8,396
Income from guarantee services				
— Financial guarantee services	6,710	7,493	3,706	8,218
— Other guarantee services	—	956	715	141
Income from finance lease service	—	492	—	3,137
	<u>21,244</u>	<u>56,416</u>	<u>25,993</u>	<u>38,972</u>

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Other income				
Bank interest income	2,042	1,377	788	759
Gain on disposal of property, plant and equipment	—	6	—	—
Government grant	—	1,680	210	1,567
Net foreign exchange gain	—	125	130	—
Others	17	36	31	22
	<u>2,059</u>	<u>3,224</u>	<u>1,159</u>	<u>2,348</u>

## 9. FINANCE COSTS

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Interest charges on bank borrowings:				
Wholly repayable within five years	146	335	257	—
Not wholly repayable within five years	83	191	147	—
	<u>229</u>	<u>526</u>	<u>404</u>	<u>—</u>

## 10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Auditor's remuneration	42	63	59	83
Depreciation of property, plant and equipment	825	1,425	798	949
Amortisation of prepaid land lease	—	392	230	238
Employee benefit expenses (including directors' remuneration (note 11))	2,844	4,889	2,475	3,669
Salaries	115	175	111	169
Pension scheme contributions — Defined contribution plans	403	223	110	488
Other benefits				
	<u>3,362</u>	<u>5,287</u>	<u>2,696</u>	<u>4,326</u>
Listing expenses	—	2,816	—	3,250
Net foreign exchange loss	—	—	—	13
Operating lease charges in respect of properties	900	313	181	181
Loss/(gain) on disposal of property, plant and equipment	264	(6)	—	—

## 11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

## (a) Directors' remuneration

The remuneration of each of the executive directors for the Relevant Periods is set out below:

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Year ended 31 December 2011</b>				
Mr. Cai	—	—	—	—
Mr. Hong	—	290	5	295
Mr. Ng Chi Chung	—	252	5	257
Total	—	542	10	552
<b>Year ended 31 December 2012</b>				
Mr. Cai	—	—	—	—
Mr. Hong	—	364	7	371
Mr. Ng Chi Chung	—	304	7	311
Total	—	668	14	682
<b>Seven months ended 31 July 2013</b>				
Mr. Cai	—	—	—	—
Mr. Hong	—	214	4	218
Mr. Ng Chi Chung	—	178	4	182
Total	—	392	8	400
<b>Seven months ended 31 July 2012 (unaudited)</b>				
Mr. Cai	—	—	—	—
Mr. Hong	—	212	3	215
Mr. Ng Chi Chung	—	177	3	180
Total	—	389	6	395

Mr. Cai Jianfeng and Mr. Wu Qinghan were appointed as non-executive directors and Mr. Chan Sing Nun, Mr. Tsang Hin Man Terence and Mr. Zeng Haisheng were appointed as independent non-executive directors of the Company with payment of their fees commencing from 26 November 2013. There were no fees or other emoluments payable to them during the Relevant Periods.

## (b) Five highest paid individuals

The five highest paid individuals of the Group included 2 directors for each of the years ended 31 December 2011, 2012 and seven months ended 31 July 2012, 2013 whose emoluments are reflected in note 11(a).

The analysis of the emolument of the remaining 3 highest paid individuals for each of the years ended 31 December 2011, 2012 and seven months ended 31 July 2012, 2013, whose emolument fell within the band of nil to HK\$1,000,000, are set out below:

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Salaries, allowances and benefits in kind	537	682	384	541
Pension scheme contributions	<u>15</u>	<u>6</u>	<u>3</u>	<u>7</u>
	<u>552</u>	<u>688</u>	<u>387</u>	<u>548</u>

- (c) During the Relevant Periods, no director or any of the highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12. INCOME TAX EXPENSE

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Current tax — PRC	<u>3,667</u>	<u>10,409</u>	<u>4,783</u>	<u>8,209</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

Enterprise income tax ("EIT") arising from subsidiaries operated in the PRC for the Relevant Periods was calculated at 25% of the estimated assessable profits during the Relevant Periods.

A reconciliation of the income tax expense applicable to profit before income tax at the statutory tax rate to the income tax expense at the effective tax rate for each of the Relevant Periods is as follows:

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Profit before income tax	<u>13,718</u>	<u>41,647</u>	<u>19,086</u>	<u>28,540</u>
Tax calculated at the rates applicable to profits in the tax jurisdiction concerned	3,430	10,611	4,772	7,410
Others	<u>237</u>	<u>(202)</u>	<u>11</u>	<u>799</u>
Income tax expense	<u>3,667</u>	<u>10,409</u>	<u>4,783</u>	<u>8,209</u>

As at 31 December 2011, 2012 and 31 July 2013, the aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognised are approximately RMB6,058,000, RMB36,095,000 and RMB61,938,000 respectively. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

The Group had unrecognised deferred tax assets arising from tax losses of approximately RMB872,000, RMB265,000 and RMB491,000 as at 31 December 2011, 2012 and 31 July 2013 respectively that are available, within a maximum period of five years in the PRC, for offsetting against future taxable profits of the relevant entities in the Group in which the losses arose. Deferred tax assets have not been recognised for such losses at the end of each of the Relevant Periods due to the unpredictability of future profit streams in the relevant subsidiaries in the PRC.

### 13. DIVIDENDS

No dividend has been declared by the Company since the date of incorporation.

### 14. EARNINGS PER SHARE

The calculations of basic earnings per share for the years ended 31 December 2011, 2012 and the seven months ended 31 July 2013 are based on the profit attributable to owners of the Company of approximately RMB10,051,000, RMB31,238,000 and RMB20,331,000 respectively (seven months ended 31 July 2012 (unaudited): RMB14,303,000) and on the 750,000,000 ordinary shares issuable (being the number of shares of the Company immediately prior to the listing of the Company's shares on the Stock Exchange) as if these shares had been issued throughout the Relevant Periods. Diluted earnings per share is the same as the basic earnings per share because the Group had no potential ordinary shares during the Relevant Periods.

### 15. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings</b>	<b>Leasehold improvement</b>	<b>Motor vehicles</b>	<b>Furniture, fixtures and office equipment</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>					
At 1 January 2011	—	1,411	787	979	3,177
Additions	9,166	307	102	186	9,761
Disposals	—	(307)	(109)	(104)	(520)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011 and at 1 January 2012	9,166	1,411	780	1,061	12,418
Additions	318	1,668	353	1,460	3,799
Disposals	—	—	(223)	—	(223)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012 and at 1 January 2013	9,484	3,079	910	2,521	15,994
Additions	—	—	—	92	92
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2013	<u>9,484</u>	<u>3,079</u>	<u>910</u>	<u>2,613</u>	<u>16,086</u>



	Buildings <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Accumulated depreciation:</b>					
At 1 January 2011	—	513	160	299	972
Charged for the year	—	431	165	229	825
Write back on disposals	—	(103)	(34)	(16)	(153)
At 31 December 2011 and at 1 January 2012	—	841	291	512	1,644
Charged for the year	439	321	203	462	1,425
Write back on disposals	—	—	(119)	—	(119)
At 31 December 2012 and at 1 January 2013	439	1,162	375	974	2,950
Charged for the period	264	255	111	319	949
At 31 July 2013	<u>703</u>	<u>1,417</u>	<u>486</u>	<u>1,293</u>	<u>3,899</u>
<b>Net carrying amount:</b>					
At 31 December 2011	<u>9,166</u>	<u>570</u>	<u>489</u>	<u>549</u>	<u>10,774</u>
At 31 December 2012	<u>9,045</u>	<u>1,917</u>	<u>535</u>	<u>1,547</u>	<u>13,044</u>
At 31 July 2013	<u>8,781</u>	<u>1,662</u>	<u>424</u>	<u>1,320</u>	<u>12,187</u>

The Group's buildings are situated in the PRC and are held under medium-term leases.

#### 16. PREPAID LAND LEASE

	As at 31 December 2011 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>	As at 31 July 2013 <i>RMB'000</i>
At 1 January	—	8,246	8,140
Additions	8,246	286	—
Amortisation	—	(392)	(238)
At 31 December	<u>8,246</u>	<u>8,140</u>	<u>7,902</u>

At 31 December 2011, 2012 and 31 July 2013, the Group's prepaid land lease in the PRC was under medium term leases.

#### 17. RESTRICTED BANK DEPOSITS

Restricted bank deposits have maturities of one to three years as at 31 December 2011, 2012 and 31 July 2013. Such deposits have been pledged to certain banks as securities for the Group's facilities of providing financial guarantee services to customers. The effective interest rates of the Group's restricted bank deposits as at 31 December 2011, 2012 and 31 July 2013 ranged from 0.36% to 3.5%, 0.35% to 3.5% and 0.35% to 3.5% per annum respectively. As at 31 December 2011, 2012 and 31 July 2013, approximately RMB41,547,000, RMB88,301,000 and RMB78,675,000 respectively of the balance were utilised for guarantee contracts entered.

As at 31 December 2011, 2012 and 31 July 2013, the Group has restricted bank deposits denominated in RMB amounting to approximately RMB98,797,000, RMB96,112,000 and RMB93,545,000 respectively and were kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

#### 18. LOAN AND ACCOUNT RECEIVABLES

	As at 31 December		As at 31 July
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>			
Finance lease receivables, gross and net	—	3,130	37,638
<b>Current assets</b>			
Pawn loan receivables, gross and net	9,930	33,250	35,850
Entrusted loan receivables, gross and net	43,717	120,000	97,000
Finance lease receivables, gross and net	—	4,048	23,244
Account receivables, gross and net	4,737	1,240	1,147
	<u>58,384</u>	<u>158,538</u>	<u>157,241</u>

For pawn loan receivables, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts, with options to renew the loan granted for a period of up to 180 days. The maturity date for each loan contract is not more than 180 days.

For entrusted loan receivables, they represented loans from the Group to customers through banks in the PRC. In an entrusted loan arrangement, the bank entered into loan agreements with the customers. The customers repaid the loan to the bank and then the bank returned the principal and accrued interest to the Group. While the bank exercises supervision over and receives repayment from the borrower, the bank does not assume any risk of default in repayment by the borrower. The maturity date for each loan contract is normally not more than 360 days.

For finance lease receivables, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts, and must acquire the leased assets at the end of the lease period. The maturity date for each loan contract is normally not more than 3 years.

For account receivables, it represented interest receivables from pawn loans, entrusted loans and finance lease, guarantee fee receivable and financial consultancy fee receivable. The customers are obliged to settle the amounts according to the terms set out in relevant contracts and, normally, no credit period was granted to customers.

Interest rates on loan and account receivables are offered to customers based on the assessment of a number of factors including the borrowers' creditworthiness and repayment ability, collateral as well as the general economic trends. The effective interest rates of loan and account receivables charged by the Group are summarised below:

	As at 31 December		As at 31 July
	2011	2012	2013
	% per month	% per month	% per month
Pawn loan receivables	0.8 to 3.0	2.5 to 3.5	2.5 to 3.0
Entrusted loan receivables	1.2 to 1.5	1.2 to 2.0	1.8
Finance lease receivables	N/A	1.5	0.8 to 1.5

The Group has certain concentration risk on loan and account receivables as it has two customers with outstanding balances of approximately RMB40,973,000, RMB100,483,000 and RMB68,429,000 as at 31 December 2011, 2012 and 31 July 2013 respectively. At 31 December 2011, 2012 and 31 July 2013, there were no allowances for bad and doubtful debts provided as there was no recent history of significant default in respect of these customers.

The directors of the Company consider that the fair values of loan and account receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

Based on the loan commencement date set out in the relevant contracts, ageing analysis of the Group's loan and account receivables as of each reporting date is as follows:

	As at 31 December				As at 31 July	
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
0 to 30 days	3,357	5.8	48,790	30.2	47,647	24.4
31 to 90 days	24,130	41.3	72,300	44.7	77,515	39.8
91 to 180 days	25,180	43.1	40,578	25.1	48,250	24.8
Over 180 days	5,717	9.8	—	—	21,467	11.0
	<u>58,384</u>	<u>100.0</u>	<u>161,668</u>	<u>100.0</u>	<u>194,879</u>	<u>100.0</u>

Ageing analysis of the Group's loan and account receivables, prepared based on due date, that were not impaired is as follows:

	As at 31 December				As at 31 July	
	2011		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Neither past due nor impaired	32,667	56.0	161,668	100.0	194,879	100.0
1 to 90 days past due	25,717	44.0	—	—	—	—
	<u>58,384</u>	<u>100.0</u>	<u>161,668</u>	<u>100.0</u>	<u>194,879</u>	<u>100.0</u>

Loan and account receivables which were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Loan and account receivables that were past due but not impaired relate to customers that have good track record and collateral with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The Group holds collateral over the pawn loans, certain entrusted loan receivables and certain account receivables and the banks hold certain collateral over the entrusted loan receivables and certain account receivables on behalf of the Group. At each of the reporting date, the fair value of the collateral in respect of such loan and interest receivables is as follows:

	As at 31 December		As at 31 July
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Real estate	378,650	190,427	236,872
Movable property	1,255	55,300	14,600
Property rights	—	8,873	14,500
	<u>379,905</u>	<u>254,600</u>	<u>265,972</u>

As at 31 December 2012 and 31 July 2013, the finance lease receivables in respect of certain machineries are effectively secured by the underlying assets as the rights to the machineries would be reverted to the Group in the event of default payment.

## 19. PREPAYMENTS AND OTHER RECEIVABLES

	Notes	As at 31 December		As at 31 July
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
Prepaid expenses		627	1,161	1,915
Other receivables	(a)	<u>2,432</u>	<u>11,145</u>	<u>890</u>
		<u>3,059</u>	<u>12,306</u>	<u>2,805</u>

Note:

- (a) Balance represented advances to third parties. The balances were unsecured, interest free and repayable on demand. The carrying amounts of other receivables approximate their fair values as these financial assets which are measured at amortised cost, are expected to be repaid within a short timescale, such that the time value of money is not significant.

## 20. AMOUNTS DUE FROM A RELATED COMPANY/A DIRECTOR

Amounts due from a related company/a director of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Amount due from a related company, Fujian VC RMB'000	Amount due from a director, Mr. Hong RMB'000
As at 1 January 2011	—	118,701
Maximum amount outstanding during the year ended 31 December 2011	—	118,701
As at 31 December 2011 and 1 January 2012	—	92,778
Maximum amount outstanding during the year ended 31 December 2012	72,747	92,778
As at 31 December 2012 and 1 January 2013	5,812	6,822
Maximum amount outstanding during the period ended 31 July 2013	97,000	6,822
As at 31 July 2013	<u>—</u>	<u>—</u>

The balances due were unsecured, interest free and repayable on demand.

## 21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash at banks and in hand. Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2011, 2012 and 31 July 2013, the Group has cash and cash equivalents denominated in RMB amounting to approximately RMB15,792,000, RMB48,830,000 and RMB66,400,000 respectively and were kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

## 22. ACCRUALS, DEPOSITS RECEIVED, OTHER PAYABLES, RECEIPT IN ADVANCE AND DEFERRED INCOME

	As at 31 December		As at 31 July
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Current liabilities</b>			
Accruals, other payables and receipt in advance	669	2,805	5,994
Business and other tax payables	442	511	945
Deferred income	<u>3,032</u>	<u>6,848</u>	<u>8,632</u>
	<u>4,143</u>	<u>10,164</u>	<u>15,571</u>
<b>Non-current liabilities</b>			
Deposits received from finance lease customers	—	—	10,448
Deferred income	<u>246</u>	<u>—</u>	<u>1,902</u>
	<u>246</u>	<u>—</u>	<u>12,350</u>

The directors consider the carrying amounts of accruals and other payables approximate their fair values.

## 23. AMOUNT DUE TO SHAREHOLDERS

The balances due were unsecured, interest free and repayable on demand. The balances as at 31 July 2013 was fully capitalised after the Relevant Periods.

## 24. INTEREST-BEARING BANK BORROWINGS

	As at 31 December		As at 31 July
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Current liabilities</b>			
Bank borrowings, guaranteed and repayable within one year	<u>1,086</u>	<u>—</u>	<u>—</u>
<b>Non-current liabilities</b>			
Bank borrowings, guaranteed and repayable in:			
More than one year, but not exceeding two years	1,086	—	—
More than two years, but not exceeding five years	3,259	—	—
After five years	<u>2,973</u>	<u>—</u>	<u>—</u>
	<u>7,318</u>	<u>—</u>	<u>—</u>
Total bank borrowings	<u>8,404</u>	<u>—</u>	<u>—</u>

As at 31 December 2011, the Group's interest-bearing bank borrowings were bearing floating interests ranging from 8.1% to 9.2% per annum and were guaranteed by:

- (i) personal guarantee from the director, Mr. Hong; and
- (ii) corporate guarantee from an independent third party which is the property developer of the building (note 15) and the prepaid land lease (note 16) acquired by the Group. The guarantee was issued to the bank for arranging mortgage loan facilities of the Group before the issuance of the relevant ownership certificates. This guarantee would be released and replaced by the pledge of the Group's building and prepaid land lease when the relevant ownership certificates are issued. The relevant certificates were issued during the year ended 31 December 2012.

The interest-bearing bank borrowings had been fully settled during the year ended 31 December 2012 and the guarantees held by the Group were released accordingly.

## 25. SHARE CAPITAL

The Company was incorporated on 4 December 2012 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares of par value of HK\$0.01 each. On 4 December 2012, 1 ordinary share was issued at nil paid to the subscriber and transferred to Ms. Shi on the same date. Another 599 shares and 400 shares were issued at nil paid to Ms. Shi and Mr. Cai respectively on the same date.

On 26 November 2013, pursuant to the written resolutions passed by the shareholders of the Company, the authorised share capital was increased to HK\$50,000,000 by the creation of an additional of 4,962,000,000 shares, each ranking *pari passu* with the shares then in issue in all respects. On the same date, additional 100 ordinary shares were issued pursuant to the Reorganisation (note 2.1(i)).

For the purpose of this report, the share capital presented as at 31 December 2011, 2012 and 31 July 2013 represented the share capital of the Company, which is deemed to have been in issue throughout the Relevant Periods.

## 26. RESERVES

### Group

Details of the movements on the Group's reserve are as set out in the consolidated statements of changes in equity in section I.

#### *Capital reserve*

As at 1 January 2011, the capital reserve of the Group represented 30% equity interest of Quanzhou Guarantee which was under the common control of Mr. Hong via Aidu.

As at 31 December 2011, the capital reserve of the Group represented 30% equity interest of Quanzhou Guarantee and 100% equity interest of Differ Import & Export which were under the common control of Mr. Hong via Aidu and Mr. Hong directly respectively.

As at 31 December 2012, the capital reserve of the Group represented the registered capital and capital reserve of Differ Holding and Differ Pawn held indirectly by the Company and 100% equity interest of Differ Import & Export which was under the common control of Mr. Hong.

As at 31 July 2013, the capital reserve of the Group represented the registered capital and capital reserve of Differ Holding and Differ Pawn amounting to RMB228,000,000 and RMB30,000,000 respectively.

#### *Merger reserve*

As at 1 January 2011 and 31 December 2011, the merger reserve of the Group arose as a result of the Reorganisation and represented the difference between the nominal value of the registered capital and capital reserve of Differ Holding and the nominal value of the shares of the Company issued pursuant to the Reorganisation.

As at 31 December 2012 and 31 July 2013, the merger reserve of the Group arose as a result of the Reorganisation and represented the difference between the nominal value of the registered capital and capital reserve of Differ Hong Kong and the nominal value of the shares of the Company issued pursuant to the Reorganisation.

#### *Statutory reserve*

In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of registered capital.

**Company**

	<b>Accumulated losses</b> <i>RMB'000</i>
At 4 December 2012 (date of incorporation)	—
Loss for the period and total comprehensive loss for the period	<u>(59)</u>
At 31 December 2012 and 1 January 2013	(59)
Loss for the period and total comprehensive loss for the period	<u>(31)</u>
At 31 July 2013	<u><u>(90)</u></u>

**27. COMMITMENTS****Group***(i) Operating lease commitments*

Future minimum rental payable under non-cancellable operating lease of the Group in respect of buildings at the end of each reporting period are as follows:

	<b>As at 31 December</b>		<b>As at 31 July</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	229	95	44
Within two to fifth year	<u>199</u>	<u>—</u>	<u>—</u>
	<u><u>428</u></u>	<u><u>95</u></u>	<u><u>44</u></u>

The Group leases certain properties under operating leases. The leases run for an initial period of 1 to 5 years, with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. None of these leases include any contingent rentals.

*(ii) Capital commitments*

	<b>As at 31 December</b>		<b>As at 31 July</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commitments for the acquisition of property, plant and equipment:			
Contracted, but not provide for	<u>589</u>	<u>—</u>	<u>19</u>

*(iii) Other commitments*

As at each reporting date, the Group entered into certain unexecuted loan agreements with independent third parties. Based on contracted amounts of the loan agreements, the Group had the following commitments:

	<b>As at 31 December</b>		<b>As at 31 July</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provide for	<u>—</u>	<u>20,000</u>	<u>—</u>

At each reporting date, the Company did not have any significant commitments.

## 28. RELATED PARTY DISCLOSURES

## (i) Balances and transactions

Other than the related party balances and transactions disclosed in notes 20, 23 and 24 to the Financial Information, the Group had the following material transactions with related parties during the Relevant Periods:

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Consultancy service income from a related company in which Mr. Hong is a shareholder	240	—	—	—
Guarantee service income from a related company in which Ms. Shi is a shareholder	192	18	18	212
Guarantee service income from a related company in which Ms. Shi and Mr. Cai have beneficial interest*	—	199	—	76
Interest income from the father of Mr. Ng Chi Chung	121	—	—	—

\* The Group entered into a guarantee agreement with a related company on 10 August 2012 to provide counter-guarantee service to the related company by acting as the counter-guarantor for the related company in favour of a bank in Quanzhou in order to facilitate the related company in obtaining certain performance guarantee services from the bank. The related company is beneficially owned as to 60% by Ms. Shi and as to 40% by Mr. Cai. The guarantee amount was RMB22.16 million and the original guarantee period as stated in the guarantee agreement was 60 months. The guarantee agreement was subsequently terminated in April 2013.

(ii) For the years ended 31 December 2011 and 2012 and seven months ended 31 July 2012 and 2013, guarantee service income of approximately RMB350,000, RMB131,000, RMB69,000 and nil respectively was received in respect of certain financial guarantees issued by the Group to independent third parties. These financial guarantees were guaranteed by Mr. Cai, Mr. Hong or Mr. Ng Chi Chung.

## (iii) Compensation of key management personnel

Key management includes members of the board of directors and other members of key management of the Group. The compensation paid or payable to key management personnel whose emolument fell within the band of nil to HK\$1,000,000, is shown below:

	Year ended 31 December		Seven months ended 31 July	
	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Short-term employee benefits	1,079	1,646	930	1,415
Pension scheme contributions	25	24	13	25
	1,104	1,670	943	1,440



**29. DISPOSAL OF A SUBSIDIARY**

During the year ended 31 December 2012, the Group disposed of its 100% interest in the registered capital of Fujian VC, at a cash consideration of RMB50,050,000 which was equivalent to the value of net assets disposed of.

	<b>Year ended 31 December 2012 RMB'000</b>
Net assets disposed of:	
Investment in associate	3,250
Amount due from a director	51,598
Cash and cash equivalents	77
Amount due to related companies	<u>(4,875)</u>
	50,050
Gain on disposal of a subsidiary	<u>—</u>
Total consideration	<u><u>50,050</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<b>Year ended 31 December 2012</b>
Cash consideration	50,050
Cash and bank balances disposed of	<u>(77)</u>
	49,973
Offset with amount due from a director	<u>(49,973)</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u><u>—</u></u>

The losses attributable to the disposed subsidiary included in the Group's profit or loss for the year ended 31 December 2012 amounted to approximately RMB80,000.

**30. FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

**Group**

	<b>As at 31 December</b>		<b>As at 31 July</b>
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial assets</b>			
Loans and receivables			
Loan and account receivables	58,384	161,668	194,879
Other receivables	2,432	11,145	890
Amount due from a related company	—	5,812	—
Amount due from a director	92,778	6,822	—
Restricted bank deposits	98,797	96,112	93,545
Cash and cash equivalents	<u>15,792</u>	<u>48,996</u>	<u>66,633</u>
	<u>268,183</u>	<u>330,555</u>	<u>355,947</u>

**Financial liabilities**

## At amortised costs

Accruals, deposits received and other payables	310	1,988	16,120
Amount due to shareholders	—	19,875	19,562
Interest-bearing bank borrowings	<u>8,404</u>	<u>—</u>	<u>—</u>
	<u>8,714</u>	<u>21,863</u>	<u>35,682</u>

**Company**

	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 July</b>
	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial liabilities</b>		
At amortised costs		
Accruals and other payables	<u>59</u>	<u>90</u>

**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise loan and account receivables, other receivables, amounts due from a related company and a director, restricted bank deposits, cash and cash equivalents, accruals, deposits received, other payables, interest-bearing bank borrowings and amount due to shareholders. These financial instruments mainly arise from its operations.

The carrying amounts of the Group's financial instruments approximated their fair values as at the end of each reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

**Interest rate risk**

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Group's bank balances and restricted bank deposits were bearing floating interest rate. The Group also borrows loans issued at floating interest rates. Exposure to floating interest rate exists when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no undue exposures to significant interest rate movements and rates are approximately fixed when necessary.

The interest rates and terms of repayment of the above interest-bearing financial assets and liabilities of the Group are disclosed in notes 17, 21 and 24 respectively. The following table illustrates the sensitivity of profit after income tax for the years presented to a reasonably possible change in interest rates of 0.5%, with effect from the beginning of the years presented. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's floating rate financial instruments held at the end of each of the years. All other variables are held constant. There is no impact on other components of combined equity in response to the possible change in interest rates.

	Year ended 31 December				Seven months ended	
	2011		2012		31 July 2013	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	+0.5%	-0.5%	+0.5%	-0.5%	+0.5%	-0.5%
Increase/(decrease) in profit after income tax for the year and retained profits	398	(398)	544	(544)	601	(601)

**Credit risk**

It is the Group's policy that all customers who wish to obtain loans from the Group are subject to management review. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The Group holds collateral directly or indirectly to cover its risks associated with loan and account receivables.

All collateral of pawn loan receivables were held directly by the Group. For entrusted loan receivables, the Group holds collateral of the customers directly or indirectly through bank. In case of default, the bank would assist the Group to recover the loan. Based on the arrangement of the Group and the bank, the bank may apply to the court for enforcement of the loan agreement and sale of the collateral.

As at 31 December 2011, 2012 and 31 July 2013, the Group's exposure under outstanding loan and account receivables were secured by the collateral of the customers as disclosed in note 18.

All customers who wish to obtain financial guarantee from the Group are also subject to management review. The Group has entered into financial guarantee contracts in which it has guaranteed the bank the repayment of loan by customers of the Group. The Group has the obligation to compensate the bank for the loss it would suffer because the customers fail to repay. The Group's maximum exposure under the financial guarantee contracts is disclosed in "liquidity risk" below. To mitigate such risk, the Group requests the customers to provide collateral as appropriate. In the event of default or failure to repay any outstanding guarantee amounts by the customers, the Group will proceed with sale of collateral. In order to maintain the credit risk at desirable levels, the Group's average loan-to-value ratio was kept at a level that could ensure the recoverability of the outstanding guarantee amount. As at 31 December 2011, 2012 and 31 July 2013, the Group's exposure under unexpired financial guarantee contracts were secured by the collateral of the customers as follows:

	As at 31 December		As at 31 July
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Real estate	250,746	378,286	311,890
Inventories	215,689	393,963	606,172
Machinery	31,562	74,591	123,171
Motor vehicles	1,773	9,431	9,040
Property rights	—	167,599	2,050
	<u>499,770</u>	<u>1,023,870</u>	<u>1,052,323</u>

The credit risk of the Group's other financial assets, which mainly comprise restricted bank deposits and cash and cash equivalents, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Credit risk in restricted bank deposits and cash and cash equivalents is mitigated as cash is deposited in banks with high credit rating.

#### Liquidity risk

Management of the Group monitors current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, are as follows:

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Repayable on demand RMB'000	Within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	After five years RMB'000
<b>Group</b>							
<b>At 31 December 2011</b>							
Accruals and other payables	310	310	—	310	—	—	—
Interest-bearing bank borrowings	8,404	11,219	—	1,763	1,670	4,453	3,333
	<u>8,714</u>	<u>11,529</u>	<u>—</u>	<u>2,073</u>	<u>1,670</u>	<u>4,453</u>	<u>3,333</u>
<b>Financial guarantees issued</b>							
Maximum amount guaranteed	<u>246,590</u>	<u>246,590</u>	<u>246,590</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>At 31 December 2012</b>							
Accruals and other payables	1,988	1,988	—	1,988	—	—	—
Amount due to shareholders	19,875	19,875	19,875	—	—	—	—
	<u>21,863</u>	<u>21,863</u>	<u>19,875</u>	<u>1,988</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Financial guarantees issued</b>							
Maximum amount guaranteed	<u>408,310</u>	<u>408,310</u>	<u>408,310</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>At 31 July 2013</b>							
Accruals, deposits received and other payables	16,120	16,120	—	5,672	—	10,448	—
Amount due to shareholders	19,562	19,562	19,562	—	—	—	—
	<u>35,682</u>	<u>35,682</u>	<u>19,562</u>	<u>5,672</u>	<u>—</u>	<u>10,448</u>	<u>—</u>
<b>Financial guarantees issued</b>							
Maximum amount guaranteed	<u>484,100</u>	<u>484,100</u>	<u>484,100</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Company</b>							
<b>At 31 December 2012</b>							
Accruals and other payables	<u>59</u>	<u>59</u>	<u>—</u>	<u>59</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>At 31 July 2013</b>							
Accruals and other payables	<u>90</u>	<u>90</u>	<u>—</u>	<u>90</u>	<u>—</u>	<u>—</u>	<u>—</u>

#### Fair value

The following table presents the fair value of collateral held by the Group in accordance with the fair value hierarchy. The hierarchy groups collateral into three levels based on the relative reliability of significant inputs used in measuring the fair value of these collateral. The fair value hierarchy has the following levels:

- Level 1: quoted price (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable of the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the assets that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the collateral is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The collateral measured at fair value are grouped into the fair value hierarchy as follows:

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
<b>At 31 December 2011</b>			
Real estate	—	629,396	—
Movable property	—	215,689	34,590
	<u>—</u>	<u>845,085</u>	<u>34,590</u>
<b>At 31 December 2012</b>			
Real estate	—	568,713	—
Movable property	16,886	432,377	84,022
Property rights	—	—	176,472
	<u>16,886</u>	<u>1,001,090</u>	<u>260,494</u>
<b>At 31 July 2013</b>			
Real estate	—	548,762	—
Movable property	8,100	612,672	132,211
Property rights	—	—	16,550
	<u>8,100</u>	<u>1,161,434</u>	<u>148,761</u>

The fair values of collateral categorised as Level 1 were determined by reference to the quoted bid prices from active markets with actual and regularly occurring market transactions on an arm's length basis.

The fair values of collateral categorised as Level 2 were determined by using valuation techniques such as market approach. These valuation techniques maximise the use of observable market data where it is available for all significant inputs and rely as little as possible on entity specific estimates.

The fair values of collateral categorised as Level 3 were determined by using valuation techniques such as current replacement cost and discounted cash flow. These valuation techniques make use of unobservable data including estimated costs of replacement, estimated obsolescence, forecast of cash flows and discount rate.

There have been no transfers between level 1, 2 and 3 and no changes in valuation techniques during the Relevant Periods.

### Capital management

The Group's capital management objectives include:

- (i) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for owners and benefits for other stakeholders;
- (ii) to support the Group's stability and growth; and
- (iii) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder's returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

Management regards total equity as capital. The amount of capital as at 31 December 2011, 2012 and 31 July 2013 amounted to approximately RMB272,921,000, RMB312,380,000 and RMB322,967,000 respectively, which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

**32. CONTINGENT LIABILITIES**

At the end of each of the reporting period, the Group did not have any significant contingent liabilities.

**33. EVENT AFTER THE REPORTING PERIOD**

The companies comprising the Group underwent the Reorganisation in preparation for the listing of shares of the Company on the Stock Exchange. Further details of the Reorganisation are set out in note 2.1 to this report.

Except as disclosed elsewhere in this report, there are no other material subsequent events undertaken by the Company or by the Group after 31 July 2013.

**34. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 July 2013.

Yours faithfully,

**BDO Limited**

*Certified Public Accountants*

**Joanne Y.M. Hung**

Practising Certificate no. P05419

Hong Kong

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the accountants' report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 7.31 of the GEM Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is set forth below to provide the prospective investors with further information on how the Placing might have affected the net tangible assets of the Group attributable to owners of the Company after the completion of the Placing.

### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Placing on the net tangible assets of the Group attributable to owners of the Company as if the Placing had taken place on 31 July 2013. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Placing been completed as of 31 July 2013 or at any future dates.

	Unadjusted audited consolidated net tangible assets attributable to the owners of the Company as at 31 July 2013 <i>RMB'000</i> <i>(note 1)</i>	Estimated net proceeds from the Placing <i>RMB'000</i> <i>(note 2)</i>	Unaudited pro forma adjusted net tangible assets attributable to the owners of the Company <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>RMB</i> <i>(note 3)</i>	<i>HK\$</i> <i>(note 6)</i>
Based on the Placing Price of HK\$0.78 per Share	<u>322,967</u>	<u>146,074</u>	<u>469,041</u>	<u>0.47</u>	<u>0.59</u>
Based on the Placing Price of HK\$0.60 per Share	<u>322,967</u>	<u>110,974</u>	<u>433,941</u>	<u>0.43</u>	<u>0.54</u>

*Notes:*

- (1) The unadjusted audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 July 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Placing are based on the indicative Placing Price of HK\$0.60 and HK\$0.78 per Share respectively, after deduction of the underwriting fees and other related expenses payable by our Company. No account has been taken of any Shares which may be issued upon the exercise of Over-allotment Option or options that may be granted under the Share Option Scheme.



## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 1,000,000,000 Shares in issue immediately following the completion of the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme or any Shares which may be allotted, issued or repurchase by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.
- (4) The property and land interests of the Group as at 31 October 2013 were valued by Asset Appraisal Limited. Details of the valuation in respect of these property and land interests were set out in Appendix III to this prospectus.

By comparing the above valuation and the unaudited net book values of the buildings and land use rights as at 31 October 2013, the revaluation surplus of the property and land interest of approximately RMB13.3 million will not be included in the Group's financial information for the year ending 31 December 2013.

Had all the property and land interests been stated at such valuations, an additional depreciation or amortisation of approximately RMB0.67 million would be charged for the year ending 31 December 2013.

- (5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 July 2013.
- (6) The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong Dollars at an exchange rate of RMB0.8 to HK\$1.0, being the same exchange rate used in this prospectus.

**B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of report received from the reporting accountants of the Group, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.*



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www.bdo.com.hk

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111 Connaught Road Central  
Hong Kong

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傳真：+852 2815 2239  
www.bdo.com.hk

香港干諾道中111號  
永安中心25樓

3 December 2013

The Directors  
Differ Group Holding Company Limited

Messis Capital Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Differ Group Holding Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 July 2013 and related notes. The pro forma financial information and the applicable criteria on the basis of which the directors have compiled the pro forma financial information are set out in Section A of Appendix II to the prospectus dated 3 December 2013 issued by the Company in connection with the listing of the Company’s shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**Prospectus**”).

The pro forma financial information has been compiled by the directors to illustrate the impact of the proposed placing (the “**Placing**”) on the Group’s consolidated net tangible assets attributable to the owners of the Company as at 31 July 2013 as if the Placing had taken place on the same date. As part of this process, information about the Group’s consolidated net tangible assets attributable to the owners of the Company as at 31 July 2013 has been extracted by the directors from the Group’s financial statements, on which an accountants’ report has been published.

**Directors’ Responsibility for the Pro Forma Financial Information**

The directors are responsible for compiling the 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 (“**AG**”) 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

### **Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the 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 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 accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 pro forma financial information.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of the Placing on unadjusted financial information of the Group as if the Placing had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 July 2013 would have been as presented.

A reasonable assurance engagement to report on whether the 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 pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 pro forma financial information has been properly compiled 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 pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

**BDO Limited**

*Certified Public Accountants*

**Joanne Y.M. Hung**

Practising Certificate no. P05419

Hong Kong

*The following is the text of a letter, summary of valuation and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Asset Appraisal Limited, an independent property valuer, in connection with its valuation as at 31 October 2013 of the property interests held by the Group.*



**Asset Appraisal Limited**  
中誠達資產評估顧問有限公司

Rm 901, 9/F., On Hong Commercial Building  
145 Hennessy Road, Wanchai, Hong Kong  
香港灣仔軒尼詩道145號  
安康商業大廈9字樓901室  
Tel : (852) 2529 9448 Fax : (852) 3521 9591

3 December 2013

**The Board of Directors**  
**Differ Group Holding Company Limited**

Dear Sirs,

**Re: Valuation of property interests situated in the People's Republic of China (the "PRC")**

In accordance with the instructions of **Differ Group Holding Company Limited** (the "**Company**") to value the property interests (the "**Properties**") held by the Company and its subsidiaries (altogether referred to as the "**Group**") situated in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at **31 October 2013** (the "**date of valuation**").

**BASIS OF VALUATION**

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

**TITLESHIP**

We have been provided with copies of legal documents regarding the Properties. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect their ownership. Further, we have relied upon the legal opinion provided by the PRC legal advisers, namely Tian Yuan Law Firm (天元律師事務所) (the "**PRC Legal Opinion**"), to the Company on the relevant laws and regulations in the PRC, on the nature of leasehold interests in the property situated in the PRC. Its material content has been summarized in the valuation certificate attached herewith.

**VALUATION METHODOLOGY**

The Properties have been valued by the comparison method where comparison was based on price information of comparable properties. Comparable properties of similar size, character and location have been analysed and carefully selected of each property in order to arrive at a fair comparison of capital values.

The Groups' interests in those Properties rented by it have no commercial value due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

**ASSUMPTIONS**

Our valuation has been made on the assumption that the owner sells the Properties on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the Properties.

For Properties are held by the owners by means of long term Land Use Rights granted by the PRC Government, we have assumed that the owners have free and uninterrupted rights to use the Properties for the whole of the respective unexpired terms of the land use rights.

Unless stated as otherwise, we have assumed that the owners of the Properties have the right to sell, mortgage, charge or otherwise dispose of the Properties to any person without payment of any additional premium or substantial fee to government authorities.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

**LIMITING CONDITIONS**

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties valued nor for any expenses or taxation. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the legal documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

The Property was inspected on 28 January 2013 by Mr. Liu Ho Chi, who is a member of The Hong Kong Institute of Surveyors and a member of the Royal Institution of Chartered Surveyors. However, no structural survey has been made for them. In the course of our inspection, we did not note

any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the Properties, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

All monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,  
for and on behalf of  
**Asset Appraisal Limited**  
**Tse Wai Leung**  
*MFin BSc MRICS MHKIS RPS(GP)*  
*Director*

*Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.*

## SUMMARY OF VALUATION

Property	Market Value in existing state as at 31 October 2013 <i>RMB</i>
<b>Group I — Properties owned and held by the Group for self-occupation</b>	
1. Units 2301 to 2306, No. 166 Tapu East Road, Siming District, Xiamen City, Fujian Province, the PRC	30,000,000
<b>Sub-total:</b>	30,000,000
<b>Group II — Properties leased by the Group</b>	
2. Unit D on Level 20, Industrial Bank Co., Ltd. Quanzhou Building, Southern side of Fengze Street — East Section, Quanzhou City, Fujian Province, the PRC	No commercial value
3. Level 9, Hengyu Trading Center, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi City, Fujian Province, the PRC	No commercial value
4. Shop No. 2 on Level 1, Hengyu Trading Center, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi City, Fujian Province, the PRC	No commercial value



<b>Property</b>	<b>Market Value in existing state as at 31 October 2013 RMB</b>
5. Units 114, 115, 125 and 126, No. 619 Sishui Road, Huli District, Xiamen City, Fujian Province, the PRC	No commercial value
	<hr/>
	<b>Sub-total:</b> <u>No commercial value</u>
	<b>Grand total:</b> <u><u>30,000,000</u></u>

## VALUATION CERTIFICATE

## Group I — Properties owned and held by the Group for self-occupation

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2013 RMB
1. Units 2301 to 2306, No. 166 Tapu East Road, Siming District, Xiamen City, Fujian Province, the PRC  (福建省 廈門市思明區 塔埔東路166號 2301至2306單元)	The property comprises six office units on Level 23 within a 36-storey office building completed in about 2009.  The total gross floor area of the property is 1,882.84 square metres or thereabout.  The land use rights of the property have been granted for a term commencing on 19 December 2005 and expiring on 19 December 2055 for office use.	The property is occupied by the Group for office use.	30,000,000

*Notes:*

- Pursuant to a Xiamen Land and Building Ownership Certificate (廈門市土地房屋權證) (Ref: Xia Guo Tu Fang Zheng Di No. 01014572 (廈國土房證第01014572號)) dated 24 October 2012, Unit 2301 of the property with a gross floor area of approximately 550.43 square metres is owned by Differ VC, an indirect wholly-owned subsidiary of the Company for office use.
- Pursuant to another Xiamen Land and Building Ownership Certificate (Ref: Xia Guo Tu Fang Zheng Di No. 01014565 (廈國土房證第01014565號)) dated 24 October 2012, Unit 2302 of the property with a gross floor area of approximately 248.64 square metres is owned by Differ VC for office use.
- Pursuant to another Xiamen Land and Building Ownership Certificate (Ref: Xia Guo Tu Fang Zheng Di No. 01014516 (廈國土房證第01014516號)) dated 24 October 2012, Unit 2303 of the property with a gross floor area of approximately 255.12 square metres is owned by Differ VC for office use.
- Pursuant to another Xiamen Land and Building Ownership Certificate (Ref: Xia Guo Tu Fang Zheng Di No. 01014512 (廈國土房證第01014512號)) dated 24 October 2012, Unit 2304 of the property with a gross floor area of approximately 452.44 square metres is owned by Differ VC for office use.
- Pursuant to another Xiamen Land and Building Ownership Certificate (Ref: Xia Guo Tu Fang Zheng Di No. 01014503 (廈國土房證第01014503號)) dated 24 October 2012, Unit 2305 of the property with a gross floor area of approximately 190.54 square metres is owned by Differ VC for office use.
- Pursuant to another Xiamen Land and Building Ownership Certificate (Ref: Xia Guo Tu Fang Zheng Di No. 01014510 (廈國土房證第01014510號)) dated 24 October 2012, Unit 2306 of the property with a gross floor area of approximately 185.67 square metres is owned by Differ VC for office use.
- Pursuant to aforesaid Xiamen Land and Building Ownership Certificates, the land use rights of the property have been granted for a term commencing on 19 December 2005 and expiring on 19 December 2055 for office use.
- As advised by the Company, Units 2303 to 2306 of the property was acquired on 13 May 2010 and Units 2301 to 2302 of the property was acquired on 28 June 2011. The total acquisition cost of the property was RMB17,411,875.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - i. Differ VC has legally obtained the building ownership rights of the property and has the right to occupy, use, transfer, lease, mortgage or otherwise dispose of the property by other legal means; and
  - ii. The building ownership rights of the property are free from any mortgage or other encumbrances or third party restrictions.

## VALUATION CERTIFICATE

## Group II — Properties leased by the Group

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2013 RMB
2. Unit D on Level 20, Industrial Bank Co., Ltd. Quanzhou Building, Southern side of Fengze Street — East Section, Quanzhou City, Fujian Province, the PRC  (福建省 泉州市 豐澤街東段南側 興業銀行泉州大廈 第20層D單元)	<p>The property comprises an office unit on Level 20 within a 28-storey office building completed in about 1993.</p> <p>The gross floor area of the property is 266 square metres or thereabout.</p> <p>The property is held by the Group under a tenancy for a term commencing on 1 September 2013 and expiring on 31 August 2014 at a monthly rent of RMB13,300 exclusive of management fees, water charges, electricity charges and other outgoings.</p>	The property is occupied by the Group for office use.	No commercial value

*Notes:*

1. Pursuant to a tenancy agreement dated 23 January 2013, Differ Guarantee, an indirect wholly-owned subsidiary of the Company, rented the property with a gross floor area of approximately 266 square metres from Industrial Bank Co., Ltd. — Quanzhou Sub-branch (興業銀行股份有限公司泉州分行), an independent third party, for a term commencing on 1 September 2013 and expiring on 31 August 2014 at a monthly rent of RMB13,300 exclusive of management fees, water charges, electricity charges and other outgoings for office use.
2. Pursuant to a Building Ownership Certificate (房屋所有權證) (Ref: Quan Fang Quan Zheng Feng Ze Qu (Feng) Zi Di No. 09305 (泉房權證豐澤區(豐)字第09305號)), the property is owned by Industrial Bank Co., Ltd. — Quanzhou Sub-branch.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - i. Industrial Bank Co., Ltd. — Quanzhou Sub-branch has legally obtained the building ownership rights of the property and has the right to lease the property to Differ Guarantee;
  - ii. The tenancy agreement has been registered in the relevant authority.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2013 RMB
3. Level 9, Hengyu Trading Center, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi City, Fujian Province, the PRC  (福建省 石獅市 石泉路東北側 華山村K8號樓 恒宇商貿中心9樓)	<p>The property comprises the whole office space on Level 9 within a 9-storey office building completed in about 2007.</p> <p>The total gross floor area of the property is 702 square metres or thereabout.</p> <p>The property is held by the Group under two tenancies for a term commencing on 20 November 2013 and expiring on 20 November 2016 at a total monthly rent of RMB10,530 payable in advance annually exclusive of management fees, water charges, electricity charges and other outgoings.</p>	The property is occupied by the Group for office use.	No commercial value

*Notes:*

1. Pursuant to a tenancy agreement dated 14 November 2013, Differ Guarantee, an indirect wholly-owned subsidiary of the Company, rented the property with a gross floor area of approximately 42 square metres from Shishi Hengyu Trading Center (石獅市恒宇商貿中心), an independent third party, for a term commencing on 20 November 2013 and expiring on 20 November 2016 at a total monthly rent of RMB630 payable in advance annually exclusive of management fees, water charges, electricity charges and other outgoings for office use.
2. Pursuant to another tenancy agreement dated 14 November 2013, Differ Pawn, an indirect wholly-owned subsidiary of the Company, rented the property with a gross floor area of approximately 660 square metres from Shishi Hengyu Trading Center (石獅市恒宇商貿中心), an independent third party, for a term commencing on 20 November 2013 and expiring on 20 November 2016 at a total monthly rent of RMB9,900 payable in advance annually exclusive of management fees, water charges, electricity charges and other outgoings for office use.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - i. The lessor is unable to provide the relevant building ownership certificate to prove his legal title to the property. If there is a dispute over the ownership of aforesaid property, the lessee would be unable to use the property. According to the terms of the aforesaid tenancy agreements, the lessor is liable to compensate for the loss to the Group in case the lessee is unable to use the property due to any dispute over the ownership of the property; and
  - ii. There will have no material risk to the business and operation of the Company if there is a dispute over the ownership of aforesaid property.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2013 RMB
4. Shop No. 2 on Level 1, Hengyu Trading Center, Block K8, Huashan Village, Northeastern side of Shiquan Road, Shishi City, Fujian Province, the PRC  (福建省石獅市石泉路東北側華山村K8號樓恒宇商貿中心1樓第二間臨街店面)	<p>The property comprises a shop unit on Level 1 within a 9-storey office building completed in about 2007.</p> <p>The gross floor area of the property is 104 square metres or thereabout.</p> <p>The property is held by the Group under a tenancy for a term of 3 years commencing on 20 November 2013 and expiring on 20 November 2016 at a monthly rent of RMB6,000 payable in advance annually, exclusive of management fees, water charges, electricity charges and other outgoings.</p>	The property is occupied by the Group as a pawn shop.	No commercial value

*Notes:*

1. Pursuant to a tenancy agreement dated 14 November 2013, Differ Pawn, an indirect wholly-owned subsidiary of the Company, rented the property with a gross floor area of approximately 104 square metres from Shishi Hengyu Trading Center (石獅市恒宇商貿中心), an independent third party, for a term of 3 years commencing on 20 November 2013 and expiring on 20 November 2016 at a monthly rent of RMB6,000 payable in advance annually, exclusive of management fees, water charges, electricity charges and other outgoings for pawn shop (典當行) use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - i. The lessor is unable to provide the relevant building ownership certificate to prove his legal title to the property. If there is a dispute over the ownership of aforesaid property, the lessee would be unable to use the property. According to the terms of the aforesaid tenancy agreement, the lessor is liable to compensate for the loss to the Group in case the lessee is unable to use the property due to any dispute over the ownership of the property; and
  - ii. There will have no material risk to the business and operation of the Company if there is a dispute over the ownership of aforesaid property.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 October 2013 RMB
5. Units 114, 115, 125 and 126, No. 619 Sishui Road, Huli District, Xiamen City, Fujian Province, the PRC  (福建省廈門市湖里區泗水道619號114, 115, 125及126室)	<p>The property comprises an office space on Level 4 within a 20-storey office building completed in about 2009.</p> <p>The property is held by the Group under four certificates granting free right of use for a term of one year commencing on between 9 January 2013 and 1 June 2013 and expiring on between 8 January 2014 and 31 May 2014.</p>	The property is occupied by the Group for office use.	No commercial value

*Notes:*

1. Pursuant to a certificate dated 1 June 2013, Xiamen Differ Financial Leasing Company Limited (廈門市鼎豐融資租賃有限公司), an indirect wholly-owned subsidiary of the Company, rented the Unit 115 of property from Xiamen Huli State-owned Assets Investment Co., Ltd. (廈門市湖里區國有資產投資有限公司), an independent third party, for a term of one year commencing on 1 June 2013 and expiring on 31 May 2014 and free of charge and rental payment for office use.
2. Pursuant to another certificate dated 24 May 2013, Differ Holding (Xiamen) Company Limited (鼎豐控股(廈門)有限公司), an indirect wholly-owned subsidiary of the Company, rented the Unit 125 of property from Xiamen Huli State-owned Assets Investment Co., Ltd. (廈門市湖里區國有資產投資有限公司) for a term of one year commencing on 24 May 2013. and expiring on 23 May 2014 and free of charge and rental payment for office use.
3. Pursuant to another certificate dated 9 January 2013, Differ Guarantee Company Limited (鼎豐擔保股份有限公司), an indirect wholly-owned subsidiary of the Company, rented the Unit 126 of property from Xiamen Huli State-owned Assets Investment Co., Ltd. (廈門市湖里區國有資產投資有限公司) for a term of one year commencing on 9 January 2013 and expiring on 8 January 2014 and free of charge and rental payment for office use.
4. Pursuant to another certificate dated 17 April 2013, Xiamen Differ Import and Export Development Company Limited (廈門鼎豐進出口發展有限公司), an indirect wholly-owned subsidiary of the Company, rented the Unit 114 of property from Xiamen Huli State-owned Assets Investment Co., Ltd. (廈門市湖里區國有資產投資有限公司) for a term of one year commencing on 17 April 2013 and expiring on 16 April 2014 and free of charge and rental payment for office use.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - i. The lessor is unable to provide the relevant building ownership certificate to prove his legal title to the property. If there is a dispute over the ownership of aforesaid property, the lessee would be unable to use the property; and
  - ii. There will have no material risk to the business and operation of the Company if there is a dispute over the ownership of aforesaid property.

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 4 December 2012 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

### 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 26 November 2013. The following is a summary of certain provisions of the Articles:

#### (a) Directors

##### (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.



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Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the

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board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

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- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

Further, any Director who is prohibited from voting on any resolution of the Board is not entitled to attend the meeting at which such resolution is proposed unless his presence at the meeting is expressly requested by a majority of those Directors who have been designated by the Company as independent non-executive Directors but in no circumstances shall such Director be counted in the quorum or be allowed to vote on such resolution.

*(vi) Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include

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any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;

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- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(viii) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

*(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

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*(x) Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly



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authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

### **(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

### **(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.



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The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

### **(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

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Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

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The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers. The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

### **(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

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**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the

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Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

### **(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is 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 may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

### **(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the

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same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

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A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

### **(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

### **(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

### **(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the



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Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

### **(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

### **3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### **(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

#### **(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and



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repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

### **(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

### **(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the

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manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

### **(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

### **(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the

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company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

### **(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

### **(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

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**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 8 January 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of

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members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

### **(n) Winding up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims,

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discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

### **(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

### **(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

### **(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

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#### **4. GENERAL**

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation of our Company**

Our Company, Differ Group Holding Company Limited (formerly known as Differ Holding Group Company Limited), was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 4 December 2012. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 12 April 2013 and the principal place of business in Hong Kong is at 19/F., Prosperity Tower, No. 39 Queen's Road Central, Central, Hong Kong. Mr. Cai who resides at Flat E, 15th Floor, Block 16, Provident Centre, No. 51 Wharf Road, North Point, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of processes and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the relevant laws of the Cayman Islands and its constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Cayman Islands company law and certain provisions of the Articles is set out in Appendix IV to this Prospectus.

**2. Changes in share capital of our Company**

- (a) As at the date of incorporation of our Company, the authorised share capital was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 4 December 2012, one Share was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, which was transferred to Ms. Shi at nil consideration on the same date. On the same date, our Company also allotted and issued in nil paid form another 599 Shares to Ms. Shi and 400 Shares to Mr. Cai.
- (b) On 26 November 2013, the Shareholders resolved to increase the authorised share capital of the Company from HK\$380,000 to HK\$50,000,000 by the creation of an additional of 4,962,000,000 Shares, each ranking pari passu with the Shares then in issue in all respects, pursuant to a resolution passed by all Shareholders referred to in paragraph 3 below.

Immediately following completion of the Placing and the Capitalisation Issue (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and the Over-allotment Option), the authorised share capital of our Company will be HK\$50,000,000 divided into 5,000,000,000 Shares, of which 1,000,000,000 Shares will be issued fully paid or credited as fully paid, and 4,000,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of all Shareholders passed on 26 November 2013" in this section, the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme, the Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.



Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

### 3. Written resolutions of all Shareholders passed on 26 November 2013

By written resolutions of all Shareholders passed on 26 November 2013:

- (a) our Company approved and adopted the Articles, the terms of which are summarised in Appendix IV of this prospectus;
- (b) the authorised share capital of our Company was increased from HK\$380,000 to HK\$50,000,000 by the creation of an additional of 4,962,000,000 Shares of HK\$0.01 each;
- (c) conditional on (aa) the Listing Division granting listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Share Option Scheme and (bb) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreement:
  - (i) the Placing and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to (aa) allot and issue the Placing Shares pursuant to the Placing and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option; (bb) implement the Placing and the listing of Shares on GEM; and (cc) do all things and execute all documents in connection with or incidental to the Placing and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
  - (iii) conditional on the share premium account of our Company being credited as a result of the Placing, our Directors were authorised to capitalise HK\$7,499,989 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 749,998,900 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at the close of business on 26 November 2013 (or as they may direct) in proportion (as near as possible without involving fractions so that no fraction of a

share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that our Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might acquire Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or upon the exercise of any options which may be granted under the Share Option Scheme or under the Placing or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal value not exceeding the sum of (aa) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, (bb) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (e) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first;
- (e) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first; and
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in

issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme.

#### 4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the Listing, pursuant to which our Company became the holding company of our Group. The Reorganisation included the following major steps:

- (a) on 4 December 2012, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 4 December 2012, our Company issued and allotted in nil paid form one Share to Codan Trust Company (Cayman) Limited, which was transferred to Ms. Shi at nil consideration on the same date. On the same date, our Company also issued and allotted in nil paid form another 599 Shares and 400 Shares to Ms. Shi and Mr. Cai respectively;
- (b) on 6 November 2012, RongXin Company Limited was incorporated in BVI for the purpose of acting as the intermediate holding company of our Group with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 6 November 2012, 600 shares and 400 shares of RongXin Company Limited credited as fully paid at par were issued and allotted to Ms. Shi and Mr. Cai respectively;
- (c) on 20 November 2013, RongXin Company Limited acquired 1 share of Differ Hong Kong from Thrive Expand Limited, which represented the entire issued share capital of Differ Hong Kong at a consideration of HK\$1 pursuant to the sale and purchase agreement dated 20 November 2013 and entered into between RongXin Company Limited and Thrive Expand Limited;
- (d) on 26 November 2013, Thrive Expand Limited entered into a deed of novation with Differ Hong Kong and RongXin Company Limited pursuant to which Differ Hong Kong transferred all its liabilities and obligations to RongXin Company Limited and RongXin Company Limited assumed Differ Hong Kong's liabilities and obligations in connection with the outstanding sum in the amount of approximately RMB247,562,000 due from Differ Hong Kong to Thrive Expand Limited;
- (e) on 26 November 2013, Thrive Expand Limited entered into a deed of assignment with Ms. Shi and RongXin Company Limited pursuant to which Thrive Expand Limited assigned and transferred all its rights and obligations to Ms. Shi in connection with the outstanding sum in the amount of approximately RMB148,537,000 due from RongXin Company Limited to Thrive Expand Limited;
- (f) on 26 November 2013, Thrive Expand Limited entered into a deed of assignment with Mr. Cai and RongXin Company Limited pursuant to which Thrive Expand Limited assigned and transferred all its rights and obligations to Mr. Cai in connection with the outstanding sum in the amount of approximately RMB99,025,000 due from RongXin Company Limited to Thrive Expand Limited;

- (g) on 26 November 2013, RongXin Company Limited entered into a deed of capitalisation with Ms. Shi pursuant to which Ms. Shi agreed to subscribe and RongXin Company Limited agreed to allot and issue 60 shares of US\$1.00 each in the share capital of RongXin Company Limited at a subscription price of US\$60 to Ms. Shi to release and discharge RongXin Company Limited from (i) all its obligations, liabilities and debts owing or incurred by RongXin Company Limited to Ms. Shi; and (ii) all claims and demands whatsoever arising out of or in respect of any obligations, liabilities and debts arising or incurred by RongXin Company Limited to Ms. Shi;
- (h) on 26 November 2013, RongXin Company Limited entered into a deed of capitalisation with Mr. Cai pursuant to which Mr. Cai agreed to subscribe and RongXin Company Limited agreed to allot and issue 40 shares of US\$1.00 each in the share capital of RongXin Company Limited at a subscription price of US\$40 to Mr. Cai to release and discharge RongXin Company Limited from (i) all its obligations, liabilities and debts owing or incurred by RongXin Company Limited to Mr. Cai; and (ii) all claims and demands whatsoever arising out of or in respect of any obligations, liabilities and debts owing or incurred by RongXin Company Limited to Mr. Cai;
- (i) on 26 November 2013, Ms. Shi and Mr. Cai transferred their respective nil paid 600 Shares and 400 Shares to Expert Corporate Limited and Ever Ultimate Limited at nil consideration respectively; and
- (j) on 26 November 2013, our Company acquired 660 shares and 440 shares of RongXin Company Limited from Ms. Shi and Mr. Cai respectively, which in aggregate represented the entire issued share capital of RongXin Company Limited, in consideration of (i) the allotment and issue of 60 Shares and 40 Shares credited as fully paid at par to Expert Corporate Limited and Ever Ultimate Limited respectively, at the direction of Ms. Shi and Mr. Cai; and (ii) the crediting as fully paid at par of the nil paid 600 Shares and 400 Shares held by Expert Corporate Limited and Ever Ultimate Limited respectively.

## **5. Changes in share capital of subsidiaries of our Company**

The subsidiaries of our Company are listed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the subsidiaries of our Company have taken place within the two years immediately preceding the date of this prospectus:

### *Differ Guarantee*

On 17 January 2013, the registered and paid up capital of Differ Guarantee was increased from RMB108,800,000 to RMB150,000,000.

### *Differ Lease*

On 12 July 2012, the paid up capital of Differ Lease was increased from nil to HK\$24,440,000.

*Differ Pawn*

On 7 May 2012, the registered and paid up capital of Differ Pawn was increased from RMB10,000,000 to RMB30,000,000.

*Differ Import & Export*

On 1 February 2013, the registered and paid up capital of Differ Import & Export was increased from RMB10,000,000 to RMB30,000,000.

Save as disclosed in paragraph 5 of this Appendix, there has been no other alteration in the share capital of the subsidiaries of our Company in the two years immediately preceding the date of this prospectus.

**6. Repurchase by our Company of its own securities**

This section includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase by our Company of its own securities.

**(a) Provisions of the GEM Listing Rules**

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

**(i) Shareholders' approval**

The GEM Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to the written resolutions of all Shareholders passed on 26 November 2013 a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or any other stock exchange on which the Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, Shares representing up to 10% of the total nominal amount of the Shares in issue immediately following completion of the Placing and the Capitalisation Issue but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

*(ii) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by us may be made out of profits, share premium or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased or, subject to the Companies Law, out of capital.

*(iii) Connected parties*

The GEM Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or substantial Shareholder of our Company or any of the subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to our Company.

***(b) Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

***(c) Funding of repurchase***

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with our Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared to the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Group which in the opinion of our Directors are from time to time appropriate for our Group.

*(d) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No connected person of our Company has notified our Group that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**

**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) the Equity Pledge Agreement dated 16 July 2012 and entered into among Differ Holding, Aidu and Differ Pawn, pursuant to which Aidu agreed to grant to Differ Holding a first priority security interest over its 78% direct equity interest in Differ Pawn for guaranteeing the performance of obligations of Aidu and Differ Pawn under the Exclusive Management and Consulting Services Agreement and the Exclusive Option and Equity Custodian Agreement;
- (b) the Equity Pledge Agreement dated 16 July 2012 and entered into among Differ Holding, Fujian VC and Differ Pawn, pursuant to which Fujian VC agreed to grant to Differ Holding a first priority security interest over its 22% direct equity interest in



Differ Pawn for guaranteeing the performance of obligations of Fujian VC and Differ Pawn under the Exclusive Management and Consulting Services Agreement and the Exclusive Option and Equity Custodian Agreement;

- (c) the Exclusive Option and Equity Custodian Agreement dated 16 July 2012 and entered into among Differ Holding, the Differ Pawn Registered Shareholders and Differ Pawn, pursuant to which (i) the Differ Pawn Registered Shareholders granted, at nil consideration or the minimum amount as permitted by the applicable PRC laws and regulations, an exclusive and irrevocable option to Differ Holding or its nominee(s) to acquire all or part of their respective equity interest in Differ Pawn; and (ii) the Differ Pawn Registered Shareholders, jointly and severally, irrevocably granted, at nil consideration, a right to Differ Holding or its nominee(s) to manage the entire equity interest in Differ Pawn as custodian during the term of the Exclusive Option and Equity Custodian Agreement;
- (d) the Exclusive Management and Consulting Services Agreement dated 16 July 2012 and entered into between Differ Holding, the Differ Pawn Registered Shareholders and Differ Pawn, pursuant to which Differ Pawn agreed to engage Differ Holding on an exclusive basis irrevocably to provide management and consultation services in connection with its operations, and in return, Differ Holding will charge for the services rendered;
- (e) the Power of Attorney dated 16 July 2012 and entered into between Differ Holding and the Differ Pawn Registered Shareholders, pursuant to which Differ Holding or its nominee(s) were authorised by the Differ Pawn Registered Shareholders to exercise their respective shareholder's right in Differ Pawn;
- (f) the sale and purchase agreement dated 20 November 2013 and entered into between Thrive Expand Limited and RongXin Company Limited, pursuant to which RongXin Company Limited acquired the entire issued share capital of Differ Hong Kong at a consideration of HK\$1;
- (g) the deed of novation dated 26 November 2013 and entered into among Thrive Expand Limited, Differ Hong Kong and RongXin Company Limited pursuant to which Differ Hong Kong transferred all its liabilities and obligations to RongXin Company Limited and RongXin Company Limited assumed Differ Hong Kong's liabilities and obligations in connection with the outstanding sum in the amount of approximately RMB247,562,000 due from Differ Hong Kong to Thrive Expand Limited;
- (h) the deed of assignment dated 26 November 2013 and entered into among Thrive Expand Limited, Ms. Shi and RongXin Company Limited pursuant to which Thrive Expand Limited assigned and transferred all its rights and obligations to Ms. Shi in connection with the outstanding sum in the amount of approximately RMB148,537,000 due from RongXin Company Limited to Thrive Expand Limited;



- (i) the deed of assignment dated 26 November 2013 and entered into among Thrive Expand Limited, Mr. Cai and RongXin Company Limited pursuant to which Thrive Expand Limited assigned and transferred all its rights and obligations to Mr. Cai in connection with the outstanding sum in the amount of approximately RMB99,025,000 due from RongXin Company Limited to Thrive Expand Limited;
- (j) the deed of capitalisation dated 26 November 2013 and entered into between RongXin Company Limited and Ms. Shi pursuant to which Ms. Shi agreed to subscribe and RongXin Company Limited agreed to allot and issue 60 shares of US\$1.00 each in the share capital of RongXin Company Limited at a subscription price of US\$60 to Ms. Shi to release and discharge RongXin Company Limited from (i) all its obligations, liabilities and debts owing or incurred by RongXin Company Limited to Ms. Shi; and (ii) all claims and demands whatsoever arising out of or in respect of any obligations, liabilities and debts owing or incurred by RongXin Company Limited to Ms. Shi;
- (k) the deed of capitalisation dated 26 November 2013 and entered into between RongXin Company Limited and Mr. Cai pursuant to which Mr. Cai agreed to subscribe and RongXin Company Limited agreed to allot and issue 40 shares of US\$1.00 each in the share capital of RongXin Company Limited at a subscription price of US\$40 to Mr. Cai to release and discharge RongXin Company Limited from (i) all its obligations, liabilities and debts owing or incurred by RongXin Company Limited to Mr. Cai; and (ii) all claims and demands whatsoever arising out of or in respect of any obligations, liabilities and debts owing or incurred by RongXin Company Limited to Mr. Cai;
- (l) the sale and purchase agreement dated 26 November 2013 and entered into among Ms. Shi, Mr. Cai and our Company pursuant to which our Company acquired 660 shares and 440 shares of US\$1.00 each in the share capital of RongXin Company Limited from Ms. Shi and Mr. Cai respectively in consideration of (i) the allotment and issue by our Company 60 Shares and 40 Shares credited as fully paid at par to Expert Corporate Limited and Ever Ultimate Limited respectively, at the direction of Ms. Shi and Mr. Cai; and (ii) the crediting as fully paid at par of the nil paid 600 Shares and 400 Shares held by Expert Corporate Limited and Ever Ultimate Limited respectively;
- (m) the deed of non-competition dated 2 December 2013 executed by Ms. Shi, Mr. Cai, Expert Corporate Limited and Ever Ultimate Limited as covenantors in favour of our Company (for itself and for the benefits of its subsidiaries), details of which are set out in the paragraph “Non-Competition Undertaking” in the section headed “Relationship with our Controlling Shareholders” in this prospectus;
- (n) the deed of indemnity dated 2 December 2013 executed by Ms. Shi, Mr. Cai, Expert Corporate Limited and Ever Ultimate Limited as covenantors in favor of our Company (for itself and for the benefits of its subsidiaries) containing the indemnities more particularly referred to in the paragraph headed “Tax and other indemnities” in the section headed “Other information” in this Appendix; and
- (o) the Underwriting Agreement.

## 2. Intellectual property rights


### Trademark

As at the Latest Practicable Date, our Group was the registered proprietor and beneficial owner of the following trademarks:

Trademark	Registered owner	Class	Effective period	Registration number	Place of registration
	Differ Holding	36	28 August 2010– 27 August 2020	7048701	PRC
	Differ Holding	39	21 October 2010– 20 October 2020	7048703	PRC
	Differ Holding	37	28 July 2010– 27 July 2020	7048704	PRC
	Differ Holding	36	28 July 2010– 27 July 2020	7048705	PRC
	Differ Holding	4	21 August 2012– 20 August 2022	9715791	PRC
	Differ Holding	6	28 October 2012– 27 October 2022	9715828	PRC
	Differ Holding	8	28 September 2012– 27 September 2022	9715851	PRC
	Differ Holding	10	28 October 2012– 27 October 2022	9719123	PRC
	Differ Holding	11	28 January 2013– 27 January 2023	9719177	PRC
	Differ Holding	13	7 September 2012– 6 September 2022	9719241	PRC
	Differ Holding	22	14 November 2012– 13 November 2022	9726006	PRC
	Differ Holding	24	14 September 2012– 13 September 2022	9726157	PRC
	Differ Holding	26	7 January 2013– 6 January 2023	9726262	PRC

Trademark	Registered owner	Class	Effective period	Registration number	Place of registration
	Differ Holding	29	21 December 2012– 20 December 2022	9726347	PRC
	Differ Holding	31	14 September 2012– 13 September 2022	9726442	PRC
	Differ Holding	34	7 September 2012– 6 September 2022	9733746	PRC
	Differ Holding	35	28 August 2012– 27 August 2022	9733796	PRC
	Differ Holding	37	28 August 2012– 27 August 2022	9733840	PRC
	Differ Holding	38	28 August 2012– 27 August 2022	9733852	PRC
	Differ Holding	39	7 September 2012– 6 September 2022	9733906	PRC
	Differ Holding	40	14 November 2012– 13 November 2022	9733928	PRC
	Differ Holding	44	14 December 2012– 13 December 2022	9734089	PRC
	Differ Holding	45	14 September 2012– 13 September 2022	9742698	PRC
	Differ Holding	35	14 November 2012– 13 November 2022	9743170	PRC
	Differ Holding	38	14 September 2012– 13 September 2022	9743242	PRC
	Differ Holding	39	7 January 2013– 6 January 2023	9743284	PRC
	Differ Holding	43	21 September 2012– 20 September 2022	9753272	PRC
	Differ VC	37	28 November 2012– 27 November 2022	9748756	PRC

As at the Latest Practicable Date, application had been made by our Group for registration of the following trademark in Hong Kong:

Trademark	Name of applicant	Class	Application date	Application number	Place of application
 DFH	Our Company	35, 36	13 November 2013	302804193	Hong Kong

#### *Domain names*

As at the Latest Practicable date, the following domain names were owned and used by our Group:

Domain Name	Registered Owner	Expiry Date
dingfeng-cn.com	Differ VC	23 August 2018
鼎丰股份.com	Differ VC	23 August 2018
鼎丰担保.com	Differ Guarantee	20 September 2019
鼎丰担保.中國	Differ Guarantee	20 September 2019
鼎丰担保股份有限公司.com	Differ Guarantee	20 September 2019
鼎丰担保股份有限公司.中國	Differ Guarantee	20 September 2019
鼎丰投資.com	Differ Guarantee	20 September 2019
鼎丰投資.中國	Differ Guarantee	20 September 2019

### C. DISCLOSURE OF INTEREST

#### 1. Interests and short positions of our Directors and our chief executives of our Company in our Shares, underlying Shares and debentures of our Company and its associated corporations following the Placing

Immediately following completion of the Placing and the Capitalisation Issue, but without taking into account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors or chief executives of our Company in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section

352 of the SFO, to be entered in the register as referred to therein, or will be required, or pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to our Company and the Stock Exchange will be as follows:

(a) *Long position in Shares*

<b>Name of Director</b>	<b>Capacity/nature of interest</b>	<b>Number of Shares</b>	<b>Percentage of shareholding interests</b>
Mr. Hong	Interest of Spouse ( <i>Note 1</i> )	450,000,000 Shares	45%
Mr. Cai	Interest of controlled corporation ( <i>Note 2</i> )	300,000,000 Shares	30%

*Notes:*

1. These Shares were held by Expert Corporate Limited, which was wholly and beneficially owned by Ms. Shi. By virtue of the SFO, Mr. Hong, being the spouse of Ms. Shi, is deemed to be interested in the 450,000,000 Shares under the SFO.
2. These Shares were held by Ever Ultimate Limited, which was wholly and beneficially owned by Mr. Cai. By virtue of the SFO, Mr. Cai is deemed to be interested in the 300,000,000 Shares under the SFO.

(b) *Long position in Differ Pawn*

<b>Name of Director</b>	<b>Capacity/Nature of Interest</b>	<b>Percentage of shareholding interests</b>
Mr. Hong	Interest of controlled corporation ( <i>Note 1</i> )	78%
Ms. Cai Danni	Interest of controlled corporation ( <i>Note 2</i> )	22%

*Notes:*

1. Such registered and paid-up capital was contributed by Aidu. Aidu was owned as to 99% by Mr. Hong and as to 1% by Ms. Zhang Huiling.
2. Such registered and paid-up capital was contributed by Fujian VC. Fujian VC was owned as to 99% by Ms. Cai Danni and as to 1% by Mr. Wu Zhipei.

**2. Interests and short positions of Substantial Shareholders in our Shares, underlying Shares and debentures of our Company and its associated corporations**

So far as it is known to our Directors and save as disclosed in this prospectus, immediately following completion of the Placing and the Capitalisation Issue, but without taking into account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the following persons (not being a Director or chief executive of the Company) will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of

Divisions 2 and 3 of Part XV of the SFO or, who are, 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 our Group:

*Long position in Shares*

Name	Capacity	Number of Shares	Percentage of interests
Expert Corporate Limited	Beneficial owner ( <i>Note 1</i> )	450,000,000 Shares	45%
Ms. Shi	Interest of controlled corporation ( <i>Note 1</i> )	450,000,000 Shares	45%
Mr. Hong	Interest of spouse ( <i>Note 2</i> )	450,000,000 Shares	45%
Ever Ultimate Limited	Beneficial owner ( <i>Note 3</i> )	300,000,000 Shares	30%
Mr. Cai	Interest of controlled corporation ( <i>Note 3</i> )	300,000,000 Shares	30%

*Notes:*

1. These Shares were held by Expert Corporate Limited, which was wholly and beneficially owned by Ms. Shi. By virtue of the SFO, Ms. Shi is deemed to be interested in the 450,000,000 Shares under the SFO.
2. Mr. Hong is the spouse of Ms. Shi.
3. These Shares were held by Ever Ultimate Limited, which was wholly and beneficially owned by Mr. Cai. By virtue of the SFO, Mr. Cai is deemed to be interested in the 300,000,000 Shares under the SFO.

### 3. Particulars of service agreements

Each of Mr. Hong, Mr. Cai and Mr. Ng Chi Chung, being all the executive Directors and Mr. Cai Jianfeng and Mr. Wu Qinghan, being all non-executive Directors, has entered into a service agreement with our Company for an initial term of three years commencing from 26 November 2013, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these Directors is entitled to the respective basic salary set out below (subject to an annual increment after 31 December 2013 at the discretion of our Directors of not more than 10 per cent. of the annual salary immediately prior to such increase). The current aggregate basic annual salaries of the executive Directors and non-executive Directors are as follows:

	HK\$
Mr. Hong	450,000
Mr. Ng	375,000
Mr. Cai	300,000
Mr. Cai Jianfeng	96,000
Mr. Wu Qinghan	96,000

Save as the aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

#### 4. Directors' remuneration

- (a) During the two years ended 31 December 2012 and the seven months ended 31 July 2013, the aggregate emoluments paid and benefits in kind granted by our Group to our Directors were approximately HK\$667,000 (or RMB552,000), HK\$839,000 (or RMB682,000) and HK\$500,000 (or RMB400,000) respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments payable by our Group to and benefits in kind receivable by our Directors for the year ending 31 December 2013 are expected to be approximately HK\$974,000.
- (c) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the two years ended 31 December 2012 and the seven months ended 31 July 2013 (1) as an inducement to join or upon joining our Company or (2) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December 2012 and the seven months ended 31 July 2013.
- (e) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of the Directors will be as follows:

<b>Executive Directors</b>	<i>HK\$</i>
Mr. Hong	450,000
Mr. Cai	300,000
Mr. Ng	375,000
<b>Non-executive Directors</b>	<i>HK\$</i>
Mr. Cai Jianfeng	96,000
Mr. Wu Qinghan	96,000
<b>Independent non-executive Directors</b>	<i>HK\$</i>
Mr. Tsang Hin Man Terence	96,000
Mr. Chan Sing Nun	96,000
Mr. Zeng Haisheng	96,000

- (f) Each of the executive Directors and non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by our Group from time to time or in discharge of his duties to our Group under the service contract.
- (g) Each of the independent non-executive Directors has entered into a letter of appointment with our Company. The terms and conditions of such letters of appointment are similar in all material respects. Each of the independent non-executive Directors is appointed with an initial term of three years commencing from 26 November 2013 subject to termination in certain circumstances as stipulated in the relevant letter of appointment. Each of the independent non-executive Directors is entitled to annual director's fee of HK\$96,000.

#### **5. Fees or commission received**

Save as disclosed in the paragraph headed "Commission and expenses" in the section headed "Underwriting" of this prospectus, none of our Directors or the experts named in the paragraph headed "Consents of experts" in the section headed "Other information" in this Appendix had received any agency fee or commissions from our Group within the two years immediately preceding the date of this prospectus.

#### **6. Related party transactions**

Details of the related party transactions are set out under Note 28 to the Accountants' Report set out in Appendix I to this prospectus.

#### **7. Disclaimers**

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be taken up or acquired under the Placing or upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Placing and the Capitalisation Issue, have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either 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 our Group;
- (b) none of our Directors has any interest or short position in any of our Shares, underlying Shares or debentures of our Company or any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the



register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, in each case once our Shares are listed;

- (c) none of our Directors or the experts named in paragraph headed “Qualification of experts” in the section headed “Other information” in this Appendix has been directly or indirectly interested in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Placing Shares either in his own name or in the name of a nominee;
- (d) none of the Directors or the experts named in the paragraph headed “Qualifications of experts” in the section headed “Other information” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (e) none of the experts named in paragraph headed “Qualification of experts” in the section headed “Other information” in this Appendix has any shareholding in any company in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in our Group.

#### D. SHARE OPTION SCHEME

##### (a) Summary of terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all Shareholders on 26 November 2013:

###### (i) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which our Group holds any equity interest (“**Invested Entity**”).

###### (ii) *Who may join*

Subject to the provisions in the Share Option Scheme, our Board shall be entitled at any time and from time to time within the period of 10 years after the date of adoption of the Share Option Scheme to make an offer to any of the following classes of persons:

- (1) full time or part time employees of our Group (including any Directors, whether executive or non-executive and whether independent or not, of the Company or any Subsidiary or any Invested Entity);

- (2) any suppliers, customer, consultants, agents, advisers, service provider, any person or entity that provides research, development or other technological support to our Group or any Invested Entity;
- (3) any Shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity and partner or joint venture partner of our Company or any Subsidiary or any Invested Entity; and
- (4) any person who, in the sole discretion of the Board, has contributed or may contribute to our Group or any Invested Entity eligible for any options under the Share Option Scheme.

(iii) *Maximum number of Shares*

- (1) Notwithstanding anything to the contrary herein, the maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time.
- (2) The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not exceed 100,000,000 Shares, being 10% of the total number of Shares (assuming the Over-allotment Option is not exercised) in issue as at the Listing Date unless our Company obtains the approval of our Shareholders in general meeting for refreshing the 10% limit (“**Scheme Mandate Limit**”) under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company will not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.
- (3) Our Company may seek approval of our Shareholders in general meeting for refreshing the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company as “refreshed” shall not exceed 10% of the total number of Shares (assuming the Over-allotment Option is not exercised) in issue as at the date of the approval of our Shareholders on the refreshment of the Scheme Mandate Limit provided that options previously granted under the Share Option Scheme or any other share option schemes of our Company (including options outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of our Company or exercised) will not be counted for the purpose of calculating the limit as “refreshed”.

For the purpose of seeking the approval of our Shareholders, a circular containing the information as required under the GEM Listing Rules must be sent to our Shareholders.

- (4) Our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the Scheme Mandate Limit provided that the proposed grantee(s) of such option(s) must be specifically identified by our Company before such approval is sought. For the purpose of seeking the approval of our Shareholders, our Company must send a circular to our Shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of options serve such purpose and the information as required under the GEM Listing Rules.

*(iv) Maximum entitlement of each eligible person*

No option shall be granted to any eligible person if any further grant of options would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant would exceed 1% of the total number of Shares in issue, unless:

- (1) such further grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 23 of the GEM Listing Rules, by resolution of our Shareholders in general meeting, at which the eligible person and his associates shall abstain from voting;
- (2) a circular regarding the further grant has been dispatched to our Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 23 of the GEM Listing Rules (including the identity of the eligible person, the number and terms of the options to be granted and options previously granted to such eligible person); and
- (3) the number and terms (including the subscription price) of such option are fixed before the general meeting of our Company at which the same are approved.

*(v) Grant of options to connected persons*

- (1) The grant of options to a Director, chief executive or substantial shareholder of our Company or any of their respective associates requires the approval of all the independent non-executive Directors (excluding any independent non-executive Director who is a prospective grantee of the option) and shall comply with the relevant provisions of Chapter 23 of the GEM Listing Rules.
- (2) Where an option is to be granted to a substantial Shareholder or an independent non-executive Director (or any of their respective associates), and such grant will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (1) exceeding 0.1% of the total number of Shares in issue at the relevant time of grant; (2) exceeding an aggregate value (based on the closing price of the Shares on the Stock Exchange on the date of each grant) of HK\$5 million, such grant

shall not be valid unless (i) a circular containing the details of the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 23 of the GEM Listing Rules (including, in particular, a recommendation from the independent non-executive Directors (excluding the independent non-executive Director who is the prospective grantee of the option) to the independent Shareholders as to voting); and (ii) the grant has been approved by the Shareholders in general meeting (taken on a poll), at which all Connected Persons of our Company shall abstain from voting in favour of the grant.

- (3) Where any change is to be made to the terms of any option granted to a substantial Shareholder or an independent non-executive Director (or any of their respective associates), such change shall not be valid unless the change has been approved by our Shareholders by way of poll in general meeting.

*(vi) Time of acceptance and exercise of an option*

An offer of grant of an option may be accepted by an eligible person within the date as specified in the offer letter issued by our Company, being a date not later than 21 business days from the date upon which it is made, by which the eligible person must accept the offer or be deemed to have declined it, provided that such date shall not be more than ten years after the date of adoption of the Share Option Scheme.

A consideration of HK\$1.00 is payable on acceptance of the offer of grant of an option. Such consideration shall in no circumstances be refundable. An option may be exercised in whole or in part by the grantee (or his legal personal representatives) at anytime before the expiry of the period to be determined and notified by our Board to the grantee which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten-year period subject to the provisions for early termination as contained in the Share Option Scheme.

*(vii) Performance targets*

Though there is no specified minimum period under the Share Option Scheme for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms and conditions of the Share Option Scheme, the Directors may make such grant of options, subject to such terms and conditions in relation to the minimum period of such options to be held and/or the performance targets to be achieved as the Directors may determine in their absolute discretion.

*(viii) Subscription price for Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price determined by our Board and notified to an eligible person, and shall be at least the highest of: (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date (the "**Offer Date**"), which must be a trading day on which our Board passes a resolution approving the making of an offer of grant of an option to an eligible employee; (2) the average of the closing price of the Shares as

stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of the offer letter of the option; and (3) the nominal value of a Share on the Offer Date.

Where an option is to be granted, the date of the Board meeting at which the grant was proposed shall be taken to be the date of the offer of such option. For the purpose of calculating the subscription price, where an option is to be granted less than 5 business days after the listing of the Shares on the Stock Exchange, the offer price shall be taken to be the closing price for any business day before the Listing.

*(ix) Ranking of Shares*

The Shares to be allotted and issued upon the exercise of an option shall be subject to our Company's constitutional documents for the time being in force and shall rank pari passu in all respects with the fully-paid Shares in issue of our Company as at the date of allotment and will entitle the holders to participate in all dividends or other distributions declared or recommended or resolved to be paid or made in respect of a record date falling on or after the date of allotment.

*(x) Restrictions on the time of grant of options*

No option shall be granted after inside information (as defined under the GEM Listing Rules) has come to the knowledge of our Company until it has announced the information. In particular, during the period commencing one month immediately preceding the earlier of (1) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's result for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (2) the deadline for our Company to publish an announcement of its results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no option shall be granted.

*(xi) Period of the Share Option Scheme*

Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the Share Option Scheme, after which period no further option shall be granted.

*(xii) Rights on cessation of employment*

Where the grantee of an outstanding option ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xxi)(e), the grantee may exercise the option up to his entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) within the period of 1 month following the date of such cessation. The date of such cessation shall be his last actual working day at his work place with our Company or any subsidiary whether salary is paid in lieu of notice or not.

*(xiii) Rights on death*

Where the grantee of an outstanding option dies before exercising the option in full or at all, the option may be exercised in full or in part (to the extent not already exercised) by his personal representative(s) within 12 months of the date of death.

*(xiv) Rights on a general offer*

In the event of a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under the scheme of arrangement, as the case may be.

*(xv) Rights on winding-up*

In the event that a notice is given by our Company to its Shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each Shareholder give notice thereof to all grantees (together with a notice of existence of this provision) and thereupon, each grantee (or his legal representative(s)) shall be entitled to exercise all or any of his options (to the extent which has become exercisable and not already exercised) at any time not later than 2 business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid, which Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

*(xvi) Rights on compromise or arrangement between our Company and its creditors*

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its Shareholders (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its Shareholders or creditors to consider such a compromise or arrangement, and thereupon any grantee (or his legal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling 2

calendar months thereafter or the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his option (to the extent which has become exercisable and not already exercised), but the exercise of the option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Our Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his option so as to place the grantee in the same position as nearly as possible as would have been the case had such Shares been subject to such compromise or arrangement.

*(xvii) Reorganisation of capital structure*

In the event of any alteration in the capital structure of our Company whilst any option has been granted and remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction), our Company shall (if applicable) make corresponding alterations (if any), in accordance with the GEM Listing Rules and any applicable guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time (including but not limited to the supplementary guidance issued on 5 September 2005) to:

- (1) the number and/or nominal amount of Shares subject to the options already granted so far as they remain exercisable; and/or
- (2) the subscription price; and/or
- (3) the maximum number of Shares referred to in paragraphs (iii) and (iv) above provided that:
  - (aa) no such alteration shall be made in respect of an issue of Shares or other securities by our Company as consideration in a transaction;
  - (bb) any such alterations must be made so that each grantee is given the same proportion of the equity capital of our Company as that to which he was previously entitled;
  - (cc) no such alterations shall be made which would result in the subscription price for a Share being less than its nominal value; and
  - (dd) any such alterations, save those made on a capitalisation issue, shall be confirmed by an independent financial adviser or the auditors in writing to our Directors as satisfying the requirements of provisos paragraphs (bb) and (cc) above.

*(xviii) Cancellation of options*

Our Company may, with the consent of the relevant grantee of the option, cancel an option granted but not exercised with the approval of the Board. Any options cancelled by approval of our Board cannot be re-granted to the same eligible person.



*(xix) Termination of the Share Option Scheme*

Our Company, by ordinary resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provision of the Share Option Scheme shall remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the Provisions of the Share Option Scheme. Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*(xx) Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favour of any third party over or in relation to any option.

*(xxi) Lapse of option*

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

- (a) the expiry of the period to be determined and notified by our Board to the grantee;
- (b) the expiry of the periods referred to in sub-paragraphs (xii) or (xiii);
- (c) the date on which the offer referred to in sub-paragraph (xiv) closes;
- (d) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (xvi);
- (e) the date on which the grantee ceases to be an eligible person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an eligible person, on which he begins to appear to be unable to pay or has no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;
- (f) subject to sub-paragraph (xv), the date of the commencement of the winding-up of our Company;
- (g) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest (whether legal or beneficial) in favour of any third party over or in relation to any option or purport to do any of the foregoing in breach of the Share Option Scheme; and



- (h) the date on which our Directors shall at their absolute discretion determine that the grantee (other than an eligible employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her creditors generally. In such event, his options will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

*(xxii) Alterations to the Share Option Scheme*

- (1) The Share Option Scheme may be amended or altered in any respect to the extent allowed by the GEM Listing Rules by resolution of our Board except that the following alteration must be approved by a resolution of our Shareholders in general meeting:
  - (aa) any changes to the definitions of eligible person, grantee and option period;
  - (bb) any changes to the terms and conditions of the Share Option Scheme to the advantage of the grantees of the options;
  - (cc) any alteration to the terms and conditions of the Share Option Scheme which are of a material nature;
  - (dd) any change to the terms of options granted; and
  - (ee) any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme except where such alterations take effect automatically under the existing terms of the Share Option Scheme, provided that: (aa) the amended terms of the Share Option Scheme or the options must comply with Chapter 23 of the GEM Listing Rules; and (bb) no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such number of grantees as shall together hold options in respect of not less than three-fourths in nominal value of all Shares then subject to the option granted under the Share Option Scheme.
- (2) Notwithstanding the other provisions of the Share Option Scheme, the Share Option Scheme may be amended or altered in any respect by resolution of our Board without the approval of our Shareholders or the grantee(s) to the extent such amendment or alteration is required by the GEM Listing Rules or any guidelines issued by the Stock Exchange from time to time.
- (3) Our Company must provide to all grantees all details relating to changes in the terms of the Share Option Scheme during the life of the Share Option Scheme immediately upon such changes taking effect.

*(xxiii) Conditions*

The Share Option Scheme is conditional on:

- (aa) the Listing Division granting approval of the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any option;
- (bb) the passing of the necessary resolution to approve and adopt the Share Option Scheme by all Shareholders in general meeting or by way of written resolution to authorise our Directors to grant options at their absolute discretion thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options granted under the Share Option Scheme; and
- (cc) the commencement of dealings in the Shares on GEM.

**(b) Present status of the Share Option Scheme***(i) Approval and adoption of the rules of the Share Option Scheme*

The rules of the Share Option Scheme were approved and adopted by the Shareholders on 26 November 2013.

*(ii) Approval of the Listing Division required*

The Share Option Scheme is conditional, among other matters, on the Listing Division granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

*(iii) Application for approval*

Application has been made to the Listing Division for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme. The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 100,000,000 Shares, being 10% of the total number of Shares in issue as at the Listing Date unless our Company obtains the approval of the Shareholders in general meeting for refreshing the said 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of this scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit above mentioned.

*(iv) Grant of option*

As at the Latest Practicable Date, no options have been granted or agreed to be granted under the Share Option Scheme.

(v) *Value of options*

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

## E. OTHER INFORMATION

### 1. Tax and other indemnities

Ms. Shi, Mr. Cai, Expert Corporate Limited and Ever Ultimate Limited (collectively, the “**Indemnifiers**”) have, under a deed of indemnity referred to in paragraph (n) of the paragraph headed “Summary of material contracts” in the section headed “Further information about the business of our Company” in this Appendix, given joint and several indemnities to our Company for itself and as trustee for the subsidiaries in connection with, among other things,

- (a) any liability for Hong Kong estate duty which might be payable by any member of the Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the Listing Date;
- (b) any tax liabilities together with all fines, penalties, costs, charges, expenses, liabilities and interests incidental or relating to taxation which might be payable by any member of our Group in respect of any income, profits, gains earned, accrued or received on or before the Listing Date or any event or transaction on or before the Listing Date, whether alone or in conjunction with any circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;
- (c) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, fines and penalties of whatever nature which may be suffered or incurred by any member of our Group as a result of or in connection with non-compliance of (aa) the requirements of any kind of insurance, funds, contributions or otherwise required to be contributed or made by any members of our Group under the laws and regulations in the PRC for the benefit of its employees including without limitation, social insurance contribution, housing provident fund; and (bb) the requirements of any laws and regulations in the PRC, including but not limited to the non-compliance of the requirements of the Pawning Measures, the Regulations of the PRC on the Administration of Company Registration (中華人民共和國公司登記管理條

例), the Regulations of the PRC on the Administration of Enterprise Legal Person Registration (中華人民共和國企業法人登記管理條例) and the Company Law of the PRC (中華人民共和國公司法); and

- (d) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, fines and penalties of whatever nature which may be suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitration, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the Listing Date and not disclosed in this prospectus including, but not limited to, any civil legal proceedings which may be instituted against Differ Pawn by its customers for the refund of the interest overcharged by Differ Pawn in contravention of the Pawning Measures as disclosed in the section headed “Business — Non-compliances” of this prospectus.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

- (a) to the extent that provision has been made for such taxation in the consolidated audited accounts of our Company for each of the two years ended 31 December 2012 and the seven months ended 31 July 2013;
- (b) to taxation or liability which would not have arisen but for any act or omission by any member of our Group voluntarily effected without the prior written consent or agreement of the Indemnifiers;
- (c) to taxation or liability for which any member of our Group is or may become primarily liable as a result of any event occurring or deemed occurring or income, profits or gains earned, accrued or received or transaction is in the ordinary course of its business after the Listing Date;
- (d) to the extent that such taxation or liability is discharged by another person who is not any member of our Group; and
- (e) to the extent of any provisions or reserve made for taxation in the consolidated audited accounts of our Company for each of the two years ended 31 December 2012 and the seven months ended 31 July 2013 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce the Indemnifiers’ liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.

**2. Litigation**

As at the Latest Practicable Date, save as disclosed in this prospectus, to the best of the Directors' knowledge, there is no current litigation or any pending or threatened litigation or arbitration proceedings against any member of our Group that could have a material adverse effect on our Group's financial condition or results of operation.

**3. Application for Listing of Shares**

The Sponsor has, on behalf of our Company, made an application to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

**4. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK\$74,500 and are payable by our Company.

**5. Promoter**

- (a) Our Company does not have any promoter.
- (b) Within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid or given to any promoter of our Company in connection with the Placing or the related transactions described in this prospectus.

**6. Agency fees or commissions received**

The Underwriters shall receive a commission of 2.5% of the aggregate Placing Price of the Price Shares underwritten by the Underwriters, out of which they shall pay any sub-underwriting commissions.

The underwriting commission, financial advisory and documentation fee, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Placing, assuming a Placing Price of HK\$0.69, are estimated to amount to approximately HK\$19.5 million in total.

**7. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
Messis Capital Limited	A licensed corporation under the SFO permitted to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
BDO Limited	Certified Public Accountants
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Tian Yuan Law Firm	Qualified PRC lawyers
Asset Appraisal Limited	Property valuer

**8. Consents of experts**

Each of the parties listed in the paragraph headed “Qualifications of experts” above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its letter, report, and/or valuation certificate opinion and/or references to its name (as the case may be), all of which are dated the date of the prospectus, in the form and context in which they respectively appear in the prospectus.

**9. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**10. Share Registrar**

The register of members of our Company will be maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company’s branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

**11. Taxation of holders of Shares***(a) Hong Kong*

Dealings in Shares registered on our Company's Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

*(b) The Cayman Islands*

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

*(c) Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Placing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**12. Miscellaneous**

Save as disclosed herein:

- (a) within the two years immediately preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or any of its subsidiaries has been issued, agree to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
  - (iii) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares; and
  - (iv) no founder, management or deferred shares of the Company have been issued or agreed to be issued.
- (b) no share, warrant or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (c) our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 July 2013, being the date on which the latest audited financial information of our Group was reported in the Accountants' Report set out in Appendix I to this prospectus; and
- (d) our Directors confirm that there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

### **13. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).



**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents of the experts referred to in the paragraph headed “Consents of experts” in the section headed “Other information” of Appendix V to this prospectus, and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in the section headed “Further information about the business of our Company” of Appendix V to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Michael Li & Co. at 19th Floor, Prosperity Tower, No. 39 Queen’s Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountants’ report prepared by BDO Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the report on unaudited pro forma financial information of the Group prepared by BDO Limited, the text of which is set out in Appendix II to this prospectus;
- (d) the letter, summary of valuations and valuation certificates relating to the property interests of our Group prepared by Asset Appraisal Limited, the texts of which are set out in Appendix III to this prospectus;
- (e) the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
- (f) the Companies Law;
- (g) the rules of Share Option Scheme;
- (h) the material contracts referred to in the paragraph headed “Summary of material contracts” in the section headed “Further information about the business of our Company” in Appendix V to this prospectus;
- (i) the written consents referred to in the paragraph headed “Consents of experts” in the section headed “Other information” in Appendix V to this prospectus; and
- (j) the service contracts and letters of appointment referred to in the paragraphs headed “Particulars of service agreements” and “Directors’ remuneration” respectively in the section headed “Disclosure of Interest” in Appendix V to this prospectus.

Differ Group Holding Company Limited  
鼎豐集團控股有限公司