Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission take no responsibility for the contents of this Web Proof Information Pack, 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 Web Proof Information Pack.

Web Proof Information Pack of

Oi Wah Pawnshop Credit Holdings Limited
靄華押業信貸控股有限公司

(Incorporated in the Cayman Islands with limited liability)

WARNING

This Web Proof Information Pack is being published as required by The Stock Exchange of Hong Kong Limited (the "HKEx")/the Securities and Futures Commission solely for the purpose of providing information to the public in Hong Kong.

This Web Proof Information Pack is in draft form. The information contained in it is incomplete and is subject to change which can be material. By viewing this document, you acknowledge, accept and agree with Oi Wah Pawnshop Credit Holdings Limited (the "Company"), any of its affiliates, sponsor, advisers and/or member of the underwriting syndicate that:

(a) this Web Proof Information Pack is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this Web Proof Information Pack;

(b) the posting of this Web Proof Information Pack or supplemental, revised or replacement pages on the HKEx's Website does not give rise to any obligation of the Company, any of its affiliates, sponsor, advisers or member of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with the offering;

(c) the contents of this Web Proof Information Pack or supplemental, revised or replacement pages may or may not be replicated in full or in part in the actual prospectus of the Company;

(d) this Web Proof Information Pack may be updated or revised by the Company from time to time and the updates and/or revisions could be material, but each of the Company and its affiliates, sponsor, advisers and/or members of the underwriting syndicate is under no obligation, legal or otherwise, to update any information contained in this Web Proof Information Pack;

(e) this Web Proof Information Pack does not constitute a prospectus, notice, circular, brochure, advertisement or document offering to sell any securities to the public in any jurisdiction, nor is it an invitation or solicitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite or solicit offers by the public to subscribe for or purchase any securities;

(f) this Web Proof Information Pack must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;

(g) neither the Company nor any of its affiliates, sponsor, advisers and/or members of the underwriting syndicate is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this Web Proof Information Pack;

(h) neither this Web Proof Information Pack nor anything contained herein shall form the basis or be relied on in connection with any contract or commitment whatsoever;

(i) neither the Company nor any of its affiliates, sponsor, advisers and/or members of the underwriting syndicate makes any express or implied representation or warranty as to the accuracy or completeness of the information contained in this Web Proof Information Pack;

(j) each of the Company and any of its affiliates, sponsor, advisers and/or members of the underwriting syndicate expressly disclaims any and all liabilities on the basis of any information contained in, or omitted from, or any inaccuracies or errors in, this Web Proof Information Pack;

(k) the Company has not and will not register the securities referred to in this Web Proof Information Pack under the United States Securities Act of 1933, as amended (the "US Securities Act"), or any state securities laws of the United States; and

(l) as there may be legal restrictions on the distribution of this Web Proof Information Pack or dissemination of any information contained in this Web Proof Information Pack, you agree to inform yourself about and observe any such restrictions applicable to you.

THIS WEB PROOF INFORMATION PACK IS NOT FOR PUBLICATION OR DISTRIBUTION TO PERSONS IN THE UNITED STATES. ANY SECURITIES REFERRED TO HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT, OR ANY STATE SECURITIES LAWS IN THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR TRANSFERRED, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE STATE SECURITIES LAWS IN THE UNITED STATES. NO PUBLIC OFFERING OF THE SECURITIES WILL BE MADE IN THE UNITED STATES.

NEITHER THIS WEB PROOF INFORMATION PACK NOR INFORMATION CONTAINED HEREIN CONSTITUTES OR FORM PART OF AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN THE UNITED STATES. THIS WEB PROOF INFORMATION PACK IS NOT BEING MADE AND MAY NOT BE DISTRIBUTED OR SENT INTO ANY JURISDICTION WHERE SUCH DISTRIBUTION OR DELIVERY IS NOT PERMITTED.

No offer or Invitation will be made to the public in Hong Kong until after a prospectus of the Company has been registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on a prospectus of the Company registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

CONTENTS

This Web Proof Information Pack contains the following information relating to Oi Wah Pawnshop Credit Holdings Limited extracted from the draft document:

- Contents
- Summary
- Definitions
- Glossary of technical terms
- Risk factors
- Forward looking statements
- Directors
- Corporate information
- Industry overview
- Regulatory overview
- History and development
- Business
- Notifiable transactions and connected transactions
- Directors, senior management and employees
- Relationship with our Controlling Shareholders
- Financial information
- Future plans
- Appendix I — Accountants' report
- Appendix III — Summary of the constitution of our Company and Cayman Islands company law
- Appendix IV — Statutory and general information

YOU SHOULD READ THE SECTION HEADED "WARNING" ON THE COVER OF THIS WEB PROOF INFORMATION PACK

SUMMARY

OVERVIEW

We are a financing service provider in Hong Kong operating under the brand name of "Oi Wah" mainly providing short-term secured financing, including pawn loans and mortgage loans.

According to the Ipsos Report, we are the largest pawn loan service provider in Hong Kong in 2011 in terms of loan amount granted and number of Pawnshops.

The aggregate amount of pawn loans granted by us amounted to approximately 9.4% of the total value of loans and advances granted by all pawn loan service operators in Hong Kong in 2011. We had 12 Pawnshops as at the Latest Practicable Date located in various locations in Hong Kong. We have also set up a Customer Service Centre in the premises of Tak Wah Pawnshop located in Central to provide customers with private and personalised pawn loan services and customer service support. We are one of the few financing service providers in Hong Kong having both the Pawnbrokers Licences and the Money Lenders Licence which provide us with the flexibility in granting pawn loans with different interest rates, loan amounts and terms to suit the different needs of our customers, and enable us to grant mortgage loans. We provide private and personalised one-on-one mortgage loan services to our customers at our Mortgage Centre in Wan Chai.

Our Group was established and controlled by the Chan Family. Mr. Edward Chan is our chairman, executive Director and chief executive officer. Mr. Chan Chart Man is the founder of our Group and an executive Director. Ms. Chan Mei Fong and Ms. Chan Ying Yu are both executive Directors. Mr. Macksion Chan, also a family member of the Chan Family, is a non-executive Director. Other members of the Chan Family, namely, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Ms. Mui, do not have management positions in our Group.

OUR PRINCIPAL BUSINESS ACTIVITIES

Pawn loan services

Pawn loans are loans provided whereby personal properties such as gold, jewellery and diamonds, watches and consumer electronic products are used as collaterals for the security of the loans.

The following table sets out the major terms of the pawn loans granted under our Pawnbrokers Licences and Money Lenders Licence, respectively:

	Pawn loans granted under	
	Pawnbrokers Licences	**Money Lenders Licence**
Loan amount	Not exceeding HK$100,000	No restriction
Interest rate	Not exceeding 3.5% per lunar month	Not exceeding 3.5% per lunar month
Term	Four lunar months	Mutually agreed term of one to four lunar months
Documentation	Tickets	Loan agreements

SUMMARY

During the term of the pawn loan, customers may redeem their collaterals at any time and may also renew their term of the pawn loan after paying the outstanding interest for the previous term. Upon the expiry of the term of the pawn loans, we may sell the collaterals not having been redeemed. For details of our pawn loan services, please refer to the section headed "Business — Our principal business activities — Pawn loan services" in this document.

Mortgage loan services

We offer both first mortgage loans, which are secured by the first mortgage on the real estate, and subordinated mortgage loans, which are secured by mortgages subordinated to the first or higher ranking mortgages charged on the mortgaged real estate. The mortgaged real estates accepted by us include residential real estates such as apartments, village houses and commercial real estates such as parking lots and offices. We have granted 99 news mortgage loans during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

We generally complete the granting of a mortgage loan to our customers from collecting preliminary information from our customers to the loan drawdown within days. For details of our mortgage loan services, please refer to the section headed "Business — Our principal business activities — Mortgage loan services" in this document.

CUSTOMERS

Pawn loan services

Customers of our pawn loan services consist of walk-in individuals such as local households, foreign domestic helpers, travellers from the PRC and SME businessmen. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had approximately 45,000, 43,000, 41,000 and 39,000 customers, respectively, of our pawn loan services being individuals, of which approximately 27,000, 27,000, 26,000 and 24,000, respectively, were repeated customers. We also have second-hand product dealers as our customers for the disposal of collaterals which mainly include gold, jewellery and diamonds, watches and consumer electronic products. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we have 17, 20, 20 and 32 second-hand product dealers purchasing collaterals from us, respectively. As at the Latest Practicable Date, all of these second-hand product dealers were Independent Third Parties and we had not entered into any long term sales agreement with any of such second-hand product dealers.

Mortgage loan services

Our customers in connection with our mortgage loan services include mostly individual borrowers who are referred by third parties or are walk-in customers. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had an aggregate of 80 customers of our mortgage loan services, 36 of whom were repeated customers.

For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our five largest customers who are second-hand product dealers or customers of our pawn loan or mortgage loan business, all being Independent Third Parties, accounted for approximately 8.3%, 13.0%, 14.8% and 12.1%, respectively, of our total turnover, while the largest customer, who are second-hand product dealers, accounted for approximately 4.1%, 7.1%, 7.8% and 6.5%, respectively, of our total turnover for the same period.

SUMMARY

LICENCES

We have obtained a Pawnbrokers Licence for each of our 12 Pawnshops and Oi Wah HK currently holds a Money Lenders Licence. Pang & Co, legal advisers of our Company as to Hong Kong law, and our Legal Counsel are satisfied that there should not be any legal impediment for the renewal of our Pawnbrokers Licences and Money Lenders Licence respectively. For details of our licences, please refer to the section headed "Business — Licences" in this document.

OUR COMPETITIVE STRENGTHS

- We have a well established position in the market
- Our business model enables us to provide quick and convenient diversified financing services catered for different types of customers with different needs
- We adopt standardised and computerised operating and risk management systems
- We have well established relationships with a network of second-hand product dealers
- We have an experienced senior management team

OUR BUSINESS STRATEGIES

Our primary business objective is to strengthen our market position in the pawn loan industry and to further develop our mortgage loan business in Hong Kong. We intend to achieve our objective by implementing the following strategies:

- Expand our business operations by strengthening our mortgage loan business
- Expand our pawn loan portfolio and enhance the services we provide to our pawn loan services customers
- Increase and enhance our marketing activities

SUMMARY OF FINANCIAL INFORMATION

The tables below summarise our combined financial information for each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, respectively, and should be read in conjunction with our financial information included in the Accountants' Report set forth in Appendix I to this document, including the notes thereto.

Highlight of combined statements of comprehensive income

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2011	Nine months ended 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Turnover	46,659,418	54,692,308	66,360,621	49,483,636	52,602,748
Operating income	47,887,206	55,999,677	67,323,949	50,172,278	53,982,843
Profits from operations	24,308,648	28,313,517	40,120,485	29,605,980	24,728,364
Profit and total comprehensive income for the year/period	20,221,472	23,583,874	33,376,055	24,682,624	19,269,572

SUMMARY

Highlight of combined statements of financial position

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Non-current assets	2,812,571	2,569,562	8,221,515	25,375,550
Current assets	125,104,633	150,706,996	178,179,877	202,682,146
Current liabilities	6,997,833	6,728,225	9,145,221	37,439,906
Net current assets	118,106,800	143,978,771	169,034,656	165,242,240
Non-current liabilities	40,935,088	43,980,176	42,311,959	45,193,906
Net assets	79,984,283	102,568,157	134,944,212	145,423,884

Our turnover

	Year ended 28 February 2010		Year ended 28 February 2011		Year ended 29 February 2012		Nine months ended 30 November 2011		Nine months ended 30 November 2012	
	HK$('000)	*%*	*HK$('000)*	*%*	*HK$('000)*	*%*	*HK$('000) (unaudited)*	*%*	*HK$('000)*	*%*
Interest income on pawn loans	40,356	86.5	45,271	82.8	52,351	78.9	39,267	79.4	42,853	81.5
Interest income on mortgage loans	157	0.3	823	1.5	3,192	4.8	2,048	4.1	4,803	9.1
	40,513	86.8	46,094	84.3	55,543	83.7	41,315	83.5	47,656	90.6
Gain on disposal of repossessed assets	6,146	13.2	8,598	15.7	10,818	16.3	8,169	16.5	4,947	9.4
	46,659	100	54,692	100	66,361	100	49,484	100	52,603	100

Our turnover comprises interest income on pawn loans and mortgage loans, and gain on disposal of repossessed assets. The increase in our interest income on pawn loans during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 was principally driven by the continuous increase in our aggregated amount of pawn loans granted throughout the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012. Similarly, the increase in our interest income on our mortgage loan services during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 was principally driven by the continuous expansion of our mortgage loan portfolio since we launch our mortgage loan services in June 2009 and our commencement of granting subordinated mortgage loans in April 2011. Our gain on disposal of repossessed assets represents the gain we receive when we sell the repossessed assets in the event of default in repayment of our pawn loans. Our increase in gain on disposal of repossessed assets from the year ended 28 February 2010 to the year ended 29 February 2012 was primarily driven by the general increasing prices of our collaterals such as watches, gold, jewellery and diamond during the relevant period. Our gain on disposal of repossessed assets for the nine months ended 30 November 2012 decreased as compared with that for the nine months ended 30 November 2011. Such decrease was primarily due to the fact that we only disposed of repossessed assets for the ten lunar months falling with the nine months ended 30 November 2011 while we only disposed of repossessed assets for the nine lunar months falling within the nine months ended 30 November 2012. For details, please refer to the section headed "Financial information — Period to period comparison of results of operations".

SUMMARY

Our interest income by types of customers

	Year ended 28 February 2010		Year ended 28 February 2011		Year ended 29 February 2012		Nine months ended 30 November 2012	
	HK$('000)	*%*	*HK$('000)*	*%*	*HK$('000)*	*%*	*HK$('000)*	*%*
Pawn loans[Note 1]								
• Hong Kong identity card holders (excluding foreign domestic helpers)	27,358	67.8	29,936	66.1	34,878	66.7	28,653	66.9
• Foreign domestic helpers	12,533	31.0	14,514	32.1	16,253	31.0	12,721	29.7
• Others[Note 2]	465	1.2	821	1.8	1,220	2.3	1,479	3.4
	40,356	100.0	45,271	100.0	52,351	100.0	42,853	100.0
Mortgage loans								
• Individuals	157	100.0	823	100.0	2,914	91.3	4,418	92.0
• Corporates	—	—	—	—	278	8.7	385	8.0
	157	100.0	823	100.0	3,192	100.0	4,803	100.0
	40,513		46,094		55,543		47,656	

Notes:

1. All of our pawn loan customers are individuals.

2. Others include non-Hong Kong identity card holders such as PRC citizens and foreigners.

Our interest income on mortgage loans by different types of mortgaged real estates and mortgage loans

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2012
	HK$('000)	*HK$('000)*	*HK$('000)*	*HK$('000)*
Type of mortgaged real estates				
Residential mortgage loans	157	801	2,662	4,372
Commercial mortgage loans	—	22	530	431
	157	823	3,192	4,803
Type of mortgage loans				
First mortgage loans	157	823	2,209	2,983
Subordinated mortgage loans	—	—	983	1,820
	157	823	3,192	4,803

Total amount of each type of loans we granted

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2012
	HK$('000)	*HK$('000)*	*HK$('000)*	*HK$('000)*
Pawn loan	361,408	413,843	513,130	414,119
Mortgage loan	3,900	23,200	38,280	66,990
	365,308	437,043	551,410	481,109

SUMMARY

Net interest margin *(Note)*

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2011	Nine months ended 30 November 2012
	%	%	%	%	%
Net interest margin for our pawn loan services	42.4	42.9	42.1	42.7	43.3
Net interest margin for our mortgage loan services	9.0	9.9	12.7	12.3	13.4
Overall net interest margin	**41.5**	**40.5**	**37.2**	**38.1**	**35.7**

Note: Net interest margin during the year/period refers to our interest income in respect of our pawn loans and mortgage loans less our finance costs, divided by the average of month-end gross loan receivables balances of the corresponding loans during the year/period.

Average interest rate *(Note)*

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2012
Average interest rate for our pawn loan services	3.43% per lunar month or 41.16% per annum	3.43% per lunar month or 41.16% per annum	3.45% per lunar month or 41.40% per annum	3.46% per lunar month or 41.52% per annum
Average interest rate for our mortgage loan services	10.6% per annum	11.1% per annum	16.3% per annum	14.9% per annum

Note: Average interest rate refers to the arithmetic average of interest rates of each of our pawn loans or mortgage loans during the year/period. Average interest rate per annum for our pawn loan services is for illustrative purpose only and is calculated based on 12 lunar months per year.

Our key financial ratios

	As at			
	28 February 2010	28 February 2011	29 February 2012	30 November 2012
Current ratio[(1)]	18x	22x	19x	5x
Gearing ratio[(2)]	52.2%	45.3%	34.0%	46.5%

	For the year ended			For the nine months ended	
	28 February 2010	28 February 2011	29 February 2012	30 November 2011	30 November 2012
Return on total assets[(3)]	15.8%	15.4%	17.9%	13.2%	8.4%
Return on equity[(4)]	25.3%	23.0%	24.7%	19.4%	13.3%

Notes:

(1) Current ratio is calculated by dividing current assets by current liabilities as at the respective year/period end.

(2) Gearing ratio is calculated by dividing total borrowings (summation of bank loans, overdrafts, obligation under finance leases and amounts due to Shareholders) by total equity as at the respective year/period end.

(3) Return on total assets is calculated by dividing profit for the year/period by the total assets as at the respective year/period end. The return on total assets for the nine months ended 30 November 2011 and 30 November 2012 respectively are not calculated on an annual basis.

(4) Return on equity is calculated by dividing profit for the year/period by the total equity as at the respective year/period end. The return on equity for the nine months ended 30 November 2011 and 30 November 2012 respectively are not calculated on an annual basis.

For further details on the reasons for the fluctuation of the above financial ratios, please refer to the section headed "Financial information" in this document.

Operating expenses

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our operating expenses included staff costs and other operating expenses consisting of mainly rental expenses, premises and equipment expenses, auditors' remuneration, depreciation and advertising expenses. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, staff costs amounted to approximately HK$13.8 million, HK$14.7 million, HK$13.5 million and HK$11.4 million, respectively, and our other operating expenses amounted to approximately HK$9.7 million, HK$13.0 million, HK$13.6 million and HK$17.9 million, respectively. For details, please refer to the section headed "Financial information — Principal components of combined statements of comprehensive income" in this document.

Source of funds

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had been financing our operations mainly through a combination of our internal generated funds, funds from our Shareholders and bank loans and overdrafts. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had entered into 11, 11, 13 and 14 facility agreements with local banks in Hong Kong, respectively, for the facility in the aggregate amount of HK$7.5 million, HK$7.5 million, HK$13.0 million and HK$46.9 million, respectively, as contingent capital for our pawn loan and mortgage loan services. As at the Latest Practicable Date, our unutilised banking facilities available for drawdown amounted to approximately HK$21.7 million and so far as our Directors are aware, save for the satisfaction of certain conditions of the uncommitted revolving term loan facility including, amongst others, the bank being satisfied with the security to be provided and the execution of the security documentation between the bank and us, there is no restriction for our Group to drawdown from these unutilised banking facilities as at the Latest Practicable Date. As at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, loans from our Shareholders amounted to approximately HK$40.5 million, HK$43.7 million, HK$42.0 million and HK$45.0 million, respectively. All of the Shareholders' loans had been fully capitalised as at the Latest Practicable Date. Our source of funds for our operations after the [•] will be a combination of internal generated funds, bank loans and overdrafts and [•] from the [•].

Estimated [•] expense

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had incurred and recognised approximately HK$6.8 million [•] expenses in the profit and loss account. The total estimated

expenses in relation to the [•] are approximately HK$22.5 million, of which approximately HK$7.4 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 [•]. The estimated expenses of approximately HK$10.9 million, including the amount of approximately HK$6.8 million recognised during the nine months ended 30 November 2012, are expected to be charged to the profit or loss of our Group for the year ending 28 February 2013, and approximately HK$4.2 million are expected to be charged to the profit or loss for the year ending 28 February 2014. The estimated [•] expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Company upon the completion of the [•].

Our latest development subsequent to the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012

We have continued to focus on strengthening our market position in the pawn loan industry and developing our mortgage loan business in Hong Kong. During the two months of December 2012 and January 2013, we recorded total turnover of approximately HK$13.5 million, or a monthly average of approximately HK$6.8 million. The selected financial information disclosed above is derived from the unaudited financial statements for the eleven months ended 31 January 2013, which have been reviewed by our Company's reporting accountants in accordance with the Hong Kong Standard on Review Engagements 2410 "Review on Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Comparatively, during the year ended 29 February 2012 and the nine months ended 30 November 2012, our total turnover was approximately HK$66.4 million and HK$52.6 million, respectively, or monthly average of approximately HK$5.5 million and HK$5.8 million, respectively. The increase in average monthly turnover was mainly due to the continuous expansion of our pawn loan and mortgage loan portfolio during the same period.

Furthermore, the portion of our turnover generated from interest earned on our mortgage loan increased from approximately 9.1% of our total turnover for the nine months ended 30 November 2012 to approximately 14.6% of our total turnover for the two months of December 2012 and January 2013 while the portion of our turnover generated from interest income earned on our pawn loans and gain on disposal of repossessed assets decreased from approximately 90.9% of our total turnover for the nine months ended 30 November 2012 to approximately 85.4% of our total turnover for the two months of December 2012 and January 2013. Our net interest margins for our pawn loan services and mortgage loan services remained relatively stable at approximately 45.3% and 12.5%, respectively, for the two months of December 2012 and January 2013 compared with our net interest margins for our pawn loan services and mortgage loan services of approximately 43.3% and 13.4%, respectively for the nine months ended 30 November 2012.

From 1 December 2012 to 31 January 2013, we granted 12 new mortgage loans with an aggregated loan amount of approximately HK$24.5 million and approximately 23,000 pawn loans with an aggregated pawn loan amount of approximately HK$89.1 million. The average interest rates of our pawn loan services remained relatively stable at approximately 3.47% per lunar month for the two months of December 2012 and January 2013 as compared with approximately 3.46% per lunar month for the nine months ended 30 November 2012. The average interest rates of our mortgage loan services slightly increased from approximately 14.9% per annum for the nine months ended 30 November 2012 to approximately 18.5% per annum for the two months of December 2012 to January 2013 since we charged a relatively higher interest rate for certain mortgage loans granted during this period.

SUMMARY

No material adverse change

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 30 November 2012 and there is no event since 30 November 2012 which would materially affect the information shown in our combined financial statements included in the Accountants' Report set forth in Appendix I to this document, in each case except as otherwise disclosed herein.

DIVIDEND AND DIVIDEND POLICY

For each of the two years ended 28 February 2011, the year ended 29 February 2012, and the nine months ended 30 November 2012, Oi Wah HK declared dividends of HK$1.0 million, HK$1.0 million, HK$1.0 million and HK$8.79 million, respectively, out of the distributable profit, and all these dividends had been paid as at the Latest Practicable Date. Dividends declared and paid in the past should not be regarded as an indication of the dividend policy to be adopted by our Company following [•]. For details of our dividend policy, please refer to the section headed "Financial information — Dividend policy" in this document.

RISK FACTORS — HIGHLIGHTS

Our Directors consider that there are risks and uncertainties relating to our business and our industry. Some highlighted risks are set out below.

- Our business is affected by fluctuations in interest rates and our credit positions
- Further expansion of our mortgage loan portfolio may influence our overall net interest margin, business and credit risks exposure and working capital positions
- We have only started our mortgage loan business in 2009 and there is no assurance that the future development of our mortgage loan business will be successfully implemented

For further discussions on the risk factors, please refer to the section headed "Risk factors" in this document.

REGULATORY COMPLIANCE

Pawn loans granted under our Money Lenders Licence

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and up to the Latest Practicable Date, there were 315 incidents, with an aggregate loan amount granted of approximately HK$48.6 million, where we mistakenly issued tickets to customers for pawn loans exceeding HK$100,000 granted pursuant to our Money Lenders Licence due to inadvertent administrative oversight. Our Legal Counsel was of the opinion that the omission of the signature of the borrower, as we do not require our customers to sign on the tickets, constituted a breach of section 18 of the Money Lenders Ordinance. As advised by Pang & Co., legal advisers to our Company as to Hong Kong law, pursuant to section 32 of the Money Lenders Ordinance, the maximum penalty shall be a fine of HK$100,000 for committing each offence and to imprisonment for 2 years, and any person convicted of an offence under the Money Lenders Ordinance may be disqualified from holding a money lenders licence for a period not exceeding 5 years from the date of conviction by the Magistrate. In light of the above, the directors of Oi Wah HK (including our three executive Directors, namely, Mr. Chan Chart Man, Mr. Edward Chan and Ms. Chan Ying Yu) may be subject to imprisonment for 2 years and Oi Wah HK may be subject to a fine of HK$100,000, being the maximum penalty for committing each offence by breaching section 18 of the Money Lenders Ordinance. Our Directors confirmed that

they are not aware of any irregularities in respect of the interest rates offered and the collaterals pledged in the above non-compliance incidents compared with other pawn loan transactions of our Group.

These non-compliance incidents were reported to the Police Licensing Office on 30 November 2012. Our Directors confirmed that as at the Latest Practicable Date, no action had been taken by the Police Licencing Office against our Group. Our Legal Counsel was of the view that such non-compliance incidents have been time barred under section 26 of the Magistrates Ordinance and there should not be any potential liability or consequences on our Group or our Directors. Our Legal Counsel is also satisfied that the renewal of our Money Lenders Licence should not be affected. For further details, please refer to the section headed "Business — Regulatory compliance" in this document.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Articles" or "Articles of Association"	the amended and restated articles of association of our Company, adopted on 19 February 2013 (conditional on [•]) and as amended from time to time, a summary of which is contained in Appendix III to this document
"associate(s)"	has the same meaning ascribed thereto under the [•]
"Board of Directors" or "Board"	the board of Directors
"Business Day"	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"Cayman Share Registrar"	Appleby Trust (Cayman) Ltd.
"Chan Family"	Mr. Chan Chart Man and his family members, namely, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui
"Cheung Wah Pawnshop"	Cheung Wah Pawnshop (祥華大押), one of our Pawnshops and operated under Oi Wah HK
"Chun Wah Pawnshop"	Chun Wah Pawnshop (振華大押), one of our Pawnshops and operated under Oi Wah HK
"Commissioner of Police"	the Commissioner of Police of Hong Kong
"Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented and/or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies Registry"	the companies registry of Hong Kong
"Company" or "our Company"	Oi Wah Pawnshop Credit Holdings Limited (靄華押業信貸控股有限公司), an exempted company incorporated in the Cayman Islands on 5 June 2012 with limited liability
"connected person(s)"	has the same meaning ascribed thereto under the [•]

DEFINITIONS

"Controlling Shareholder(s)"	has the meaning ascribed thereto under the [•] and, in the context of our Company, means the Chan Family and Kwan Lik
"Customer Service Centre"	our customer service centre providing private and personalised customer service support in connection with pawn loans
"Deed of Indemnity"	the deed of indemnity dated 21 February 2013 entered into between the Controlling Shareholders and our Company, particulars of which are set out in the section headed "E. Other Information — 1. Estate duty, tax and other indemnities" in Appendix IV to this document
"Deed of Non-competition"	the deed of non-competition undertaking dated 21 February 2013 entered into by the Controlling Shareholders in favour of our Company (for ourselves and for the benefit of our subsidiaries)
"Director(s)"	the director(s) of our Company
"Group", "our Group", "we", "our" or "us"	our Company and our subsidiaries or, where the context otherwise requires, in respect of the period before our Company becoming the holding company of our present subsidiaries, such subsidiaries and the businesses carried on by them or their predecessors (as the case may be)
"Heng Wah Pawnshop"	Heng Wah Pawnshop (恆華大押), one of our Pawnshops and operated under Oi Wah HK
"Hing Wah HK"	Hing Wah Pawnshop Credit Limited (興華押業信貸有限公司), a company incorporated in Hong Kong with limited liability on 12 April 2012 and a wholly-owned subsidiary of Oi Wah Holding
"Hing Wah Pawnshop"	Hing Wah Pawnshop (興華大押), one of our Pawnshops and operated under Hing Wah HK
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKAS(s)"	Hong Kong Accounting Standards
"HKFRSs"	Hong Kong Financial Reporting Standards (which include HKASs) issued by HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKKPA"	the Hong Kong and Kowloon Pawnbrokers' Association Limited (港九押業商會)
"HKMA"	the Hong Kong Monetary Authority

DEFINITIONS

"Ho Wah Pawnshop"	Ho Wah Pawnshop (豪華大押), one of our Pawnshops and operated under Oi Wah HK
"Hong Kong" or "HK"	The Hong Kong Special Administrative Region of the PRC
"Hoo Chart Enterprise"	Hoo Chart Enterprise Limited (浩策企業有限公司), a company incorporated in Hong Kong with limited liability on 7 March 1978 whose issued share capital is owned as to 95% by Mr. Chan Chart Man and 5% by Ms. Mui
"Hung Wah Pawnshop"	Hung Wah Pawnshop (鴻華大押), one of our Pawnshops and operated under Oi Wah HK
"Independent Third Party(ies)"	person(s) or company(ies) which is/are independent of and not connected with any of the directors, chief executive, the controlling shareholders or the substantial shareholders of our Company or our subsidiaries or any of their respective associates within the meaning of the [•]
"Ipsos Report"	the industry report prepared by Ipsos Hong Kong Ltd.
"Jones Lang LaSalle"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer
"Kei Wah Pawnshop"	Kei Wah Pawnshop (基華大押), one of our Pawnshops and operated under Oi Wah HK
"Kwan Chart Estate"	Kwan Chart Estate Company Limited (羣策置業有限公司), a company incorporated in Hong Kong with limited liability on 17 December 1976 whose issued share capital is owned as to 95% by Mr. Chan Chart Man and 5% by Ms. Mui
"Kwan Chart Holding"	Kwan Chart (Holding) Company Limited (羣策集團有限公司), a company incorporated in Hong Kong with limited liability on 8 January 1980 whose issued share capital is owned as to 90% by Mr. Chan Chart Man and 10% by Ms. Mui
"Kwan Lik"	Kwan Lik Holding Limited, a company incorporated in the BVI with limited liability on 31 May 2012, all the issued shares of which are owned by the Chan Family
"Kwong Wah Pawnshop"	Kwong Wah Pawnshop (光華大押), one of our Pawnshops and operated under Oi Wah HK
"Land Registry"	the Land Registry of Hong Kong

DEFINITIONS

"Latest Practicable Date"	18 February 2013, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
"Legal Counsel"	Mr. Bernard Mak, barrister-at-law and our legal counsel advising us on certain aspects of Hong Kong law
"Licensing Court"	a Magistrate sitting alone in a Magistrates' Court in Hong Kong
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company, as amended from time to time, a summary of which is contained in Appendix III to this document
"Money Lenders Licence"	the money lenders licence issued by the Licensing Court pursuant to the Money Lenders Ordinance and Money Lenders Regulations for carrying on money lending business in Hong Kong
"Money Lenders Ordinance"	the Money Lenders Ordinance (Chapter 163 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Money Lenders Regulations"	the Money Lenders Regulations (Chapter 163A of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Mortgage Centre"	our customer mortgage centre located in Wan Chai providing private and personalised customer service support in connection with mortgage loans
"Mr. Chan Chart Man"	Mr. Chan Chart Man (陳策文), our executive Director, a shareholder of Kwan Lik, a Controlling Shareholder and the spouse of Ms. Mui
"Mr. Edward Chan"	Mr. Chan Kai Ho Edward (陳啟豪), our executive Director, a shareholder of Kwan Lik and a Controlling Shareholder
"Mr. Macksion Chan"	Mr. Chan Kai Kow Macksion (陳啟球), our non-executive Director
"Ms. Chan Mei Fong"	Ms. Chan Mei Fong (陳美芳), our executive Director, a shareholder of Kwan Lik and a Controlling Shareholder
"Ms. Chan Ying Yu"	Ms. Chan Ying Yu (陳英瑜), our executive Director, a shareholder of Kwan Lik and a Controlling Shareholder
"Ms. Mui"	Ms. Mui Hang Sin (梅杏仙), a shareholder of Kwan Lik, a Controlling Shareholder and the spouse of Mr. Chan Chart Man

DEFINITIONS

"Oi Wah HK"	Oi Wah Pawnshop Credit Limited (靄華押業信貸有限公司), a company incorporated in Hong Kong with limited liability on 22 March 2000 and a wholly-owned subsidiary of Oi Wah Holding
"Oi Wah Holding"	Oi Wah Holding Limited, a company incorporated in the BVI with limited liability on 31 May 2012 and a wholly-owned subsidiary of our Company
"Oi Wah Investment"	Oi Wah Investment Company Limited (靄華置業有限公司), a company incorporated in Hong Kong with limited liability on 9 November 1971 whose issued share capital is owned as to 49% by Mr. Edward Chan, 49% by Mr. Macksion Chan and 2% by Mr. Chan Chart Man
"Pawnbrokers Licence"	pawnbrokers licence issued by the Commissioner of Police pursuant to the Pawnbrokers Ordinance and Pawnbrokers Regulations for operating pawn business in Hong Kong
"Pawnbrokers Ordinance"	the Pawnbrokers Ordinance (Chapter 166 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Pawnbrokers Regulations"	the Pawnbrokers Regulations (Chapter 166A of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Pawnshop(s)"	Cheung Wah Pawnshop, Chun Wah Pawnshop, Heng Wah Pawnshop, Hing Wah Pawnshop, Ho Wah Pawnshop, Hung Wah Pawnshop, Kei Wah Pawnshop, Kwong Wah Pawnshop, Po Wah Pawnshop, Sung Wah Pawnshop, Tak Wah Pawshop and Wai Wah Pawnshop, being the 12 pawnshops operated by us at the respective addresses as shown in the section headed "Business — Property interest — Our Pawnshops" in this document or any new pawnshop which our Group may operate in the future
"PDPO"	Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"per cent." or "%"	per centum of percentage
"Po Wah Pawnshop"	Po Wah Pawnshop (寶華大押), one of our Pawnshops and operated under Oi Wah HK
"Police Licensing Office"	the Police Licensing Office of the Hong Kong Police Force
"Police Notice"	Notice to Pawnbrokers of the Police Gazette by the police

DEFINITIONS

"PRC" or "China"	People's Republic of China, which for the purpose of this document, shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
"Registrar of Money Lenders"	the person appointed under the Money Lenders Ordinance for the purposes of establishing and maintaining the register of money lenders, who currently is the [•]
"Reorganisation"	the [•] of our Group, further details of which are described under the section headed "A. Further information about our Company — 4. Corporate reorganisation" in Appendix IV to this document
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares of HK$0.01 each in the share capital of our Company
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 19 February 2013, a summary of the principal terms and conditions of which is set forth in the section headed "D. Share Option Scheme" in Appendix IV to this document
"Shareholder(s)"	holder(s) of the Share(s)
"Sincere Treasure"	Sincere Treasure Limited (崇毅有限公司), a company incorporated in Hong Kong with limited liability on 27 February 1998 and was deregistered on 27 June 2003. Prior to its deregistration, its issued share capital was owned as to 60% by Mr. Chan Chart Man, 10% by Ms. Mui and 30% by Oi Wah Investment
"subsidiary(ies)"	has the meaning ascribed thereto under the [•]
"substantial shareholder(s)"	has the meaning ascribed thereto under the [•]
"Sung Wah Pawnshop"	Sung Wah Pawnshop (崇華大押), one of our Pawnshops and operated under Oi Wah HK
"Tak Wah Pawnshop"	Tak Wah Pawnshop (德華大押), one of our Pawnshops and operated under Oi Wah HK
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers issued by the SFC as amended, supplemented or otherwise modified from time to time

DEFINITIONS

"United States" or "U.S."	the United States of America, its territories, its possessions subject to its jurisdiction
"Wai Wah HK"	Wai Wah Pawnshop Credit Limited (偉華押業信貸有限公司), a company incorporated in Hong Kong with limited liability on 12 April 2012 and a wholly-owned subsidiary of Oi Wah Holding
"Wai Wah Pawnshop"	Wai Wah Pawnshop (偉華押), one of our Pawnshops and operated under Wai Wah HK

Unless expressly stated or otherwise required by the context, all data contained in this document are as at the Latest Practicable Date.

Unless otherwise specified, all references to any shareholding in our Company in this document assume no exercise of any options which may be granted under the Share Option Scheme.

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

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this document in connection with our Company and our business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"CAGR"	compound annual growth rate
"first mortgage loan(s)"	loan(s) secured by the first mortgage on the real estate
"GDP"	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth), unless otherwise stated
"loan-to-value ratio"	the amount of a loan as a percentage of the total appraised value of the collaterals or mortgaged real estates
"lunar month"	a Chinese lunar month which is measured based on the movement of the moon and equivalent to approximately 29 days
"money lender(s)"	has the same meaning ascribed thereto under the Money Lenders Ordinance
"mortgage loan(s)"	loan(s) secured by real estates
"net interest margin"	net interest income received during the year/period, being our interest income in respect of our pawn loans and mortgage loans less our finance costs, divided by the average of month-end gross loan receivables balances of the corresponding loans during the year/period
"net loan receivables"	outstanding loan amounts due from our Group's customers after deduction of impairment allowance
"Rapaport Diamond Report"	primary source of diamond pricing and market information for the diamond industry and the international standard used to establish prices in all the major cutting centres and dealer markets
"repossessed asset(s)"	collaterals which are not redeemed upon the expiry of the term of the pawn loan granted pursuant to the Pawnbrokers Ordinance
"pawn loan(s)"	loan(s) secured by the pledge or deposit of personal property including jewels and other personal chattels
"pawnbroker(s)"	has the same meaning ascribed thereto under the Pawnbrokers Ordinance
"SME(s)"	small and medium enterprise(s)
"sq.ft."	square foot

GLOSSARY OF TECHNICAL TERMS

"sq.m."	square meter(s)
"subordinated mortgage loan(s)"	loan(s) secured by mortgages which are subordinated to the first or higher ranking mortgages charged on the mortgaged real estate
"ticket"	a ticket delivered by a pawnbroker to the borrower when advancing money on loan

RISK FACTORS

You should carefully consider all of the information set out in this document and, in particular, should consider the following risks before making an investment in [•]. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The [•] could decline due to any of these risks or other factors, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our business is affected by fluctuations in interest rates and our credit positions

Our Group's interest rate risks arise from the interest-bearing lending and borrowing of our pawn loan and mortgage loan business. Our profitability is highly correlated to the net interest margin. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the net interest margin were approximately 41.5%, 40.5%, 37.2% and 35.7%, respectively. We had been financing our operations mainly through a combination of our internal generated funds, funds from our Shareholders and bank loans and overdrafts. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had entered into 11, 11, 13 and 14 facility agreements with local banks in Hong Kong, respectively, for the facility in the aggregate amount approximately of HK$7.5 million, HK$7.5 million, HK$13.0 million and HK$46.9 million, respectively, as contingent capital for our pawn loan and mortgage loan business. As at the Latest Practicable Date, our unutilised banking facilities available for drawdown amounted to approximately HK$21.7 million. As at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, loans from our Shareholders amounted to approximately HK$40.5 million, HK$43.7 million, HK$42.0 million and HK$45.0 million, respectively. Our principal source of funds for our operations after [•] will be a combination of internal generated funds, bank loans and overdrafts and [•] from the [•]. The interest rate chargeable by us to our customers is determined by the market demand of loans and the prevailing competition in the industry, and is capped by the relevant provisions of the Pawnbrokers Ordinance and the Money Lenders Ordinance. Our borrowing cost is determined with reference to the overall local money lending market conditions and our credit positions. An increase in general interest rates or a deterioration of our credit positions will lead to an increase in our funding costs and will adversely affect our financial performance.

RISK FACTORS

We have only started our mortgage loan business in 2009 and there is no assurance that the future development of our mortgage loan business will be successfully implemented

We only commenced our mortgage loan business in June 2009. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the turnover contributed by the interest income earned on our mortgage loan services amounted to approximately HK$0.2 million, HK$0.8 million, HK$3.2 million and HK$4.8 million, respectively, representing approximately 0.3%, 1.5%, 4.8% and 9.1% of our total turnover, respectively. With our limited operating history in providing mortgage loans, it may be difficult to evaluate the performance of our mortgage loan business and its future development. It is our intention to further develop our mortgage loan business by expanding our mortgage loan portfolio and our customer base. There is no assurance that the future development of our mortgage loan business will be successfully implemented. Our results since the commencement of our mortgage loan business should not be used as an indication of the prospect and performance of our mortgage loan business.

Further expansion of our mortgage loan portfolio may influence our overall net interest margin, business and credit risks exposure and working capital position

Our Directors expect that further expansion of our mortgage loan portfolio in the future may adversely affect our overall net interest margin as our borrowing cost is expected to become higher due to the fact that we may finance such expansion by increasing bank loans. Furthermore, most of our turnover recorded during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 had been generated from the interest income on our pawn loans. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we recorded approximately 86.5%, 82.8%, 78.9% and 81.5% of our total turnover from interest income on our pawn loans, respectively, while we recorded approximately 0.3%, 1.5%, 4.8% and 9.1% of our total turnover from interest income on our mortgage loans, respectively. As we generally charge our customers a higher interest rate for our pawn loans (up to 3.5% per lunar month or 42% per annum*(note)*) than our mortgage loans (interest rate ranging from 7.8% to 24.0% per annum for our first mortgage loans and 13.3% to 30.0% per annum for our subordinated mortgage loans during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012), our overall net interest margin would be adversely affected if we diversify our income stream by increasing the portion of our turnover generated from our mortgage loan services in the future.

Our Directors also expected that our business and credit risks exposure would also be affected by the expansion plan of our mortgage loan services as the average size of our mortgage loans is much larger than the average size of our pawn loans. Any default in our mortgage loans by our customers may lead to a higher impact to our financial position than those default cases in connection with our pawn loan services.

Note: For illustrative purpose only and is calculated based on 12 lunar months per year.

In addition, our Directors expect that our expansion of the mortgage loan portfolio may affect our working capital position, as our pawn loans offer higher liquidity to us due to their shorter loan terms, compared to those of our mortgage loans granted by us during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 that have a longest loan term of 20 years.

Our mortgage business is dependent on the performance of real estate markets in Hong Kong

All of the underlying real estates of our mortgage loans are located in Hong Kong. The values of the real estates mortgaged to us may fluctuate and decline due to various factors, including those affecting the overall real estate market conditions in Hong Kong. For example, a slowdown in the Hong Kong economy or any changes in the laws, regulations and policies in relation to the real estate market, may lead to a downturn in the real estate market that may in turn result in decline in the value of underlying real estates of our mortgage loans to levels below the outstanding principal amounts of such loans. In the event that we realise a real estate mortgaged to us for a default on our mortgage loan, the value of that real estate may not be sufficient to cover our mortgage loan in full due to the value fluctuation mentioned above, and in turn our financial performance may be adversely affected. Furthermore, in the event of lowered liquidity of the real estate market, the mortgaged properties may not be readily sold in the market when we exercise our enforcement rights in the mortgaged properties in the event of any loan default. Any delay in the timetable for the sale of mortgaged properties upon the exercise of our enforcement rights to recover the outstanding loan amount and interest accrued may adversely affect our liquidity.

Availability of funds to sustain growth

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our source of funds for our operations mainly comes from our internal generated funds, funds from our Shareholders and bank loans and overdrafts. All of the Shareholders' loans had been fully capitalised as at the Latest Practicable Date. The notional interests that would have been charged to our Group in connection with the Shareholders' loans for the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, based on the interests with reference to the borrowing rates offered to us by our banks, would amount to approximately HK$2.9 million, HK$2.2 million, HK$2.5 million and HK$2.0 million, respectively. We will be more reliant on internal generated funds and bank loans and overdrafts after [•]. The growth of our pawn loan and mortgage loan business depends on the expansion of our loan portfolios which will require us to obtain sufficient funds. In the event that we are unable to obtain sufficient and/or alternative fundings on reasonable terms or at all, we may not be able to implement our future plans.

RISK FACTORS

The liquidity of our Group may be affected by the timeliness in realising collaterals

As at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, the outstanding amount of pawn loans were approximately HK$91.1 million, HK$102.8 million, HK$118.0 million and HK$123.1 million, respectively, while the outstanding amount of mortgage loans were approximately HK$2.9 million, HK$22.2 million, HK$32.6 million and HK$71.4 million, respectively. In the event that our customers are unable to repay the relevant loans by the end of their terms and we are unable to realise the collaterals or the mortgaged real estates timely or at all, the liquidity and financial condition of our Group may be adversely affected.

Our Group had incurred net operating cash outflow for the year ended 28 February 2011 and the nine months ended 30 November 2012 and we had overall net cash outflow for the year ended 28 February 2011 and the nine months ended 30 November 2012

Our Group incurred net cash outflow from operating activities of approximately HK$10.7 million and HK$20.6 million respectively and a net cash outflow of approximately HK$8.3 million and HK$3.0 million respectively for the year ended 28 February 2011 and the nine months ended 30 November 2012. The net cash outflow from operating activities for the year ended 28 February 2011 and the nine months ended 30 November 2012 was mainly attributable to the increase in our gross loan receivables as our Group expanded our loan portfolio during the relevant year/period. We fund our loan portfolio by various means. Due to the nature of our business, when the growth in our loan portfolio is greater than the loan receivables received from the borrowers, there will be an increase in our gross loan receivables that will be recorded as a net operating cash outflow. A decrease in our gross loan receivables may be recorded if we slow down our pace of granting loans.

In the event that we are unable to obtain sufficient funds to finance the expansion in our loan portfolio, or we are forced to slow down our pace of granting loans to maintain our liquidity, our business operations and prospects may be materially and adversely affected.

We may not be able to detect unlawful properties and prevent fraud or other misconduct committed by our employees or third parties which may materially and adversely affect our results of operations

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had encountered 80, 82, 75 and 82 incidents where collaterals pawned to us were seized by the police for investigations and the aggregated loan amounts involved were approximately HK$0.3 million, HK$0.3 million, HK$1.7 million and HK$0.3 million, respectively. For the same period, the amount of losses arising from the seizure of our pawned collaterals by the police net of insurance compensation amounted to approximately HK$21,000, HK$18,000, HK$44,000 and HK$50,000, respectively. As at the Latest Practicable Date, we still have pawned collaterals being seized by the police pending their investigation, involving 62 pawn loan transactions with an aggregated loan amount of approximately HK$0.6 million. Our Pawnshops are provided with a copy of the Police Notice by the police from time to time which entails the latest information of unlawful properties. There is no assurance that we

could detect all unlawful properties in a timely manner. We may also be exposed to fraud or other misconduct committed by our employees or third parties that could subject us to financial losses, sanctions and serious harm to our reputation. It may be difficult to identify non-compliance or suspicious transactions in a timely manner. Our precautions for fraud or other misconduct may not be sufficient and effective. If losses or damages arisen from the failure to detect unlawful properties and the occurrence of fraud or other misconduct are not recovered by our insurance, it may have an adverse effect on our financial performance and operation results.

We may be unable to maintain rapid growth and implement our future plans

Our future business growth primarily depends on the successful implementation of our strategies and future plans as set out in this document. These business objectives are based on the existing plans and intentions of our Group, most of which are at initial stages and are therefore subject to risks and uncertainties. Further, we may not be able to achieve the anticipated growth and expansion of our operation due to factors which are beyond our control, such as changes in economic environment, market demands, government policies and relevant laws and regulations. As such, there is no assurance that the future plans of our Group will materialise, or be completed by the pre-determined timeframe, or that the objectives of our Group will be fully or partially achieved. In the event that our future plans do not materialise and our business objectives are not achieved, our business, profitability and financial positions in the future may be adversely affected.

We are subject to higher credit risks and default risks

Unlike banks which offer relatively lower interest rates for their secured loans, we offer higher interest rates to our customers for our pawn loans and mortgage loans. For our pawn loans, we offer a maximum interest rate of 3.5% per lunar month, and for our mortgage loans, we offered an interest rate ranging from approximately 7.8% to 24.0% per annum for first mortgage loans and approximately 13.3% to 30.0% per annum for subordinated mortgage loans during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012. Our results of operations depend on the interests we received from our customers and we are hence subject to higher credit risks and default risks in the event that the interest rate is offered at the high end and the borrowers default in repayment. Further, the values of the collaterals may fluctuate due to various reasons such as macro economic environment and inflation. Decrease in the values of the collaterals in turn affects the amount of our loans and our [•] from disposal of such collaterals. Our operation results and financial performance may then be adversely affected.

The collaterals pledged may not be sufficient to cover the amount of pawn and mortgage loans granted by us

The collaterals pledged to us may not be sufficient to cover the amount of the outstanding loan receivables in the event of default. Our management information systems and internal control procedures are designed to monitor our operations and ensure that our staff would be able to value the collaterals properly and check for the genuineness of the collaterals. Should we fail to perform the valuation and misprice the collaterals, the amount

of pawn loans and mortgage loans granted may exceed the value of the collaterals and the mortgaged real estates respectively and we may face adverse effect on our financial condition and operation results.

We may not be able to fully recover the mortgaged real estate securing for our subordinated mortgage loans in case of default

We have granted mortgage loans, including first mortgage loans and subordinated mortgage loans, to our customers, the outstanding balance of which amounted to approximately HK$2.9 million, HK$22.2 million, HK$32.6 million and HK$71.4 million as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, respectively. As our subordinated mortgages carry rights which are subordinated to those of first mortgages, there is no assurance that the residual values (being the value of the real estates less the outstanding balance of first and other higher-ranking subordinated mortgage loans at the time of initial loan drawdown by our customers) of the mortgaged real estates are sufficient to cover the outstanding balance of the subordinated mortgage loans after settling the first and other higher ranking mortgage loans in full in case of foreclosure. Therefore, our subordinated mortgage loans may expose us to the risk such as the first mortgagee increasing the first mortgage loan amount thereby compromising our security as second mortgagee, or the first mortgagee demanding the borrower to make early repayment on the loan, causing the borrower to sell the related real estate at times which are not in our control. Our Directors confirm that it is the prevailing market practice in respect of mortgage loans that the first mortgagees will generally not provide any consent in respect of subordinated mortgage loans; and even if consents are given, first mortgagees generally will not provide specific consents that fully cover the aforesaid commercial risks. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our Group has not incurred any impairment loss and written off from our loan receivables in connection with our mortgage business.

Apart from other factors such as the borrower's credit quality and the type of mortgaged real estates provided, we charge a higher interest rate on our subordinated mortgage loans to justify the higher risk that we may not be able to recover the full amount of the loan receivables in the event that the value of mortgaged real estate falls below the aggregate outstanding balance of the first and other higher-ranking subordinated mortgage loans. Accordingly, our asset quality, financial condition or results of operations may be materially and adversely affected.

Uncertain timing for repayment of subordinated mortgage loans in default

In the event of default in repayment of mortgage loans, where the loan amount is overdue and we are unable to contact the relevant customer or the amount remains overdue after a lapse of 7 days after notification by us, we will consider taking legal action against the relevant customer for the overdue loans and enforcing and recovering possession of the mortgaged real estates by obtaining court orders. If judgment is granted in favour of our Group, in relation to any subordinated mortgage loans, we shall register the court order against the real estate and the owner shall be obliged to repay the overdue loan from the [•]

in the future sale of the real estate. There is no assurance as to the timing of the future sale of the real estate and the repayment of such subordinated mortgage loan is therefore uncertain. Our liquidity and financial condition may be adversely affected.

Our insurance coverage may not adequately protect us against certain operational risks including the safe keeping of the collaterals and this may have a material adverse effect on our business

Collaterals of our pawn loans are kept in sealed plastic bags in the safe of our Pawnshops together with the relevant tickets or loan agreements. For each of our Pawnshops, we maintain insurance for the collaterals kept by each Pawnshop. The insurance covers, amongst others, loss or damage arising from transiting the collaterals, loss or damage by burglary or theft, and the loss and damage arising from unlawful goods. The occurrence of certain incidents, such as fraud or other misconduct by our employees or third parties, fire, severe weather conditions, and the consequences resulting therefrom may not be covered adequately by our insurance policies. If we incur substantial liabilities which are not covered by our insurance policies, we may incur expenses and losses that would materially and adversely affect our operation results and financial conditions.

Dependence on senior management personnel

Our senior management team, particularly Mr. Edward Chan, our Chairman, executive Director and chief executive officer, has joined our Group since the establishment of Oi Wah HK in March 2000. Ms. Chan Ying Yu and Ms. Chan Mei Fong, both executive Directors, joined our Group in 2000 and 2007, respectively. They are responsible for the day-to-day operation and strategic planning of our Group. The knowledge and experience of our senior management team is instrumental to the future development of our Group. We cannot assure you that we will be able to replace, retain or hire other managerial personnel of similar qualification on a timely basis in the future and will cause disruption to our business and may have an adverse impact on our operations, business and prospects.

We may fail to renew or maintain our Pawnbrokers Licences and Money Lenders Licence

Our business are subject to licensing requirements under the provisions of the Pawnbrokers Ordinance and the Money Lenders Ordinance respectively. Our Pawnbrokers Licence and the Money Lenders Licence are granted by the Commissioner of Police and the Licensing Court respectively and are also renewable annually subject to satisfaction of all licensing requirements. The Commissioner of Police or the Licensing Court may revoke or refuse to renew our Pawnbrokers Licences or Money Lenders Licence respectively if we are in breach of any condition of the relevant licence.

For details of the licensing requirements for pawnbrokers and money lenders, please refer to the sections headed "Regulatory overview — Regulations and supervision of pawnbroking business in Hong Kong" and "Regulatory overview — Regulations and supervision of money lending business in Hong Kong" in this document.

RISK FACTORS

If we were unable to renew our Pawnbrokers Licences and Money Lenders Licence on a timely basis or at all, it could have a material adverse impact on our Group's business, financial condition and operation results.

Our pawn business operation may be interrupted if any of the licence holder of our Pawnbrokers Licences deceases or ceases to be have any connection with our Group

Each Pawnbrokers Licence bears the name of an individual who is regarded as the holder of the licence to carry on business as a pawnbroker at the relevant pawnshop. The individual can hold the licence in his/her name or on behalf of a company. According to the Police Licensing Office, in the event that such individual passes away, the Pawnbrokers Licence will cease to have effect immediately and the relevant pawnshop needs to cease operation save for handling the redemption of collaterals by borrowers. The pawnshop is required to apply for a new licence with another individual as licence holder to resume operation. The process of new application of the licence takes approximately one month.

Our 12 Pawnbrokers Licences are currently held by Mr. Edward Chan and Ms. Chan Ying Yu, our executive Directors and Controlling Shareholders. In the event that one of these individuals passes away while being the named licence holder on behalf of our Group, the relevant Pawnshops with licences bearing his/her name as licence holder on behalf of our Group will be required to cease operation for approximately one month pending the grant of a new licence in the name of another individual on behalf of our Group.

If any of these individuals ceases to have any connection with our Group and we need to change the holder of the Pawnbrokers Licences to another person to hold for and on behalf of our Group, according to the Police Licensing Office, a new licence is required to be obtained and generally it will also take approximately one month to process such application by the Police Licensing Office. In such event, if insufficient time has been allowed to process the application for the new licence prior to cessation of connection of the licence holder and our Group, the relevant Pawnshops are also required to cease all business operations save for handling the redemption of collaterals by the borrowers pending the grant of the new licence.

Therefore, the passing away of the licence holder of our Pawnbrokers Licences or the cessation of such licence holder to have any connection with our Group (without any advance filing of application for change of licence holder with the Police Licensing Office for at least one month) will have an adverse impact on our operating results and financial performance.

We may be unsuccessful in obtaining the requisite licences for our new Pawnshops

As at the Latest Practicable Date, we have 12 Pawnshops located in various locations in Hong Kong. We do not have any plan to increase the number of our Pawnshops at the moment, but we may in the future establish more Pawnshops in Hong Kong. According to the Pawnbrokers Ordinance, applicant for Pawnbrokers Licence is required to fulfil certain requirements which shall be determined and approved by the Commissioner of Police. There is no assurance that we could obtain the requisite licences for the establishment of our new Pawnshops.

RISK FACTORS

For details of the licensing requirements for pawnbrokers and money lenders, please refer to the sections headed "Regulatory Overview — Regulation and supervision of pawnbroking business in Hong Kong — Qualification criteria" and "Regulatory Overview — Regulations and supervision of money lending business in Hong Kong — Licensing requirements" in this document.

Several instances of not in full compliance with section 18 of the Money Lenders Ordinance

As further elaborated in the section headed "Business — Regulatory compliance" in this document, during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, there were 315 instances where we issued tickets to customers for pawn loans exceeding HK$100,000 granted under our Money Lenders Licence, the first of which occurred in March 2009 while the last of which occurred in June 2012, with an aggregate loan amount granted of approximately HK$48.6 million. These loans range from HK$102,000 to HK$500,000 and are classified as loans granted under our Money Lenders Licence. The terms of the tickets were not in full compliance with section 18 of the Money Lenders Ordinance. As advised by Pang & Co., legal advisers to our Company as to Hong Kong law, pursuant to section 32 of the Money Lenders Ordinance, the maximum penalty shall be a fine of HK$100,000 for committing each offence and imprisonment for 2 years and any person convicted of an offence under the Money Lenders Ordinance may be disqualified from holding a Money Lenders Licence for a period not exceeding 5 years from the date of conviction by the Magistrates. In light of the above, the directors of Oi Wah HK (including our three executive Directors, namely, Mr. Chan Chart Man, Mr. Edward Chan and Ms. Chan Ying Yu) may be subject to imprisonment for 2 years and Oi Wah HK may be subject to a fine of HK$100,000, being the maximum penalty for committing each offence by breaching section 18 of the Money Lenders Ordinance. Such non-compliance incidents have been time barred under section 26 of the Magistrates Ordinance. As these instances constitute non-compliance of the Money Lender Ordinance, we could not assure that our Money Lenders Licence could be renewed. For further details, please refer to the section headed "Business — Regulatory compliance" in this document.

Potential claims on surplus on disposal of collaterals

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, upon the expiry of the pawn loans granted under our Money Lenders Licence, we sold the collaterals but did not return the surplus (being the excess amount of the sale proceeds of the collaterals after netting off the principal loan amount and accumulated interests) from such disposal to our customers, save for one incident where we have returned the surplus in the amount of HK$86,000 to a customer in October 2012. Borrowers may bring legal action against our Group to claim for such surplus. The aggregate amount of surplus on disposal of collaterals relating to our pawn loans granted under our Money Lenders Licence up to the Latest Practicable Date amounted to approximately HK$1.0 million. For details, please refer to the section headed "Business — Our principal business activities — Pawn loan services — Default in repayment" in this document. In the event that the borrowers bring legal actions against our Group to claim these surplus, our reputation may be adversely affected.

Breach of the tenancy agreement

Pursuant to the tenancy agreement entered into between Oi Wah HK and the landlord on 8 April 2008 in respect of the premises of one of our Pawnshops, the lease shall be personal to Oi Wah HK which shall not sublet or in any way allow any person not a party to the tenancy agreement to use or occupy the premises. However, we have sublet part of the premises to a third party and the landlord has refused to grant us a written consent for the subletting, despite having knowledge of this situation. This amounted to a breach of contract which would entitle the landlord to terminate the tenancy agreement and exercise the right of re-entry to the premises. In the event that the landlord brings legal proceedings against our Group for repossession of the premises, our operations and reputation may be adversely affected.

Additions or alterations to the premises of Wai Wah Pawnshop without formal approval

There is a cockloft with an internal staircase in Wai Wah Pawnshop. According to Jones Lang LaSalle, there is no information available showing that formal approval has been granted for such additions or alterations by the relevant government authorities. Pursuant to the tenancy agreement for Wai Wah Pawnshop, if the property is to be rendered unfit for use and occupation or being declared unfit for use and occupation or becoming subject to a closure order, payment of rent, management fees and rates shall be suspended until the said premises be rendered fit for occupation and use or become accessible again or until the closure order has been removed. Pang & Co., legal advisers to our Company as to Hong Kong law, have advised us that notwithstanding the existence of the additions or alterations, the tenancy agreement for Wai Wah Pawnshop is valid and subsisting and in full force and effect in favour of our Group and we are entitled to exclusively possess the property for our quiet enjoyment subject to the terms of the relevant tenancy agreement. In the event that an order is being imposed by the relevant government authority to the premises where Wai Wah Pawnshop locates, the landlord may be required to remove the additions or alterations and the operation of Wai Wah Pawnshop may be required to be suspended until the additions or alterations have been removed.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Our business is affected by changes in applicable rules and regulations

Our operations and financial results could be adversely affected by changes in government policies, relevant laws and regulations. As a pawnbroker and a licensed money lender in Hong Kong, we have to ensure, at all times, strict compliance with all applicable laws and regulations, in particular, the Pawnbrokers Ordinance and the Money Lenders Ordinance. Please refer to the section headed "Regulatory overview" for details.

The regulatory authorities may from time to time amend existing or adopt new laws and regulations applicable to pawnbrokers and licenced money lenders in Hong Kong. These changes may impose new restrictions on the way we operate or expand our business or requires additional licences or permits for our business operations. In this connection, there is no assurance that we are able to comply with the new requirements, including significant modification or cessation of part or whole of our current or future operations,

on a timely basis. Such changes may significantly affect our business, results of operations, financial conditions and prospects in the future. Furthermore, any failure by us to adhere to the applicable laws and regulations may result in imposition of penalties or regulatory action by the relevant governmental authority. Any of these actions may have an adverse impact on our business, operation results and financial conditions. Our Directors confirmed that since the commencement of our operation up to the Latest Practicable Date, there had not been any material breach of any applicable laws and regulations on the part of our Group except for certain incidents including breaches of the Money Lenders Ordinance. For details, please refer to the section headed "Business — Risk Management — Regulatory risks regarding our Group's compliance with the Money Lenders Ordinance" in this document.

Currently, the interest rate we offer to customers shall not exceed the prescribed monthly interest rate of 3.5% per lunar month for pawn loans granted pursuant to the Pawnbrokers Ordinance and the maximum effective interest rate of 60% per annum as provided by the Money Lenders Ordinance for pawn loans and mortgage loans granted pursuant to our Money Lenders Licence. The lowering of the legal limits on the interest rates that we can offer as a result of any changes to the relevant laws, rules and regulations may adversely affect the profitability of our Group and our operating results and financial performance may be adversely affected.

There is uncertainty in the licensing regime under the Pawnbrokers Ordinance and any change of interpretation of the relevant laws and regulations by the Commissioner of Police and the Police Licensing Office may affect our business operation

The Pawnbrokers Ordinance and the Pawnbrokers Regulations provide limited information on the licensing regime for pawnbrokers in Hong Kong. There are uncertainties in the legislation such as the transfer of Pawnbrokers Licence and the change of name of the licence holder. The licensing regime for pawnbrokers is managed by the Commissioner of Police and the Police Licensing Office. There is no assurance that the interpretation of the relevant laws and regulations by the Commissioner of Police and the Police Licensing Office will remain the same and any change of interpretation may adversely affect our business operations.

There are intense competition in both the pawn loan industry and the mortgage industry

In 2011, there were 150 pawn loan service operators and 829 licensed money lenders in Hong Kong of various scale of operations respectively. Our Directors therefore believe that competition in both the pawn loan and mortgage loan industries are intense. Particularly for the mortgage loan industry, we have to compete with competitors who may have more established reputations and longer operating history, a wider range of loan products or lower cost of funding. As a result, we may have to compete by lowering the interest rates charged on loans in order to win business. Failure to maintain or enhance our competitiveness within both the industries or maintain our customer base with good credit standing may result in decrease in profit as well as loss of market share. Consequently, our financial performance and profitability may be adversely affected.

FORWARD LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, but not limited to, statements relating to:

- our business and operating strategies and the measures to implement such strategies;
- our dividend policy;
- our capital investment plans;
- our operations and business prospects, including any new businesses;
- our overall financial condition;
- the regulatory environment as well as the general industry outlook for the industry in which we operate; and
- general economic trends in Hong Kong.

The words "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to our business, are intended to identify a number of these forward-looking statements. Although these forward-looking statements are made by our Directors after due and careful consideration, these statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information.

DIRECTORS

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Edward Chan	Flat A, 13th Floor, Moon Tower The Arch, 1 Austin Road West Kowloon Hong Kong	Chinese
Mr. Chan Chart Man	House Unit D, Cape Villa 28 Cape Road Chung Hom Kok Hong Kong	Chinese
Ms. Chan Ying Yu	House Unit D, Cape Villa 28 Cape Road Chung Hom Kok Hong Kong	Chinese
Ms. Chan Mei Fong	Flat A, 12th Floor, Mandarin Court 28–36 Flower Market Road Mong Kok Kowloon Hong Kong	Chinese
Non-executive Director		
Mr. Macksion Chan	Flat D, 2nd Floor 273-275 Prince Edward Road West Kowloon Hong Kong	Chinese
Independent non-executive Directors		
Mr. Chan Wing Lee	Flat B, 8th Floor Mei Foo Sun Chuen, Stage VIII 112 Broadway Kowloon Hong Kong	Chinese
Dr. Leung Shiu Ki Albert	4th Floor, Block D Beau Cloud Mansion 64 Macdonnell Road Mid Level Hong Kong	British

DIRECTORS

Name	Residential address	Nationality
Dr. Yip Ngai	Flat G, 30th Floor Block 6, Fu Ning Garden Tseung Kwan O New Territories Hong Kong	Chinese

CORPORATE INFORMATION

Registered office	Clifton House, 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business	Rooms 2302–2303 Kwan Chart Tower No. 6 Tonnochy Road Wanchai, Hong Kong
Company secretary	Mr. Cheng Yiu Hang, *HKICPA*
Audit committee	Dr. Yip Ngai *(Chairman)* Dr. Leung Shiu Ki Albert Mr. Chan Wing Lee
Remuneration committee	Mr. Chan Wing Lee *(Chairman)* Dr. Leung Shiu Ki Albert Mr. Edward Chan
Nomination committee	Dr. Leung Shiu Ki Albert *(Chairman)* Mr. Chan Wing Lee Mr. Edward Chan
Principal banks	Wing Lung Bank Limited DBS Bank (Hong Kong) Limited The Bank of East Asia, Limited
Company website	www.pawnshop.com.hk (*Note:* contents in this website do not form part of this document)

INDUSTRY OVERVIEW

Certain facts, statistics and data presented in this section and elsewhere in this document have been derived, in part, from government official publications that we believe to be reliable and appropriate for such information. However, we cannot guarantee the quality or reliability of such source materials. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information is false or misleading. Whilst our Directors have taken all reasonable care to ensure that the relevant facts and statistics are accurately reproduced from the government official publications, such facts and statistics have not been independently verified by us, their respective affiliates, directors and advisers or any other parties involved in the [•], and none of them makes any representation as to the accuracy or completeness of such information, which may not be consistent with other information available and may not be accurate and should not unduly relied upon.

INDUSTRY OVERVIEW

REPORT CONDUCTED BY IPSOS HONG KONG LTD.

We commissioned Ipsos Hong Kong Ltd. to conduct an analysis of, and to report on, pawn loan market and mortgage loan market in Hong Kong for the period from 2007 to 2016. The information and analysis contained in the Ipsos Report was assessed independently by Ipsos Hong Kong Ltd. and Ipsos Hong Kong Ltd., including all its subsidiaries, divisions and units, is not connected to our Group in any way. Ipsos Hong Kong Ltd. charged us a total fee of approximately HK$219,000 for the preparation and the use of the Ipsos Report, which our Directors consider to reflect market rates.

Ipsos Hong Kong Ltd., being one of the worldwide offices of the Ipsos Group, is specialised in conducting researches across all industrial sectors including tourism, financial services, cosmetics, regional luxury and high net worth research.

The following assumptions are used in the Ipsos Report:

- The economy is assumed to maintain a steady growth across the forecast period
- The demand for mortgage loan in Hong Kong is assumed to rise and more industry players entering the market
- It is assumed that there is no external shock such as financial crisis or the wide outbreak of diseases to affect the demand and supply of pawn and mortgage loan services in Hong Kong during the forecast period

The following parameters are considered in the marketing sizing and forecast model of the Ipsos Report:

- GDP and inflation growth rate in Hong Kong
- Sales of residential and non-residential properties from 2007 to 2012
- New residential and non-residential building completion from 2007 to 2012
- Government credit policies
- Lending rate in Hong Kong
- Growth in the number of foreign domestic helpers in Hong Kong
- Growth in the number of Mainland Chinese entering Hong Kong for residence
- Number of licensed money lenders

INDUSTRY OVERVIEW

OVERVIEW OF HONG KONG MACRO ECONOMIC ENVIRONMENT AND FINANCIAL INDICATIONS

GDP and GDP Growth Rate in Hong Kong

Demand for money borrowing exists during both the times of economic downturn and boom.

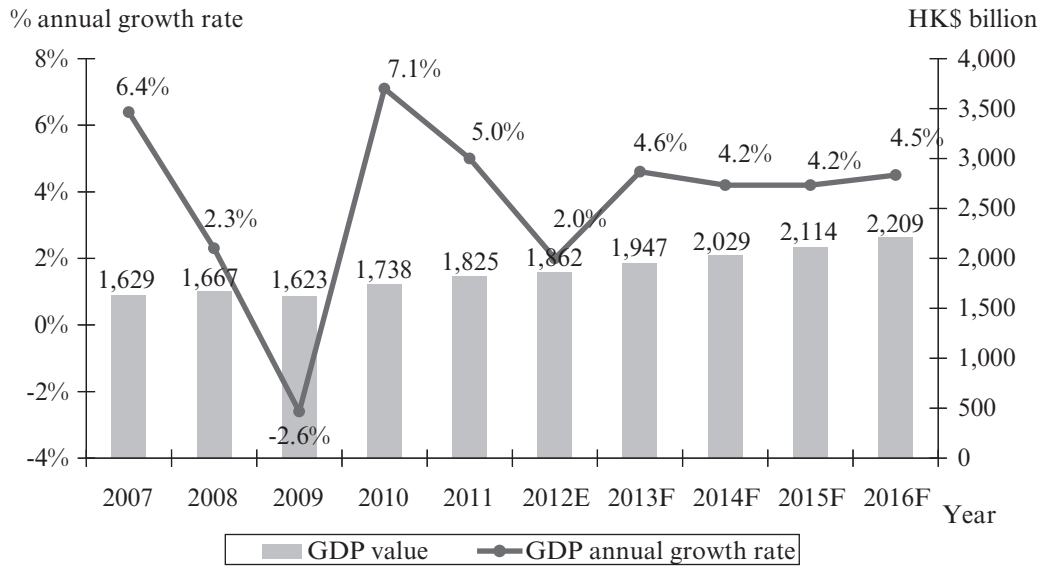


Figure 1. GDP value and GDP annual growth rate of Hong Kong from 2007 to 2016

Notes:

(1) Definition of GDP value: Gross Domestic Product (in chained 2009 dollars).

(2) Definition of GDP annual growth rate: The change in Hong Kong's Gross Domestic Product (in chained 2009 dollars from one year to the next).

Sources: Census and Statistics Department, Hong Kong; Economist Intelligence Unit; Ipsos Report

Despite the adverse impact of the global financial crisis in 2008, the GDP value in Hong Kong grew from about HK$1,629 billion in 2007 to about HK$1,825 billion in 2011 at a CAGR of about 2.9%. The global financial crisis caused the GDP value to drop from annual growth rate of about 2.3% in 2008 to about -2.6% in 2009. The total GDP value declined from about HK$1,667 billion in 2008 to about HK$1,623 billion in 2009. The economy of Hong Kong rebounded quickly in 2010 at GDP annual growth rate of about 7.1%. Although at a slower pace, the Hong Kong economy continued its growth momentum and the GDP value grew at about 5.0% in 2011 as a result of growing exports and tourism activities. Under increasing concern of the European debt crisis however, the Hong Kong economy slowed down at an annual growth rate of about 2.0% in 2012 and is expected to pick up thereafter.

CPI Growth Rate in Hong Kong

Inflation rate in Hong Kong as represented by growth in Consumer Price Index in Hong Kong correlates to the economy growth in the past 5 years.

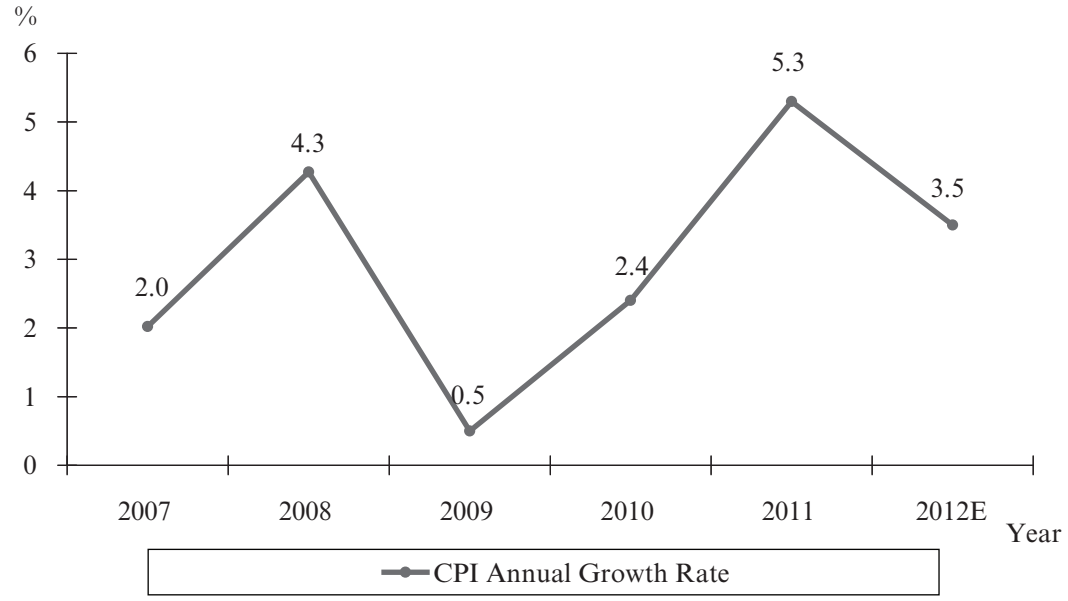


Figure 2. CPI growth rate of Hong Kong from 2007 to 2012

Sources: Census and Statistics Department, Hong Kong; Ipsos Report

Inflation rate surged from an annual rate of about 2.0% in 2007 to an annual rate of about 4.3% in 2008, and was held back to an annual rate of about 0.5% in 2009 because of the economic downturn and the outbreak of Swine Flu and H1N1 that caused local consumption to slump. Upon the recovery of the economy and 2011 as driven by the implementation of minimum wage, inflation rate peaked at about 5.3% in 2011. Inflation is expected to drop to about 3.5% in 2012. Weaken spending power as a result of the inflation, coupled with an increase in consumer spending supported by restored consumer confidence are expected to fuel the demand for short-term loans as consumers fall short of liquidity and seek to borrow to sustain their higher costs of living.

INDUSTRY OVERVIEW

Annual Median Household Disposable Income and Average Household Expenditure in Hong Kong

The demand for pawn loans and mortgage loans correlates to consumer sentiments to spend which can be reflected in the household disposable income and consumption expenditure.

CAGR of annual median household disposable income in Hong Kong from 2007 to 2011 = 1.2%

CAGR of average annual household consumption expenditure in Hong Kong from 2007 to 2011 = 4.1%

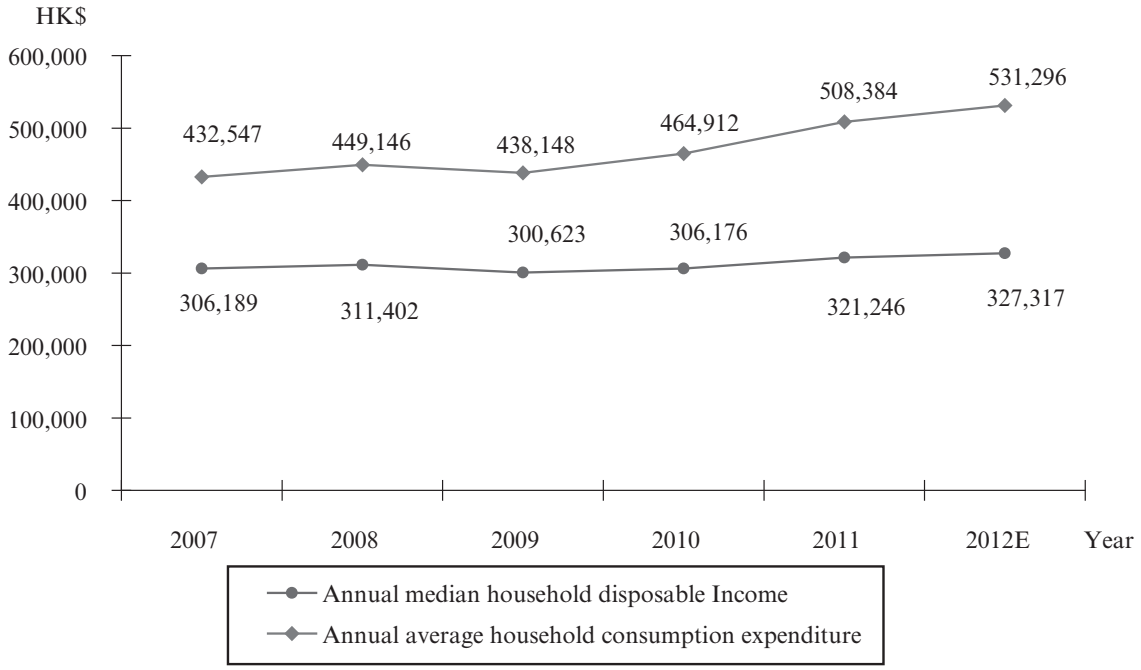


Figure 3. Annual median household disposable income and annual average household consumption expenditure in Hong Kong from 2007-2012

Notes:

(1) Annual average household consumption expenditure refers to the final consumption expenditure by households on individual consumption goods divided by the total number of households in Hong Kong.

(2) Annual median household disposable income refers to median nominal disposable income earned by households per annum.

Sources: Economist Intelligence Unit; Ipsos Report

Annual median household disposable income grew at a CAGR of about 1.2% while annual average household consumption expenditure grew at about 4.1% from 2007 to 2011. Both income and expenditure slumped in 2009 as a result of the global financial crisis which weakened consumer confidence but both picked up in 2010 as the economy recovered. Annual median household disposable income and annual average household consumption expenditure accelerated in 2011 to reach about HK$321,246 and HK$508,384 respectively as a result of restored consumer confidence, falling unemployment rate and surge in inflation rate. With increased expenditure and income, total value of loans and advances granted by authorised institutions and other licensed lenders in Hong Kong surged at a CAGR of about 10.3% and 10.6% respectively from 2007 to 2011. As Hong Kong's living standard continues to rise along with inflation, income and expenditure are expected to continue its growing trend in 2012 to reach about HK$327,317 and HK$531,296 respectively.

Total Number of Authorised Institutions and Other Licensed Lenders in Hong Kong

The money lending industry in Hong Kong can mainly be classified into two categories: authorised institutions and other licensed lenders.

Authorised institutions include licensed banks, restricted licensed banks and deposit-taking companies. Only licensed banks may operate current and savings accounts, and accept deposits of any size and maturity from the public and pay or collect cheques drawn by or paid in by customers. Restricted licensed banks are principally engaged in merchant banking and capital market activities. They may take deposits of any maturity of HK$500,000 and above. Deposit-taking companies are mostly owned by, or otherwise associated with banks. These companies engage in a range of specialised activities, including consumer finance and securities business. They may take deposits of HK$100,000 or above with an original term of maturity of at least three months. As a whole, authorised institutions are subject to the restrictive requirements bound by the supervision of the HKMA and the regulations under the Banking Ordinance (Chapter 155 of the laws of Hong Kong).

Other licensed lenders include money lenders and pawnbrokers which are governed by the Money Lenders Ordinance and the Pawnbrokers Ordinance respectively. The services of money lenders include provision of both secured and unsecured loans such as mortgage loans, consumer and corporate loans, equipment leasing, credit cards, cheque and invoice discounting, loan syndication etc. Pawnshops on the other hand only offer secured loans with items of personal chattels used as collaterals. In general, although authorised institutions and other licensed lenders offer both secured and unsecured loans, authorised institutions such as banks offer a much broader product portfolio including credit card services, overdraft (OD), stock and bonds and other financial products. For secured loans, they will also accept various forms of collaterals including stock, bonds and receivables while other licensed lenders including both pawnbrokers and money lenders tend to accept personal items and real estates respectively. For unsecured loans, banks would also offer term loans, while personal instalment loans are most typically offered by money lenders.

INDUSTRY OVERVIEW

Pang & Co., legal advisers to our Company as to Hong Kong law, have advised that as we are not an authorised institution, we are not required to follow the guidelines and restrictive requirements issued by the HKMA.

CAGR of the number of the licensed banks in Hong Kong from 2007 to 2012 = 1.8%

CAGR of the number of the restricted licensed banks in Hong Kong from 2007 to 2012 = -6.3%

CAGR of the number of the deposit taking companies in Hong Kong from 2007 to 2012 = -3.7%

CAGR of the number of the other licensed lenders in Hong Kong from 2007 to 2012 = 4.5%

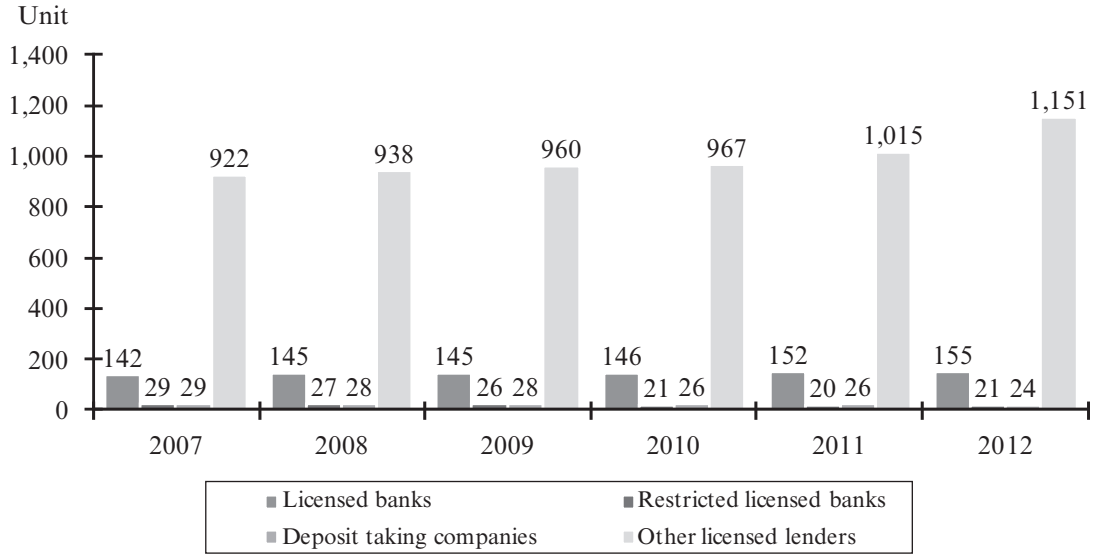


Figure 4. The number of authorised institutions and other licensed lenders in Hong Kong from 2007 to 2012

Notes:

(1) Other licensed lenders include money lenders and pawnshops.

(2) The number of other licensed lenders = money lenders + pawnshops - (money lenders with Pawnbrokers Licences).

(3) 12 Money Lender Licences' holders in Hong Kong possessed Pawnbrokers Licences by the year end of 2012.

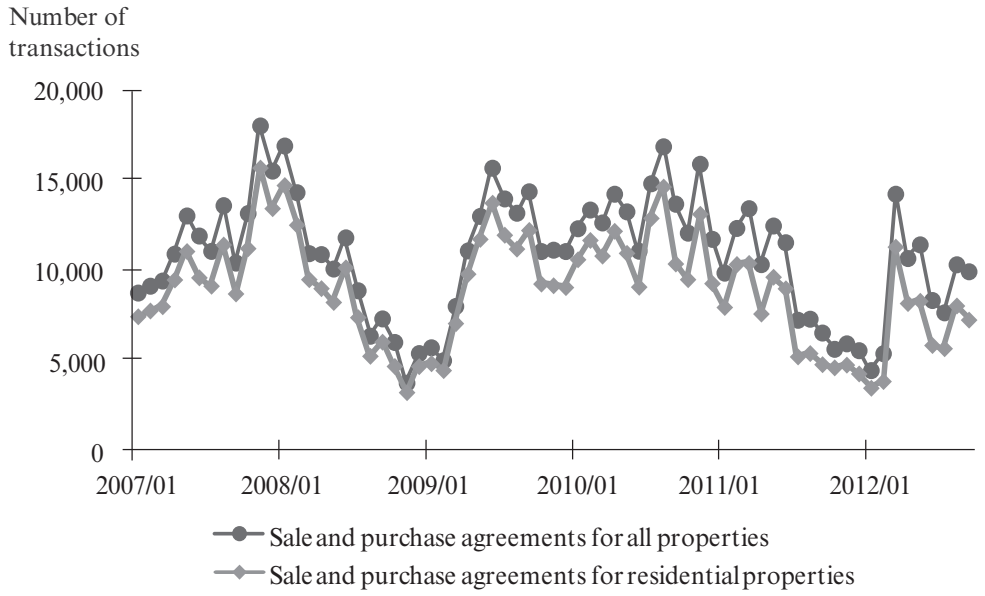
Sources: Hong Kong Monetary Authority; Companies Registry, Hong Kong; Hong Kong Police Licensing Office; Ipsos Report

Hong Kong has one of the highest concentration of banking institutions in the world with about 200 authorised institutions in 2012. The number of authorised institutions in Hong Kong declined slightly from 200 in 2007 to 193 in 2010 but climbed back to 200 in 2012. Despite the fact that the scope of services of other licensed lenders may not be as wide as authorised institutions, their role in the money lending industry in Hong Kong has been increasing with the number of other licensed lenders increased significantly from 922 in 2007 to 1,151 in 2012, represented by a CAGR of about 4.5%. This is largely because other

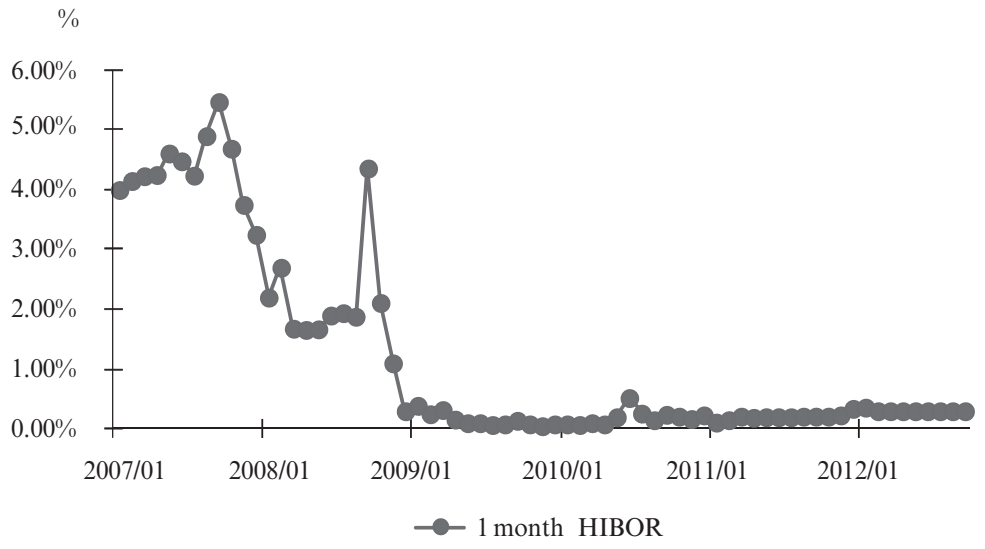
licensed lenders are able to enjoy a greater flexibility in their business operations in terms of loan sizes, requirement of income proof and types of collaterals under the regulation of the Money Lenders Ordinance or the Pawnbrokers Ordinance, as opposed to tight restrictions on authorised institutions imposed by the HKMA.

Hong Kong property market and interest rate environment

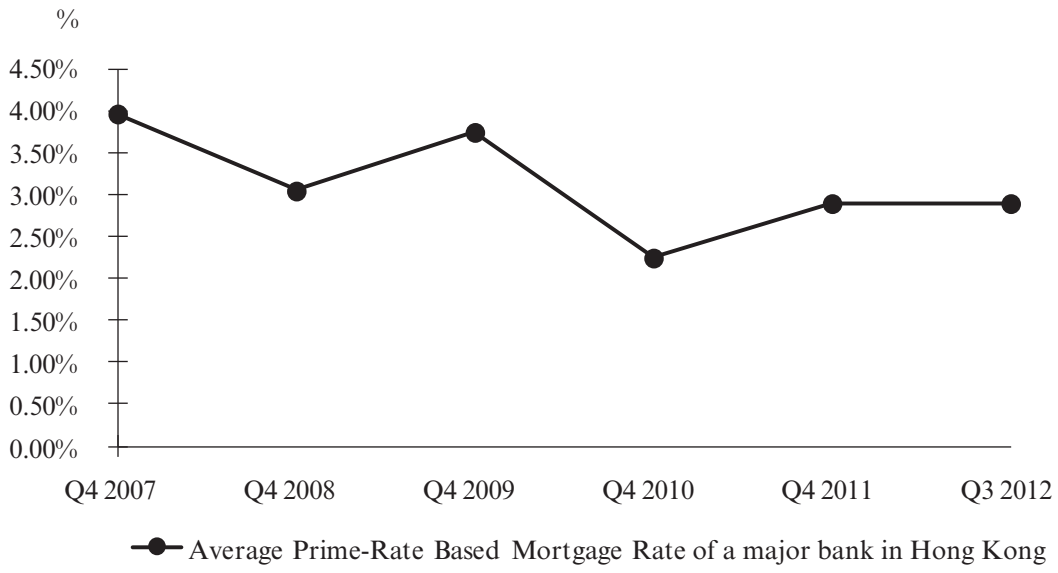
Interest rate is one of the key factors affecting buyers' decision to purchase properties. Increase in the market mortgage interest rate increases the cost of funding, and thus increases the financial burden of home buyers.



Sources: Land Registry, Hong Kong; Ipsos Report



Source: Ipsos Report



Source: Ipsos Report

The number of sale and purchase agreements for all properties remained at a high level in Hong Kong in 2007 as the stable interest rate environment, and the best lending rates remained unchanged in the first nine months, boosted the confidence of consumers and investors. The property market in Hong Kong was buoyant from 2007 to second quarter of 2008. The successive hikes in mortgage rates by the local banks in September 2008 and the heightened uncertainties surrounding the global economy caused by the global financial crisis also fuelled the cautious sentiment in the property market in Hong Kong, which led to a dramatic drop in the number of transactions in the property market since the second half of 2008. The number of transactions in the property market picked up in 2009 as a result of the historically low mortgage rates and rebound of the Hong Kong economy from the global financial crisis. The influx of wealthy buyers from the PRC purchasing properties in Hong Kong also caused the number of property transactions in Hong Kong to remain at a high level for the rest of the year and afterwards.

In view of the over-heating of the property market, the Hong Kong government intended to cool down the property market by launching the Special Stamp Duty ("SSD") with effect from 20 November 2010, which imposed additional stamp duty for reselling any residential property within 24 months of purchase, as well as significantly boosting land supply for residential development in 2011. With these government policies and slowdown in economic growth, the total number of sale and purchase agreement registrations dropped from about 12,000 in April 2011 to about 5,000 in January 2012.

The greater transaction volume in the second quarter of 2012 compared to the first quarter is due to the rather low transaction volume in January and February, which could be partly attributed to seasonal effects. In fact, the transaction volume in June in 2012 decreased by about 26.7% to 8,597 compared with May. Vendors remained aggressive in pricing, since there were fewer flats available after the purchase rush in February and March in 2012. In October 2012, the Hong Kong government adjusted the rate of SSD and extended the holding period of residential property to 36 months. It also introduced a

Buyer's Stamp Duty ("BSD") to charge non-Hong Kong residents an additional 15%, on top of the existing stamp duty and SSD, if applicable. With both policies effective from 27 October 2012, the number of transactions for residential properties plunged from about 8,714 in October to 3,286 in December 2012, represented by a decrease of about 62%.

MARKET ANALYSIS ON PAWN LOAN INDUSTRY IN HONG KONG

Overview of Pawn Loan Industry in Hong Kong

Pawn loan has a longstanding history and is the most traditional form of banking emerged in Hong Kong. The first legal pawnshop was established in Sheung Wan in 1926 when the government legalised the business. Before the establishment of authorised institutions in Hong Kong, customers pawned their personal belongings such as shoes, clothing, quilts in exchange for instant money to fulfill their short term financial needs and redeemed the pawned goods later with interest payment. Before the enactment of the relevant laws, pawn loans were generally categorised by contract term of 3 years, 1 year and half year with no fixed interest requirement. The open door market policy and commercial development of Hong Kong in the early 20th century has accelerated the growth of the pawn loan industry in Hong Kong.

The Current Situation of Pawn Loan Industry in Hong Kong

The number of pawnshops has increased from less than 10 in 1926 to about 202 in 2011. Today, pawnshops are monitored by the Hong Kong Police Force (Licensing Office) under the Pawnbrokers Ordinance. As Hong Kong people's living standard changes and technology advances, people nowadays pawn more valuable goods with high resale value such as gold, watches, cellphones and laptop computers in exchange for money. The term of a pawn loan under the Pawnbrokers Ordnance is four lunar months where customers are granted a loan at amount below the estimated resale value of the pawned goods. In order to redeem the pawned goods, customers have to pay an interest rate of 3.5% per lunar month at maximum pursuant to the Pawnbrokers Ordinance during the loan term. Pawnshops generally allow extension of the pawn loan upon the expiry of its term. Once the loan term expires and the customers do not redeem their pawned goods, pawnshops are entitled to sell the goods to buyers or second-hand product dealers and jewellery shops to redeem its value. Pawnshops usually have established relationships with different buyers and second-hand product dealers. Pawnshops largely rely on these buyers or second-hand product dealers to assess the resale value of pawned goods. Restricted by the resale value of the pawn items, most pawnshops now only accept gold, watches, jewellery or electronic products such as cellphones and laptop computers. The target customers of pawn loans are mainly relatively low income Hong Kong residents who are 18 years old or above. Majority of customers seeking for pawn loan are returned customers with increasing number of foreign domestic helpers and Chinese immigrants in recent years. Convenience and instant payment without loan floor and credit check requirement have sustained the development of pawn loan industry in Hong Kong.

Feature of the Major Customers of Pawn Loan in Hong Kong

The majority of customers of pawn loans are Hong Kong residents which accounted for about 70% of the total number of customers of pawn loans in 2011. Middle-age populations and elders with relatively low income are the major customers of pawn loans, in particular, those with monthly income of below HK$8,000. Majority of the customers of pawn loans are returned customers, these customers sometimes only need a few hundreds or thousands for emergency which banks would fail to offer. There are also customers who tend to obtain quick cash for purposes such as gambling and investment. In the past few years, there has also been an increasing number of young population aged in their 20s-30s seeking for pawn loans as people sought for better standard of living and luxury goods at a younger age. Increasing poverty gap and living standard will sustain the demand for pawn loan amongst Hong Kong customers, while changing technology will provide more opportunities for young people as they pawn their electronic gadgets to resolve short-term financial needs. Foreign domestic helpers as a whole accounted for about 25% of the total number of customers in the same period while Mainland Chinese accounted for the rest of the 5% of pawn loan customers.

CAGR of total number of foreign domestic helpers in Hong Kong from 2007 to 2011 = 5.1%

CAGR of total number of foreign domestic helpers in Hong Kong from 2012 to 2016 = 1.6%

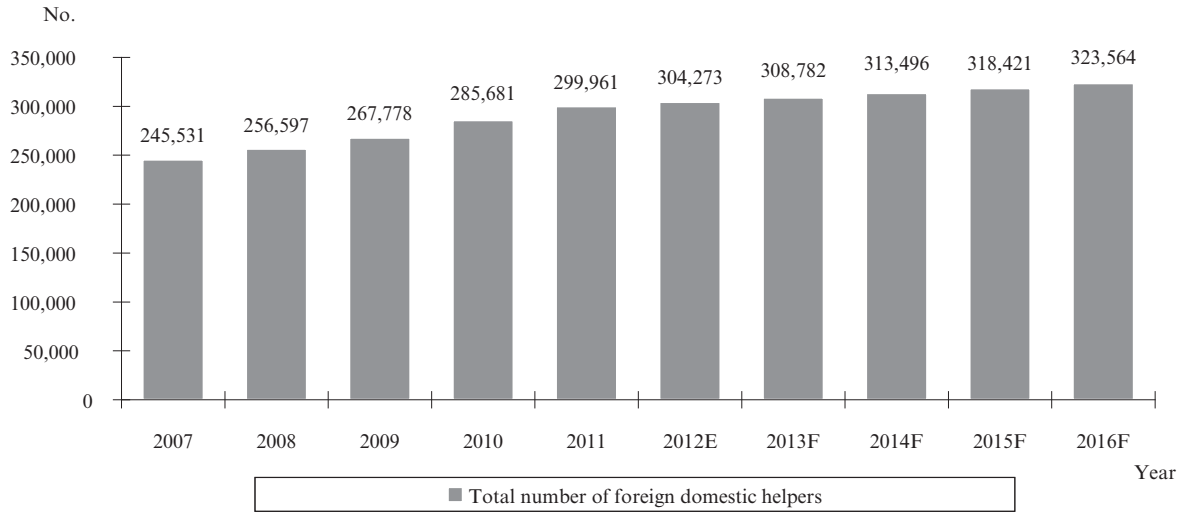


Figure 5. Total Number of foreign domestic helpers in Hong Kong from 2007 to 2016

Sources: Immigration Department, Hong Kong; Ipsos Report

The total number of foreign domestic helpers in Hong Kong increased from about 246,000 in 2007 to about 300,000 in 2011 at a CAGR of about 5.1% mainly driven by the surge of Indonesian domestic helpers which grew at a CAGR of about 6.7% during the same period. Due to the intention of the Indonesian government to reduce the outflow of Indonesian domestic helpers into Hong Kong in the future years, the number of foreign domestic helpers is expected to increase at a slower pace than before at a CAGR of about 1.6% from 2012 to 2016.

INDUSTRY OVERVIEW

The number of Mainland Chinese customers seeking for pawn loans has been increasing in recent years. Mainland Chinese accounted for about 5% of the total number of customers of pawn loans in 2011.

CAGR of total number of Mainland Chinese entering Hong Kong for residence from 2007 to 2011 = 6.4%

CAGR of total number of Mainland Chinese entering Hong Kong for residence from 2012 to 2016 = 5.5%

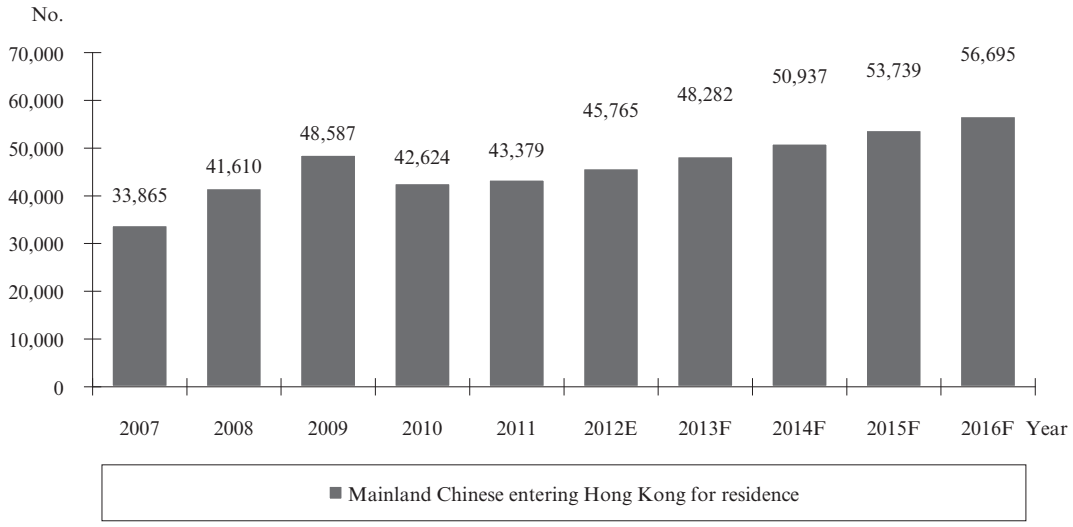


Figure 6. Number of Mainland Chinese from PRC to Hong Kong for residence from 2007 to 2016

Note: Definition of Mainland Chinese entering Hong Kong for residence: Number of one-way permit holders.

Sources: Home Affairs Department and Immigration Department, Hong Kong; Ipsos Report

The number of Mainland Chinese entering Hong Kong for residence increased at a CAGR of about 6.4% from 2007 to 2011. The entry of One-way Permit Scheme allows the entry of Mainland residents into Hong Kong for the purpose of settlement with aim to facilitate family reunion. One-way Permits are issued by the relevant authorities of the Public Security Bureau in the PRC. The daily quota of One-way Permits is 150, including 60 permits reserved for persons who were born in the PRC and have the right of abode in Hong Kong by descent from their either parent in accordance with Article 24(2)(3) of the Basic Law, and 30 permits reserved for separated spouses. Mainland Chinese entering Hong Kong for residency is estimated to grow at a CAGR of about 5.5% from 2012 to 2016. In 2011, it is estimated that the total number of Mainland Chinese customers for pawn loan accounted for about 11% of the total number of Mainland Chinese from the PRC.

Total Number of Pawn Loan Service Operators and Pawnshops in Hong Kong

The number of pawn loan service operators and pawnshops in Hong Kong grew steadily at a CAGR of about 0.3% and 1.1% respectively from 2007 to 2011. The pawn loan industry is highly fragmented with no single pawn loan service operator dominating the market. Less than 10% of the pawn loan service operators own more than 5 pawnshops in Hong Kong.

CAGR of total number of pawn loan service operators in Hong Kong from 2007 to 2011 = 0.3%

CAGR of total number of pawn loan service operators in Hong Kong from 2012 to 2016 = 1.1%

CAGR of total number of pawnshops in Hong Kong from 2007 to 2011 = 1.2%

CAGR of total number of pawnshops in Hong Kong from 2012 to 2016 = 1.0%

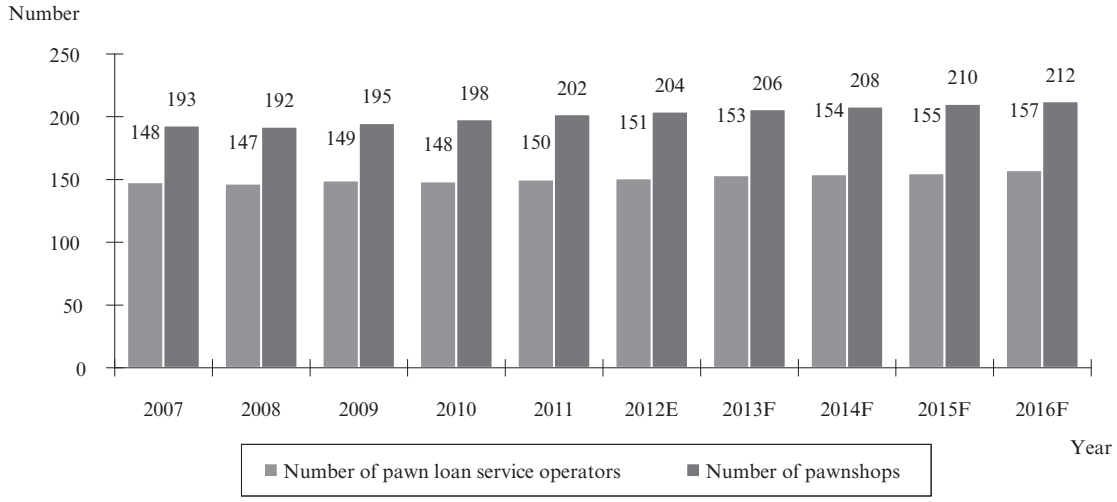


Figure 7. The total number of pawn loan service operators and pawnshops in Hong Kong from 2007 to 2016

Sources: Hong Kong Police Licensing Office; Ipsos Report

There were about 150 pawn loan service operators in Hong Kong in 2011, operating 202 pawnshops. Most of the pawn loan service operators have over 40 years of experience in the industry. Despite the maturity of the business in Hong Kong, pawn loan service operators in Hong Kong are striving to increase their business coverage with some opening more than one pawnshop to diversify their businesses. Increasing number of financial tools such as credit card advances has been substituting the need for pawn loans in the past years which lowered the demand for pawn loans. Operation in chains has been means to sustain the business with increasing number of pawn loan service operators expanding their service scope by acquiring money lender licences to offer different types of loans such as mortgage loans and personal loans. However, the demand for pawn loans continues to exist for the relatively low income population in Hong Kong (population with monthly income less than HK$8,000 that accounted for about 26.8% of the total number of employed people), along with the increasing number of foreign domestic helpers and new immigrants from the PRC, the pawn loan market in Hong Kong will remain optimistic with the number of pawn loan

service operators expecting to grow steadily at a CAGR of about 1.1% while the number of pawnshops expecting to increase at about 1.0% from 2012 to 2016. With 12 pawnshops, the Company is the largest pawn loan service operators in Hong Kong in 2011.

Value of Loans and Advances Granted by Pawnshops in Hong Kong

The value of loans and advances granted by pawnshops increased from about HK$4,274 million in 2007 to about HK$5,438 million in 2011 at a CAGR of about 6.2%.

CAGR of total value of loans and advances granted by pawnshops in Hong Kong from 2007 to 2011 = 6.2%

CAGR of total value of loans and advances granted by pawnshops in Hong Kong from 2012 to 2016 = 8.0%

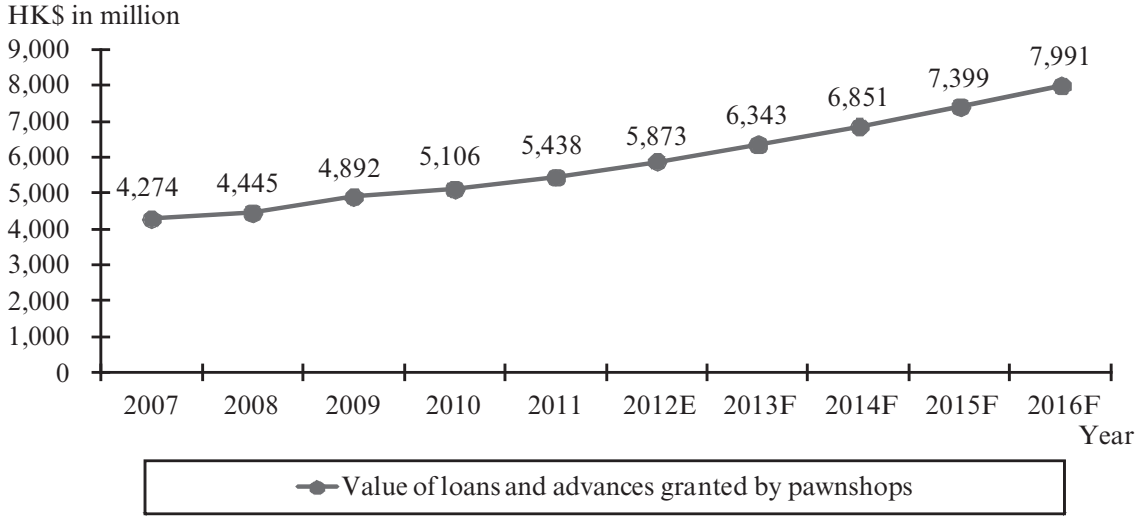


Figure 8. Total value of loans and advances granted by pawnshops in Hong Kong from 2007 to 2016

Source: Ipsos Report

The value of loans and advances granted by pawnshops grew steadily in the past few years despite the economic instability. During the economic recession, the value of loans and advances granted by pawnshops increased by 10.1% in 2009, compared to about 4.0% in 2008. Increased in total value of loans was sustained in 2011 at about 6.5% as a result of the increase in the number of foreign domestic helpers and Mainland Chinese customers. With inflation growth and increased spending as triggered by the recovering economy in the same year, value of loans per transaction increased as more valuable items were pawned for loans.

Particularly in 2009, the Hong Kong government has raised the maximum loan amount from HK$50,000 since 1990 to HK$100,000 for each single pawn loan granted pursuant to the Pawnbrokers Ordinance. The increase in the cap was largely as a result of inflation that the value of pawned goods such as gold and jewellery increased significantly since 1990. However, since it has been the industry's practice to break down the value of pawn loan into several transactions for high valued worth items, the new policy only worked to save the

administrative work of operators without significant effect on the value of loans and advances granted. Our Directors confirmed that it is not our Group's practice to break down the value of pawn loan into several transactions for a high value item. As we are also holding a Money Lenders Licence for all of our Pawnshops, we would grant the loan using our Money Lenders Licence for a high value item (i.e. in excess of HK$100,000) instead. It is expected that personal belongings such as gold, cellphones and jewellery will continue to dominate the pawn items as collaterals. Hence, the value of loans and advances granted by pawnshops is expected to grow steadily at a CAGR of about 8.0% from 2012 to 2016.

Factors Affecting the Growth and Development of Pawn Loan Industry in Hong Kong

Increase in the number of foreign domestic helpers and Mainland Chinese, availability of alternative means of money lender, high poverty rate and general economic conditions are key factors affecting the development of pawn loan industry in Hong Kong.

Increase in the number of foreign domestic helpers and Mainland Chinese: High, Positive Impact

There has been an increase in the number of foreign domestic helpers and Mainland Chinese seeking for pawn loans in recent years, particularly Fillipinos and Indonesians as they make up the majority of the total number of foreign domestic helpers in Hong Kong. Most of the foreign domestic helpers and Mainland Chinese not only face difficulty in adapting the high living standard in Hong Kong with their low salary, but also need to send money home each month. They tend to borrow from pawnshops when they are financially constrained and redeem their pawned collaterals once they receive their salary. Foreign domestic helpers and Mainland Chinese together make up about 30% of the current customer base of pawnshops and is expected to be the key engine for growth for the pawn loan industry in the next few years.

Increase in the value of collaterals: High, Positive Impact

As a result of inflation, value of popular pawn items such as gold and jewellery has increased over the years. Inflation rate surged from 2007 to 2011 from annual growth rate of about 2.0% to 5.3%. Increase in inflation, hence the value of pawn items, will drive the increase in the value of loans granted by pawnshops.

Alternative means of money lending: High, Negative Impact

There has been an increasing number of financial tools in the market, offering both short-term and long-term money lending services such as credit card advances and mortgage loans without the need for credit check and income assessment. Such services have provided customers alternatives for quick and safety cash withdrawal as well as lowered the barriers of money borrowing. New customers also tend to borrow larger sum of money from more reputable lenders such as licensed banks and money lenders with high brand awareness. This limits opportunities and reduces demand for pawn loans in Hong Kong.

High poverty rate: High, Positive Impact

Despite the growing economy and beneficial links with the PRC, there has been a growing gap between the rich and the poor in Hong Kong. As the cost of living remains high and increasing, increase in household income has failed to keep pace with the high inflation and soaring real estate prices. The median household income in the fourth quarter of 2011 for one person family was about HK$7,200, HK$ 15,900 for a two persons family, HK$22,700 for a third persons family and HK$27,300 for a fourth persons family. With poverty defined as those earning less than half the median household income, it is estimated that about 18% of the Hong Kong population was living under poverty in 2011, which is equivalent to approximately 178 thousand families. It is expected that high poverty rate will sustain the demand for pawn loans in Hong Kong as the poor struggle to meet the high living standard in Hong Kong.

Economic condition: Low, Positive Impact

Demand for money borrowing exists in Hong Kong during both the time of economy downturn and boom. During economic recession, more people suffer from tight liquidity and require quick cash to to solve their financial difficulties. Money is hard to come by and credit standards are tightening. Pawn loan provides a convenient and safe alternative at the time of financial difficulty and serves to sustain individual living, particularly the poor people in the case of sudden emergency. During economic boom, more people seek to invest and increase spending as consumer confidence picked up, gambling activities tend to increase along with increased money spent on non-necessities such as electronic devices and luxury items etc. Such also induces the demand for pawn loan which provides quick cash to satisfy the gambling and shopping impulse.

Future Trends and Developments of Pawn Loan Industry in Hong Kong

Pawn loan will remain an alternative means to borrowing

Unlike other secured or unsecured loans granted by authorised institutions and money lenders, pawn loan by its nature, offers an alternative for people to pledge their personal chattels such as jewellery and watches as collaterals for quick cash and to redeem the collaterals within a given time without complicated and lengthy application procedure. This enables pawn loan service operator to continue to grow in such market niche.

More pawnshops are engaging in mortgage loan

Collective operation of pawn and mortgage loan services is observed in the market as money lenders possessing both Money Lenders Licence and Pawnbrokers Licences are able to "cross-sell" their loan services to their customers. This has contributed to the increasing value of loans and advances granted by pawnshops which grew at a CAGR of about 6.2% from 2007 to 2011.

INDUSTRY OVERVIEW

MARKET ANALYSIS ON MORTGAGE LOAN MARKET IN HONG KONG

Overview of Mortgage Loan Market in Hong Kong

The money lending market in Hong Kong is highly fragmented with different service providers including authorised institutions and money lenders providing similar services for both secured and unsecured loans. Secured loans are protected by an asset or collateral of some sort. Authorised institutions and money lenders will hold the deed or title of the collateral until the loan has been fully paid off by the borrower, including interest and all administration fees. If the borrower defaults on the loan, the service provider can seize the collateral and sell it to settle the borrower's debt. Mortgage loan is the most common type of secured loans, while collaterals include but not limited to real estate, equipment, car, stock, bonds etc. On the other hand, an unsecured loan is obtained without collateral but with a signed agreement by borrower to pay back the loan within a set term. In event of default, additional fees may be assessed and legal actions can be taken against the borrowers. Personal loan and credit card advances are the most common type of unsecured loans offered in the market.

Most of the secured loans in Hong Kong are provided by authorised institutions which are estimated to account for over 80% of the total number of secured loans granted in Hong Kong. Under the supervision of the HKMA, authorised institutions generally adopt prudent and stable policies in approving mortgage loans. For mortgage loan, they are required to conduct credit assessment which involves an analysis of the borrower's financial status and background, the purpose of the loan, the value of the real estate being mortgaged, employment status etc. Borrowers are required to provide income proof of the previous six months or financial report of business for the previous three years. Banks will charge interest on early loan repayment as well as handling fees of 1–2%. On average, the approval process of an application for a mortgage loan could take at least two to three weeks. As a whole, the stringent policies adopted by banks have given rise to money lenders in the market with relatively lenient requirements.

In Hong Kong, authorised institutions and money lenders typically quote interest rate with reference to the Hong Kong Dollar Prime Rate (P) or Hong Kong InterBank Offered rate (HIBOR), which is known as the prime-based rate and the HIBOR-based rate respectively. The other type of mortgage rate which is the fixed rate is less popular in Hong Kong. Prime rate in Hong Kong (which is also referred to as best lending rate) was about 5.0 to 5.5% in 2011 while HIBOR was about 0.3% (for three months) over the same period. Different authorised institutions, such as licensed banks, offer different mortgage rate in Hong Kong. The mortgage rates charged by money lenders are generally higher than banks because of the higher risk associated by their relatively lenient requirements. In the first three quarters of 2011, Hong Kong's three largest banks charge borrowers at an annual rate of about 1.7 % to 2.2%, or 1.5% to 2% above the HIBOR for mortgage loans, while the prime-based rate remained steadily at about 2.2% of 3.1% below the prime rate. The HIBOR-based rate increased to about 2.4% in January of 2012. As the gap between the prime-based rate and HIBOR-based rate is narrowing, more borrowers are shifting from HIBOR-based rate to prime-based rate for mortgage loans from banks. Money lenders on the other hand offer services at monthly interest rate ranging from 1.0% to 1.6% on

average, with rate varies by types of mortgage loan. The annual rate could go up to over 30% in some cases. Although interest rates charged by money lenders vary across service providers by different type of mortgage loan, interest rate which exceeds 60% per annum is illegal under the Money Lenders Ordinance.

First Mortgage Loan Versus Second Mortgage Loan

A real estate can be mortgaged for more than one loan. A loan that is registered first is considered the first mortgage loan and one that is registered second is considered a second mortgage loan. In the event of default, first mortgage loan would first get paid off, and any funds remaining would be used to pay off second mortgage loans, if any. Second mortgage loan typically demands a higher interest rate for this reason. Customers may borrow up to the amount of equity they have in the real estate. For example, if the owner has a real estate valued at HK$1,000,000 and currently owes HK$750,000 on the first mortgage loan, a second mortgage loan can be obtained for HK$250,000. This is the most common type of second mortgage loan that is 100% secured by equity. In Hong Kong, banks are the most common providers for first mortgage loan and can grant loans amounted up to 70% of the value of the real estate, while money lenders offer both first and second mortgage loans. For residential real estate second mortgage loans, money lenders in Hong Kong typically can grant loan amounted up to 70%–100% of the value of the residential real estate, depending on the type of real estate. There are some money lenders who are able to offer mortgage loan amounted up to 100% with unlimited loan repayment period. By and large, revenue of money lenders is typically recognised as interest income.

Regardless of the service provider, the target customers of mortgage loans include both corporations and individuals. Since mortgage loan granted by money lenders can provide more flexibility to borrowers at shorter approval period, they are strongly preferred by small-and-medium enterprises (SMEs) and individuals who could not fully meet the mortgage loan requirements of banks. Mortgage loan offered by money lenders has become a useful tool for corporations to resolve their unexpected cash flow needs and for individuals to fulfill their short-term needs such as credit card bill settlement. As a whole, the convenient and flexible services offered by money lenders have reduced the barriers for borrowing significantly and provided alternatives means to corporations and individuals to solve their urgent financial needs.

Total Number of Money Lenders in Hong Kong

Money lenders are governed by the Money Lenders Ordinance. A person carrying on business as a money lender must obtain a money lenders licence from the licensing court and the Registrar of Money Lender while the Commissioner of Police is responsible for enforcing the Money Lenders Ordinance in Hong Kong. Business of money lenders typically include (i) consumer and commercial loan, (ii) mortgage loan, (iii) vehicle, plant and equipment leasing, (iv) credit card, (v) Small and Medium Enterprises loan, (vi) cheque and invoice discounting and (vii) loan syndication. With similar service offering for secured and unsecured loans, money lenders are able to grant certain types of mortgage loans that are not usually available from authorised institutions, for example, when banks are not willing to accept relatively old real estates, or if the borrower requires a mortgage loan of

over 70% of the value of the real estate, and is not eligible for the Mortgage Insurance Programme. In such cases, the borrower would resort to money lenders to obtain a mortgage loan. In general, money lenders have relatively lenient requirements for the application and approval of loans. Most of them are able to offer mortgage loan without the need for financial assessment or income proof. Borrowers only need to pledge the real estate as collateral for the mortgage loan. The complicated application processes as those required by the banks are cut to speed up the application process. In terms of first mortgage loan, some money lenders can even grant loans up to 100% of the property value to customers. The number of money lenders in Hong Kong increased from about 741 in 2007 to 959 in 2012 at a CAGR of about 5.3%.

CAGR of total number of money lenders in Hong Kong from 2007 to 2012 = 5.3%

CAGR of total number of money lenders in Hong Kong from 2013 to 2016 = 3.3%

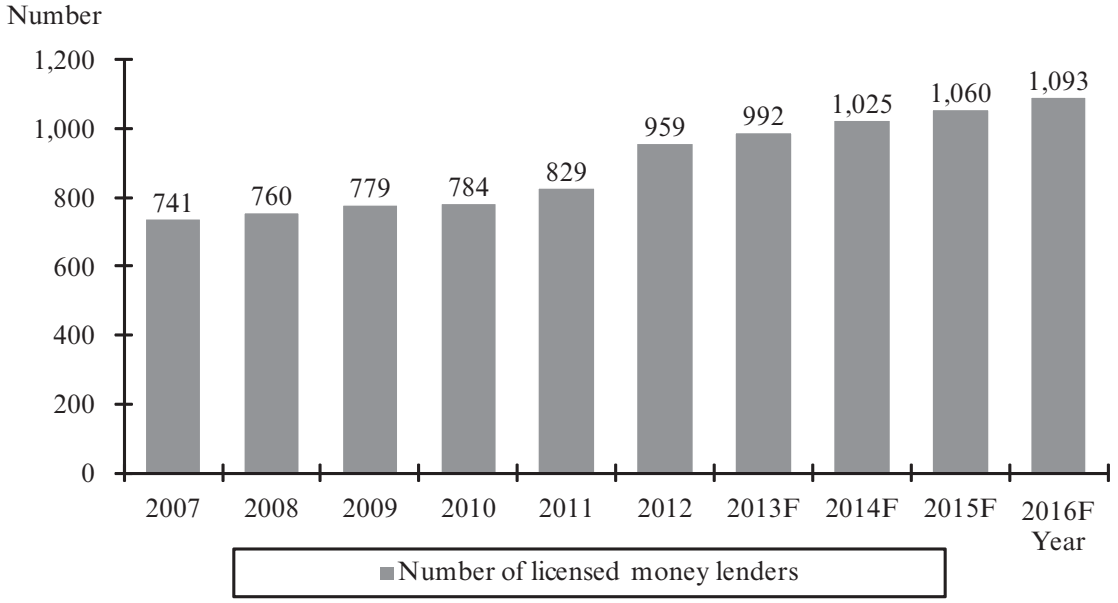


Figure 9. The total number of money lenders in Hong Kong from 2007 to 2016

Note: Number excluded authorised institutions and included pawnshops who possess money lenders licence.

Sources: Companies Registry, Hong Kong; Ipsos Report

There were about 959 money lenders in Hong Kong in 2012. Due to the increasing demand for housing and enhanced lifestyle of Hong Kong consumers, more money lenders have entered the Hong Kong market in the past few years to capture consumers' increasing liquidity need. These money lenders have emphasised on their fast and convenient application process without need of credit and background assessment to successfully attract customers, who fail to meet the loan requirements of authorised institutions. Regardless of the growing demand, the mortgage loan market (excluding authorised institutions) is dominated by some money lenders who operate in chains and have achieved high brand awareness through aggressive market advertising campaigns and tele-calls over

the years. These leading market players leverage on their wide network of retail spots and relatively lenient borrowing requirements to enlarge their customer base. They offer mainly second-mortgage loans and personal loans. It is expected that the tightening credit measures at authorised institutions will continue to attract more new entrants into the market, with growth in the number of money lenders expected at a CAGR of about 3.3% from 2013 to 2016.

Total Value of Loans and Advances Granted by Money Lenders in Hong Kong

The total value of loans and advances granted by money lenders accounted for about 3.8% of the total value of loans granted by authorised institutions and other licensed lenders altogether in 2011. The value of loans and advances granted by money lenders grew significantly at a CAGR of about 10.8% from 2007 to 2011.

CAGR of total value of loans and advances granted by money lenders in Hong Kong from 2007 to 2011 = 10.8%

CAGR of total value of loans and advances granted by money lenders in Hong Kong from 2012 to 2016 = 7.9%

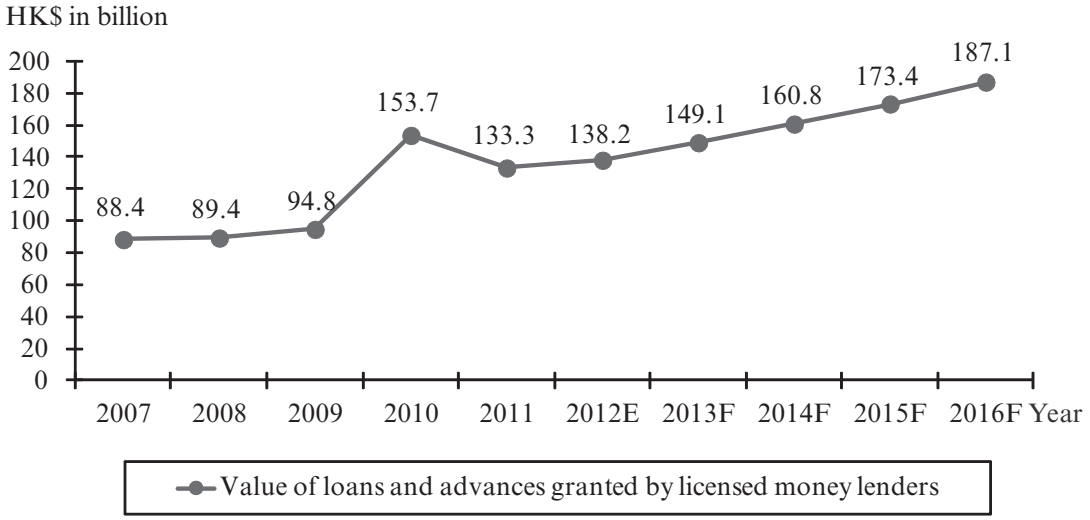


Figure 10. Total value of loans and advances granted by money lenders in Hong Kong from 2007 to 2016

Notes:

(1) Value of loans and advances granted for secured loans and exclusive of pawn loans and unsecured loans.

(2) Figures excluded authorised institutions.

Source: Ipsos Report

Due to the strong economic rebound that encouraged investment and spending, value of loans and advances granted by money lenders surged tremendously in 2010 at growth rate of about 62.1% with growth mainly from mortgage loans as the real estate market

became active, especially in the first half of 2010. Market uncertainty as a result of the European debt crisis, coupled with tightening credit measures hindered consumers' confidence with reduced spending, particularly in the second half of 2011, value of loans and advances granted by money lenders fell back to about HK$ 133.3 billion. With a total of about 829 money lenders in the market, the average value of loans granted by a money lender was about HK$ 160.8 million in 2011. It is expected that the market to pick up in 2012 due to the tightening monetary policies in the authorised institutional sector. Under the assumption that there is no external shock to the Hong Kong economic in the next few years, it is expected that the value of loans and advances granted by money lenders to continue its growth momentum at a CAGR of about 7.9% from 2012 to 2016.

Total Number of Mortgage Loans Granted in Hong Kong

Amongst all types of secured loans offered in the market, mortgage loan is the most common type of loan offered by both authorised institutions and money lenders in Hong Kong. It is estimated to account for over 90% of the total number of secured loans granted in the market in 2011. In 2011, there were about 134,600 mortgage loans granted, of which about 82.8% and 17.2% were granted by authorised institutions and money lenders respectively.

Total Number of mortgage loans granted by authorised institutions in Hong Kong from 2007 to 2016

Year	Mortgage on residential real estate		Mortgage on other types of real estate (commercial, industrial real estates etc.)		Total no. of mortgage	
	Number	*Share (%)*	*Number*	*Share (%)*	*Number*	*Share (%)*
2007	98,600	87.0	14,700	13.0	113,300	100.0
2008	92,800	86.0	15,100	14.0	107,900	100.0
2009	96,600	86.0	15,700	14.0	112,300	100.0
2010	142,000	87.0	21,200	13.0	163,200	100.0
2011	95,900	86.0	15,600	14.0	111,500	100.0
CAGR from 2007 to 2011 *(%)*	-0.7		1.5		-0.4	
2012E	97,200	86.0	15,900	14.0	113,100	100.0
2013F	98,900	86.0	16,200	14.0	115,100	100.0
2014F	100,500	86.0	16,400	14.0	116,900	100.0
2015F	102,200	86.0	16,700	14.0	118,900	100.0
2016F	104,000	86.0	16,900	14.0	120,900	100.0
CAGR from 2012 to 2016 *(%)*	1.7		1.6		1.7	

Note: Number of mortgage loans granted by authorised institutions only and exclude unsecured loans.

Source: Ipsos Report

CAGR of total value of residential mortgage loans granted by authorised institutions in Hong Kong from 2007 to 2011 = 7.0%

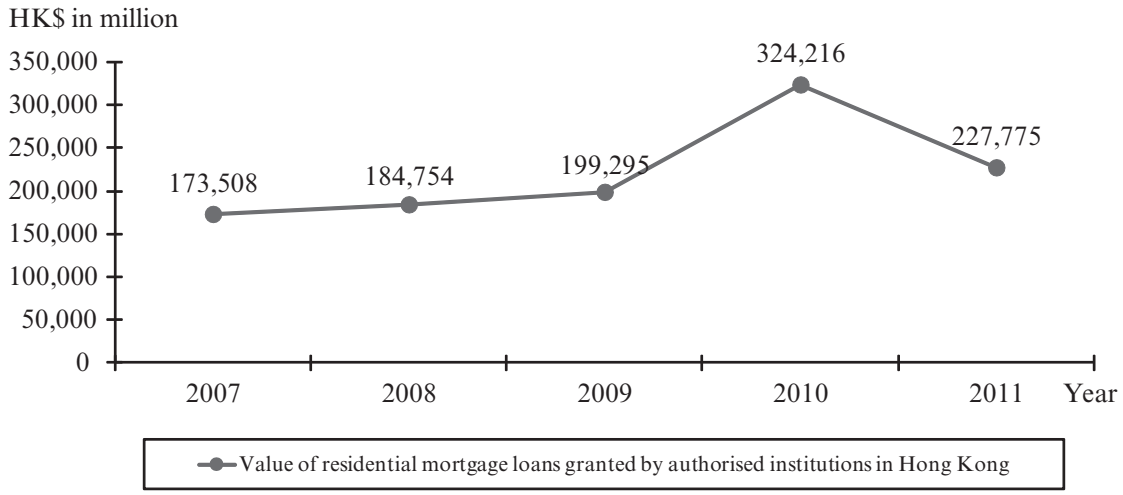


Figure 11. Value of residential mortgage loans granted by authorised institutions in Hong Kong from 2007 to 2011

Sources: Hong Kong Monetary Authority; Ipsos Report

Residential mortgage loan market in Hong Kong is one of the most advanced mortgage loan markets in Asia. In 2011, about 115,000 residential mortgage loans were granted in Hong Kong, of which about 83.3% and 16.7% were granted by authorised institutions and money lenders respectively. Within the authorised institutions, residential mortgage loans and non-residential mortgage loans accounted for about 86.0% and 14.0% of the total number of mortgage loans granted respectively in 2011. The total number of residential mortgage loans granted by authorised institutions in Hong Kong decreased at a CAGR of about -0.7% from 2007 to 2011 while value of residential mortgage loans granted increased at a CAGR of about 7.0% during the same period. On the other hand, there has been a slight increase in the number of mortgage loan on other types of real estate which increased at a CAGR of about 1.5% from 2007 to 2011. Despite the surge in the number of residential mortgage loans granted in 2010, the number of residential mortgage loans granted declined significantly in 2011 as a result of the higher mortgage rates and tightening credit measures. Regardless of the higher mortgage rate, it is expected that the high demand in residential housing by Hong Kong consumers will sustain the growth of residential mortgage loans at CAGR of about 1.7% from 2012 to 2016.

In 1999, the Hong Kong Mortgage Corporation introduced the Mortgage Insurance Programme with the aim to encourage home ownership in Hong Kong. According to the programme, if the amount of a residential mortgage loan exceeds 70% of the assessed value of the residential real estate or the present market value (whichever is lower), it is compulsory for a borrower to join the Mortgage Insurance Programme. As long as an application meets the relevant eligibility criteria, the bank can lend a mortgage loan of up to 90% loan-to-value ratio under the Mortgage Insurance Programme. The programme lowered the amount of down payment required

by homebuyers and reduced the level of credit risk exposure for authorised institutions substantially. While the Mortgage Insurance Programme offered by banks in Hong Kong has been a preferred selection by home buyers since its launch, particularly first-time buyers, the amount of loans covered by the Mortgage Insurance Programme decreased about 36% in 2011 from a year earlier to HK$26 billion shows buyers are having trouble borrowing from the banks the full amounts they need. Such is expected to fuel demand for residential mortgage loan provided by money lenders as being the second resort of home buyers.

Note: For the purpose of processing Mortgage Insurance Programme applications, any application with applicant(s) currently working outside Hong Kong (hereinafter "Overseas Income Applicant(s)") and contributing over 50% of the verified household income (of the application) will not be accepted unless the applicant can provide any one of the following documents:

1. Justification with documentary proof, subject to the satisfaction of Hong Kong Mortgage Corporation, showing the employment relationship of the Overseas Income Applicant and a local employer;

2. Declaration from the Overseas Income Applicant confirming his/her immediate family member (spouse, parents and descendants only) is residing in Hong Kong.

Total Number of mortgage loans granted by money lenders in Hong Kong from 2007 to 2016

Year	**Mortgage on residential real estate**		**Mortgage on other types of real estate (commercial, industrial real estates etc.)**		**Total no. of mortgage**	
	Number	*Share (%)*	*Number*	*Share (%)*	*Number*	*Share (%)*
2007	18,700	82.0	4,100	18.0	22,800	100.0
2008	18,600	82.0	4,100	19.0	22,700	100.0
2009	19,300	83.0	4,000	17.0	23,300	100.0
2010	28,400	84.0	5,400	16.0	33,800	100.0
2011	19,200	83.0	3,900	17.0	23,100	100.0
CAGR from 2007 to 2011 *(%)*	0.7		-1.2		0.3	
2012E	19,500	83.0	4,000	17.0	23,500	100.0
2013F	20,000	83.0	4,100	17.0	24,100	100.0
2014F	20,400	83.0	4,200	17.0	24,600	100.0
2015F	20,900	82.0	4,500	18.0	25,400	100.0
2016F	21,300	83.0	4,500	17.0	25,800	100.0
CAGR from 2012 to 2016 *(%)*	2.2		3.0		2.4	

Note: Number of mortgage loans granted by money lenders only and exclude unsecured loans.

Source: Ipsos Report

Residential real estate loan and non-residential real estate loan accounted for about 83.0% and 17.0% of the total number of mortgage loans granted by money lenders respectively in 2011. The total number of residential mortgage loan granted by money lenders in Hong Kong grew at a CAGR of about 0.7% from 2007 to 2011 while mortgage on other types of real estate decreased at a CAGR of about -1.2% over the same period. Increase in the number of residential mortgage loans was mainly due to the relatively stringent requirements by banks that drove customers away to money lenders for alternative financing tools. Due to the same reason, demand for residential mortgage loans provided by money lenders, particularly for second mortgage loan is expected to sustain and drive growth in the segment at a CAGR of about 2.2% from 2012 to 2016, while non-residential mortgage loan grow at a CAGR of about 3.0% during the same period.

Factors Affecting the Growth and Development of Mortgage Loan Market in Hong Kong

Government policies and regulations, economic conditions and the changing living standards are the key factors affecting the growth and development of mortgage loan market in Hong Kong.

Government or relevant authorities' regulations: High, Positive Impact

With the recovery of the Hong Kong economy, along with record low mortgage rates in 2009 to 2010 and an influx of investors from the PRC, residential real estate prices in Hong Kong have risen to a record high, reaching the peak level as in 1997. Several government measures have been launched by the Hong Kong government since 2010 to curb the booming residential real estate market and reduced speculations. This includes placement of restrictions on the loan-to-value ratio, stamp duty of up to 15% on home purchased and resold within 24 months, announcement of plans to increase land supply, resume the Home Ownership Scheme (approval of the sharing of positive credit data by local banks for mortgage applications etc. On 26 October 2012, the Hong Kong government further adjusted the rates of SSD and extended the holding period of residential property. On the same day, it also announced to introduce a BSD on residential properties which targeted at reducing home buying by foreign investors. With effect from 27 October 2012, any residential property acquired either by an individial or a company, and resold within 36 months, will be subject to the new rates of SSD, and any residential property acquired by an person except a Hong Kong Permanent Resident is charged at a flat rate of 15%, on top of the existing stamp duty and SSD, if applicable.

Although the new policies were successful in reducing transaction volume of residential properties from about 8,714 in October to 3,286 in December 2012, residential property prices remained high in Hong Kong, the new measures and announcements have lowered consumer sentiment in home purchases. In response to the government policies, authorised institutions are likely to impose a more conservative strategy towards residential mortgage loan by adopting stricter underwriting standards. They will also shift focus from residential mortgage loans to

other personal lending products, which generate higher profit margins. Such will further raise the barriers of borrowing from banks and give rise to more opportunities amongst money lenders as a second resort.

Changing living standards: Moderate, Positive Impact

Strong economic growth and technology advances have boosted people's standard of living in the past decade. Not only housing, food and education are viewed as primary needs, but cars, recreation, smart phones are also increasingly viewed as necessities by many people as a reflection of their social status. In order to meet their needs, people are seeking to use consumer credit facilities, despite high or increasing interest rates. This has driven tremendous growth in credit card advances. According to the HKMA, the rollover amount (which reflects the amount of borrowing by customers using their credit cards) grew by 8.3% in the fourth quarter of 2011 while the delinquent amount increased from HK$166 million in September to HK$188 million in December in 2011. Increasing delinquent amount will raise the demand of credit card resolving loan services, particularly from money lenders.

Economic conditions: Low, Positive Impact

Benefited from strong economic rebound and low lending rates, amount of loans and advances rallied in 2010. With improved economic conditions, banks are looking for better profit margins in their loan business and subsequently raised mortgage rates in 2011. As a result. the total number of mortgage loans granted by authorised institutions decreased from about 163,000 to 111,500 from 2010 to 2011, while that for money lenders grew from about 33,800 to 23,100 for the same period.

With better employment opportunities and wages, a growing pool of consumers in Hong Kong meets income eligibility requirements for credit cards. Many banks have joined retailers to roll-out promotional events to attract new customers. Rapid credit approval, competitive rates and low initial payments will attract customers to borrow unsecured loans from banks, rather than money lenders.

Recent government measures to curb speculation in the real estates market

The Hong Kong Government has recently introduced measures to curb speculation in the real estates market, including (i) the introduction of SSD on residential properties of all values at the point of resale if the properties are acquired and resold within a certain period of times after acquisition; and (ii) the introduction of BSD for residential properties acquired by any person, including companies, except a permanent resident of Hong Kong.

The introduction of SSD and BSD may deter the potential property buyers to acquire residential properties due to the increased transaction cost and thus lowering the liquidity of the real estate market.

Real estates owners who wish to sell their real estates for their financing needs may face difficulties, since the lowered liquidity of the real estate market may lead to a decline in the prices of real estates, and those owners who wish to sell their real estates may as a result not be able to sell their real estates on terms acceptable to them.

The HKMA has also imposed tightening measures on the provision of mortgage loans by authorised institutions, including but not limited to the lowering of debt servicing ratio and the loan-to-value ratio for certain applications of mortgage loans. These tightening measures will bring difficulties to borrowers who wish to obtain financing from authorised institutions such as banks as they will need to meet additional requirements.

As such, borrowers who have difficulties selling their real estates by reason of the imposition of the aforesaid SSD and BSD or who do not meet the additional requirements will need to seek alternatives for obtaining financing.

Future Trends and Developments of Mortgage Loan Market in Hong Kong

Banks are expected to raise lending rate to compensate for the higher funding cost

As the abundant liquidity in the banking system in Hong Kong in 2009 and 2010 being gradually drained out, along with the rising funding costs as a result of higher deposit rates and interbank fees in Hong Kong, mortgage loans offered by banks have become less profitable. To increase profit margin, banks in Hong Kong will pause their price competition and pass on some of the rising funding costs to customers by raising lending rate. Increase of lending rate by leading banks will encourage other banks to follow and re-price their mortgage loan services. Higher lending rate by Hong Kong banks is expected in the short-term, particularly in residential mortgage loan which makes borrowing from authorised institutions less attractive, hence, giving rise to mortgage loan offered by money lenders. Banks' mortgage rate is expected to surge to 4% by the end of 2012 from the current 2.4%.

Money lenders in Hong Kong are expanding their business coverage to borrowers in the PRC

Liquidity in Hong Kong is falling as tightening measures in the PRC have driven companies to borrow in Hong Kong. With the PRC government's initiative to tighten credit to curb inflation, prevent asset price bubble and credit crisis, many banks in the PRC have began tightening their credit measures in various degrees. In face of the increasing demand of borrowing and tightening measures in the PRC, money lenders in Hong Kong are eyeing on the potential opportunities in the PRC and are considering to expand their coverage in the PRC to fulfill the local customer demands.

Entry from the PRC

In face of credit tightening in the PRC as well as low reserve in Hong Kong, established money lenders based in the PRC have been eyeing on the market in Hong Kong with exploited need of liquidity. A number of Chinese enterprises may enter the

mortgage loan market in Hong Kong, particularly for residential mortgage loan to fulfil the growing demand of mortgage loans from small-and-medium enterprises and young entrepreneurs.

COMPETITIVE LANDSCAPE OF PAWN LOAN AND MORTGAGE MARKET IN HONG KONG

Competition situation on both pawn loan and mortgage loan market

The pawn loan market is highly fragmented while mortgage loan market (excluding authorised institutions) is dominated by the top 3 market players. Only about five pawn loan service operators possess both Pawnbrokers Licences and Money Lenders Licences in 2011.

There were about 202 pawnshops in Hong Kong in 2011. Most pawnshops are small and single-shop operators which dominate over 90% of the market. The number of employees within these small and single-shop operators are about 3–5 staff, while those for large operators have 10–15 staff. These pawnshops are evenly distributed in different districts in Hong Kong. Most of the pawn loan service operators on the Hong Kong Island are located in Wan Chai and Causeway Bay, while in Kowloon and New Territories, most are concentrated in Mongkok and Yau Ma Tei, and Tsuen Wan and Tuen Mun, respectively. Although the majority of customers for pawn loan are adults and returned customers, there has been a growing number of foreign domestic helpers and young population seeking for short-term financing in the past few years. Nonetheless, the market is dispersed with the operators focusing on their own business regardless of competitors' performance.

There were about 829 money lenders in Hong Kong in 2011, inclusive of pawn loan service providers possessing money lenders' licence. The mortgage loan market (excluding authorised institutions) is highly competitive and dominated by the top 3 market players. These competitors are mainly competing on marketing and advertisement, innovative services and after-sales service to acquire new customers and outstand in the market.

Factors of competition

Marketing and advertisement

Leading money lenders are competing aggressively on marketing and advertisement to raise their brand awareness. Placing of TV commercials in particularly was the most common channel of competition. These TV commercials not only serve to raise brand awareness of the money lender, but also to educate customers the alternatives to solving personal financial difficulties. Some new entrants have also entered the competition in recent years in attempt to gain position in the market.

Customer-oriented and after sales services

Relatively lenient borrowing requirements compared to those of traditional banks have enabled money lenders to gain position in the mortgage loan market in Hong Kong in the past decade. In particular, flexible and convenient application processes are main factors to attract customers. Money lenders are increasingly providing tailor-made services to raise accessibility to their services, 24-hours hotline services, extended office hour, online chat services, one-to-one consultation services etc, were all means to increase service flexibility and reduce barriers of borrowings by borrowers.

Innovative services

All leading money lenders have launched new services which they stress to be the first and the only services in town to better serve their customers. These service providers were striving to launch new services to differentiate themselves in the market, with the premises of being customer-oriented.

Ranking of Pawn Loan Service Operators in Hong Kong

Ranking of pawn loan service operators in Hong Kong in 2011

The top 2 pawn loan service operators accounted for about 11% of the total number of pawnshops in Hong Kong and 16.0% of the total value and advances granted in 2011.

Rank	Name of Company	Number of Branches	Value of loans and advances granted *(HK$ million)*	Share of Loan and advances granted *(%)*
1	Our Group	12	513	9.4
2	Competitor A	11	358	6.6
3	Competitor B	2	70	1.3
4	Competitor C	1	32	0.6
5	Competitor D	1	29	0.5
Others		175	4,436	81.6
Total		202	5,438	100.0

Pawn loan service providers in Hong Kong in 2011

Notes:

(1) Ranking includes pawnshops only.

(2) Value of loans and advances granted represented the amount of pawn loans, including the loans granted under Money Lenders Licence.

Source: Ipsos Report

Ranking of pawn loan service operators possessing both Pawnbrokers Licences and Money Lenders Licences in 2011

Of the 150 pawn loan service operators in Hong Kong, only five of them also engage in mortgage loan business in 2011. Our Company and another competitors are the pawn loan service operators in Hong Kong who engage in both pawn loan and mortgage loan business.

Rank	**Name of Company**	**Number of Branches**	**Value of loans and advances granted** *(HK$ million)*
1	Our Group	12	551
2	Competitor A	11	388
3	Competitor B	2	84
4	Competitor C	1	38
5	Competitor D	1	33

Notes:

(1) 5 pawn loan service operators possess both Pawnbrokers Licences and Money Lenders Licences.

(2) Value of loans and advances granted represented the amount of pawn loans and mortgage loans, including the loans granted under Money Lenders Licence.

Source: Ipsos Report

Valuation experience and risk management are the key factors for successful pawn loan service operators and money lenders in Hong Kong. In the pawn loan business, as loans are granted at the estimated resale value of the pawned goods, the valuation experience of employees becomes critical since they need to ensure that the pawned goods can still be resold at the approximate market rate, in case customers do not redeem their collaterals. This translates to effective risk management in the mortgage loan market, especially during economic hardships when customers are rejected from banks in respect of their mortgage loan applications and turn to money lenders.

On the other hand, sounded financial capability or stable source of funding is also key to the development of money lenders. The leading money lenders provide various services including both secured and unsecured loans which allow them to diversify their portfolio and maintain interest rate margins. Competitive interest rate is another key differentiator that enables the top money lenders to attract customers, who have failed to meet the banks' borrowing requirements.

With the recent tightening credit measures, especially those by banks, business opportunities have been presented to money lenders in mortgage loans, the deterioration of the credit market and the slowing down of the economy in 2012 will induce higher credit risk in the potential borrowers. Therefore, while opportunities exist, money lenders are expected to adopt more cautious credit approval on each loan application.

Market Drivers and Entry Barriers of Pawn Loan and Mortgage Loan Industries in Hong Kong

The tightening credit measures by banks as a result of government policies and increased consumer sentiment will drive the growth and development of the pawn loan and mortgage loan industries while strong cash flow and extensive valuation experience of pawned items posts huge barriers for new entrants.

Market drivers

- The tightening measures of banks in Hong Kong will drive greater competition in the mortgage loan market as banks increase their lending rate which will further raise the barriers of borrowing from banks.

- Strong economic rebound in Hong Kong will restore consumer sentiment and drive increased spending. Such is expected to drive demand in money borrowing and sustain growth in the pawn loan and mortgage loan market.

- The changing lifestyle of Hong Kong consumers along with technology advancement will raise demand for luxury products as a reflection of one's social status. Such would increase individual spending as well as give rise to new items for pawn loan, such as luxury items and high-tech devices which have high resale value.

- Aggressive marketing and advertisement by money lenders will raise awareness of alternative financial tools and raise demand for mortgage loan.

Entry barriers

- Although there is no minimum capital requirement for money lenders in Hong Kong, strong cash flow and financial capability are still fundamental for the pawn loan service operators and money lenders. The nature of non-deposit taking company for pawn loan and mortgage loan industry has limited pawn loan service operators and money lenders' potential to attract capital, and hence, posted barriers for new entrants.

- Increasing rental and wage in Hong Kong are placing pressure on the development of pawnshops. The rental cost of office had increased year-on-year in the fourth quarter of 2010 and 2011 at about 34.7% and -1.9% respectively. The rental cost of retail space grew significantly year-on-year in the fourth quarter of 2010 and 2011 at about 12.0% and 23.2% respectively. The minimum wage regulation has been effective from 1 May 2011, further pushed the operation cost up.

- Majority of pawnshops has over 40 years of experience in the industry. Extensive experience of employees in the valuation of pawned items sets high barriers for new entrants who have insufficient knowledge about the business.

REGULATORY OVERVIEW

REGULATIONS AND SUPERVISION OF PAWNBROKING BUSINESS IN HONG KONG

A person carrying on business as a pawnbroker in Hong Kong must obtain a Pawnbrokers Licence. The licensing of pawnbrokers and regulation of pawnbroking transactions are governed by the Pawnbrokers Ordinance and the Pawnbrokers Regulations. The Pawnbrokers Ordinance provides provisions for:

(a) the licensing of persons carrying on business as pawnbrokers;

(b) the control and regulation of pawnbrokers and pawnbroking transactions; and

(c) the power of court in respect of goods pawned and the power of entry and inspection by the police in Hong Kong.

In Hong Kong, the Commissioner of Police is responsible for carrying out investigation in respect of applications for and endorsements on Pawnbrokers Licences, complaints against pawnbrokers and enforcement of the Pawnbrokers Ordinance.

Licensing requirements

The Pawnbrokers Ordinance states that no person shall carry on business as a pawnbroker without a Pawnbrokers Licence, at any place other than the premises specified in such Pawnbrokers Licence. Every Pawnbrokers Licence shall authorise the person and/or entity named therein to conduct business as a pawnbroker for a period of 12 months from the day it is granted. Except as provided in the Pawnbrokers Ordinance, Pawnbrokers Licences are not generally transferrable. For the renewal application, a licencee may apply for the renewal of the Pawnbrokers Licence not more than 2 months and not less than one month prior to the expiry date.

Documents to be submitted for application or renewal of Pawnbrokers Licence

For application for or renewal of Pawnbrokers Licence, an applicant shall submit an application form in prescribed form and upon payment of a prescribed fee to the Commissioner of Police.

Personal, business and banking information, corporate or partnership information and details of the directors or partners of the corporate applicant or partnership (if applicable) shall be provided to the Commissioner of Police for his consideration when applying for or renewing the Pawnbrokers Licence. Such information and details to be provided to the Commissioner of Police include the following:

- Personal details — (i) the name and identity card number of the applicant, (ii) commercial code number; (iii) the address and telephone number of the applicant; (iv) the date and place of birth and nationality of the applicant; and (v) whether the applicant has been convicted for offences other than traffic offence in Hong Kong or elsewhere and the details of any such conviction(s).

- Partnership information (if applicable) — (i) date of partnership formed; (ii) personal particulars of the partners (including their names, Hong Kong identity card numbers, residential addresses and dates of birth).

- Corporate information (if applicable) — (i) the name of the body corporate; (ii) its date and place of incorporation; (iii) the address of its registered office; and (iv) personal particulars of the directors of the body corporate (including their names, Hong Kong identity card numbers, residential addresses, dates of birth and periods of services as directors of the applicant).

- Banking information — (i) the name of each of the banks; (ii) the address of each of the banks; (iii) the number of accounts maintained at each of the banks; and (iv) the date of opening of such accounts.

The Commissioner of Police may conduct an investigation on the applicant including but not limited to, conducting site visits to the offices at which the applicant operates or intends to operate, interviewing the principal officers of the applicant and making inquiries on the applicant's operations of the pawnbroking business, for the purpose of determining whether, in the opinion of the Commissioner of Police, there exists any ground for objecting to the application.

Qualification criteria

The Commissioner of Police shall not grant a Pawnbrokers Licence to an applicant unless he is satisfied:

(a) that the applicant is a fit and proper person to carry on business as a pawnbroker;

(b) that the applicant has complied with the provisions of the Pawnbrokers Ordinance and Pawnbrokers Regulations relating to the application; and

(c) that in all the circumstances the grant of the Pawnbrokers Licence is not contrary to public interest.

Conditions of Pawnbrokers Licence

A Pawnbrokers Licence shall be subject to the following conditions as stipulated under the Pawnbrokers Regulations and shown below:

(a) requires that where the pawnbroker has reasonable cause to suspect that any property which is being offered or delivered to him in pawn is stolen property, he shall, if he can in all reasonable safety do so, apprehend the person offering the same, and shall take possession of the property so offered and if he does so, shall thereafter immediately inform the nearest police station;

(b) the pawnbroker shall during the continuance of his Pawnbrokers Licence carry on no trade or occupation at his place of business other than that of a pawnbroker and of the sale of goods that have become the property of the pawnbroker under the Pawnbrokers Ordinance;

(c) the pawnbroker shall cause to be painted and kept painted in large and legible English letters and Chinese characters, over the door of his place of business, his or his firm's name at length, with the addition of the word "Pawnbroker" after the English name and the character "押" after the Chinese name; and

(d) the pawnbroker shall maintain, in a conspicuous place at his place of business, a clearly legible sign in both English and Chinese stating:

(i) the rate of interest of 3.5% per lunar month as specified in the Pawnbrokers Ordinance; and

(ii) that the liability of the pawnbroker for any loss or damage shall not exceed under the Pawnbrokers Ordinance, in respect of any one article pawned, the sum of HK$100,000.

Cancellation or refusal to renew of Pawnbrokers Licence

The Commissioner of Police may cancel or refuse to renew a Pawnbrokers Licence at any time, if in his opinion:

(a) any false or misleading statement or information was made or furnished in connection with the application to obtain or renew the Pawnbrokers Licence;

(b) the person to whom the Pawnbrokers Licence was granted is convicted of an offence under the Pawnbrokers Ordinance or any regulations made thereunder;

(c) a condition of the Pawnbrokers Licence is contravened, whether or not any person has been convicted of an offence under section 8(2) of the Pawnbrokers Ordinance;

(d) the person whom the Pawnbrokers Licence was granted has ceased to be a fit and proper person to carry on business as a pawnbroker; or

(e) the public interest so requires.

Our Group's compliance with the Pawnbrokers Ordinance

Licensing history of our Group

Wai Wah Pawnshop commenced its pawnbroking business in 1975. Hing Wah Pawnshop commenced its pawnbroking business in 1986. Oi Wah HK commenced its pawnbroking business upon the granting of the Pawnbrokers Licence to Mr. Edward Chan for Ho Wah Pawnshop by the Commissioner of Police in 2000. Subsequently, Oi Wah HK obtained the Pawnbrokers Licences for its other Pawnshops. Since the granting of its first

Pawnbrokers Licence and up to the Latest Practicable Date, our Group has not received any objection from, nor has been the subject of any investigation in relation to its applications for and renewals of Pawnbrokers Licences by the Commissioner of Police.

Our Pawnbrokers Licences for all of our Pawnshops have been renewed every year since our commencement in 1975. The Commissioner of Police would normally conduct site visit to a new pawnshop as part of their investigation process when we apply for a new Pawnbrokers Licence for the operation of pawnbroking transactions. In addition, the Commissioner of Police may visit our Pawnshop during the application for renewal of the relevant Pawnbrokers Licence.

Regulation of pawnbroking transactions

(i) Pawnbrokers Ordinance

The Pawnbrokers Ordinance imposes a number of regulations on the transactions and arrangement which may be conducted by a pawnbroker. These include, but are not limited to, the matters set out below:

Interest on loans

Section 11 of the Pawnbrokers Ordinance stipulates that the agreement for the loan of a sum of money on security of goods pawned shall be unenforceable if the pawnbroker demands or take (i) simple interest in excess of 3.5% per lunar month, or (ii) compound interest, or any payment other than principal and interest.

Any pawnbroker who contravenes this section commits an offence and is liable to a fine of HK$20,000 and to imprisonment for 1 year.

Ticket to be given to borrower

Section 13 of the Pawnbrokers Ordinance stipulates that it is illegal for a pawnbroker not on the date of advancing any money on loan deliver to the borrower a ticket in the prescribed form under the Pawnbrokers Ordinance.

Any pawnbroker who contravenes this section commits an offence and is liable to a fine of HK$5,000.

Unredeemed goods to become the property of pawnbroker

Upon expiration of 4 lunar months from the date of advancing any money on loan, if the goods pawned are not redeemed, then they shall become the property of the pawnbroker. However, if before the expiration of 4 lunar months from the date of advancing any money on loan, the borrower wishes to continue the loan, the pawnbroker shall allow on his paying the interest then due and in any such case a new ticket shall be delivered to the borrower and a new entry shall be made in the general book. The date of advancing of money on loan shall be the date when then new ticket is delivered.

Probation on pawnbrokers when receiving goods in pawn

Pursuant to section 21 of the Pawnbrokers Ordinance, which stipulates that it is illegal for the pawnbroker to receive in pawn any goods (a) from anyone under the age of 17 years; (b) from anyone without his proof of identity being inspected; and (c) having any mark or indication on them indicating to be or have been the property of the State, Urban Council or any other statutory body or authority.

Further, it is also illegal for the pawnbroker to demand or accept the following goods as security (a) identity card under the Registration of Person Ordinance or any other form of documentation establishing the identity or nationality of the holder; (b) bank savings or deposit account book; and (c) photograph, whether developed or not, of the borrower or owner of the goods or any of their family member.

Any pawnbroker who contravenes this section commits an offence and is liable to a fine of HK$5,000 and to imprisonment for 6 months.

Seizure of unlawful goods by the police

Pursuant to section 20 of the Pawnbrokers Ordinance, a Magistrate shall, upon written information on oath being laid before him that there are probable grounds for believing that any goods have been pawned without the authority of their owners, issue his warrant for searching any place where the goods may appear to him to be; and if any of the goods are discovered upon such search, the person executing the warrant shall take them or cause them to be taken into safe keeping.

If the police has probable grounds for believing that unlawful goods have been pawned, the police may seize the unlawful goods from any pawnshop pursuant to section 20 of the Pawnbrokers Ordinance.

(ii) Pawnbrokers Regulations

The Pawnbrokers Regulations constitute a piece of subsidiary legislation of the Pawnbrokers Ordinance. They mainly govern the administrative matters in relation to the operation of pawnbroking business such as the form of general book and ticket to be used by pawnbrokers and fees and forms for application and renewal of Pawnbrokers Licence. Our Group has to follow such prescribed forms when making relevant applications and conducting its pawnbroking business.

REGULATORY OVERVIEW

REGULATIONS AND SUPERVISION OF MONEY LENDING BUSINESS IN HONG KONG

A person carrying on business as a money lender in Hong Kong must obtain a Money Lenders Licence. The licensing of money lenders and regulation of money lending transactions are governed by the Money Lenders Ordinance and the Money Lenders Regulations. The Money Lenders Ordinance contains provisions for:

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

(b) the appointment of the Registrar of Money Lenders and the licensing of persons carrying on business as money lenders; and

(c) the protection and relief against excessive interest rates and extortionate stipulations in respect of loans.

The governing authorities of the money lending industry in Hong Kong include:

- Licensing Court — responsible for determination of applications for and granting of Money Lenders Licences

- Registrar of Money Lenders — responsible for processing applications for Money Lenders Licences, endorsement on Money Lenders Licences and maintaining a register of money lenders for inspection by members of the public

- Commissioner of Police — responsible for carrying out investigation in respect of applications for and endorsements on Money Lenders Licences, complaints against money lenders and enforcement of the Money Lenders Ordinance

Licensing requirements

The Money Lenders Ordinance states that no person shall conduct business as a money lender without a Money Lenders Licence, at any place other than the premises specified in such Money Lenders Licence or otherwise than in accordance with the conditions of a Money Lenders Licence. Every Money Lenders Licence shall authorise the person and/or entity named therein to conduct business as a money lender for a period of 12 months from the day it is granted. A Money Lenders Licence is not generally transferrable and a licencee may apply for the renewal of its Money Lenders Licence within three months prior to the expiration of its Money Lenders Licence.

Documents to be submitted for application or renewal of licence

For application for or renewal of Money Lenders Licence, an applicant shall submit an application form and a statement in prescribed form together with application fee to the Registrar of Money Lenders. For a corporate applicant, evidence of authorisation shall be submitted to prove that the application for or renewal of the Money Lenders Licence is made by a person authorised on behalf of such applicant.

REGULATORY OVERVIEW

Corporate and banking information and details of the directors, past directors, management, controllers and shareholders of the corporate applicant shall be provided to the Registrar of Money Lenders for its consideration when applying for or renewing the Money Lenders Licence. Such information and details to be provided to the Registrar of Money Lenders include the following:

- Corporate information — (i) the name and any former names (in English and Chinese) of the applicant; (ii) its date and place of incorporation (in the case of application for licence); (iii) the date of compliance with Part XI of the Companies Ordinance if the applicant is a non-Hong Kong company (in the case of application for licence); (iv) the address of its registered office; and (v) the address and telephone number of each of the place at which the applicant's money lending business is carried on.

- Banking information — (i) the name of each of the banks; (ii) the address of each of the banks; (iii) the number of account maintained at each of the banks; and (iv) the date of opening of the account.

- Personal particulars of the directors of the applicant — (i) their English and (if applicable) Chinese names and codes; (ii) their residential addresses; (iii) period of services as directors of the applicant (in the case of application for licence); (iv) their Hong Kong identity card numbers; and (v) whether they have been convicted for offences other than traffic offence in Hong Kong or elsewhere and the details of any such conviction(s).

- Particulars of six principal shareholders (or all the shareholders if less than six) — (i) their English and (if applicable) Chinese names and codes; (ii) their residential addresses; (iii) details of their shareholding in the applicant; and (iv) particulars of the beneficial owners (if the principal shareholders of the applicant are not the beneficial owners of the shares of the applicant).

Application for or renewal of a Money Lenders Licence is made to the Registrar of Money Lenders, and such application is copied to the Commissioner of Police. The Commissioner of Police may conduct an investigation on the applicant including but not limited to, conducting site visits to the offices at which the applicant operates or intends to operate, interviewing the principal officers of the applicant and making inquiries on the applicant's operations of the money lender business, for the purpose of determining whether, in the opinion of the Commissioner of Police, there exist any ground for objecting to the application. The Commissioner of Police may in writing require the applicant to produce for inspection such books, records or documents or to furnish such information relating to the application or any business conducted or intended to be conducted by him as the Commissioner of Police may specify.

Investigation and lodgment of application

Prior to the date on which 60 days after the date on which the application is made expires or the date on which the Commissioner of Police notifies the Registrar of Money Lenders that any investigation carried out in respect of the application has been completed (the "**material date**"), the application shall only be registered by the Registrar of Money Lenders. Where the Registrar of Money Lenders or the Commissioner of Police intends to object an application, he shall not later than seven days after the material date serve notice on the applicant of his intention to object and of the ground of such objection. Upon expiry of a period of seven days after the material date in respect of any application, the Registrar of Money Lenders shall lodge the application with the Licensing Court together with any notice of objection served on the applicant.

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

Determination of application for or renewal of licence by Licensing Court

The Licensing Court comprises a Magistrate sitting alone in a Magistrates' Court and is empowered to hear and determine whether to grant or renew the Money Lenders Licence.

Qualification criteria

The Licensing Court shall not grant a Money Lenders Licence to an applicant who is convicted of an offence under the Money Lenders Ordinance and whom there is in force an order made by a court disqualifying such person from holding a Money Lenders Licence. In addition, the Licensing Court shall not grant a licence upon application for or renewal of, which has been subject to an objection by the Registrar of Money Lenders or the Commissioner of Police or any other person who has served notice of his intention to object or any other person who is granted leave by the Licensing Court to make such objection unless the Licensing Court is satisfied:

(a) that the applicant is a fit and proper person to carry on business as a money lender;

(b) in the case of a company, that any person who controls such company or in accordance with whose directions or instructions the directors thereof are accustomed to act is a fit and proper person to be associated with the business of money lending;

(c) that any person responsible or proposed to be responsible for the management of the business or any part thereof, or in the case of a company, any director, secretary or officer thereof, is a fit and proper person to be associated with the business of money lending;

(d) that the name under which the applicant applies to be licensed is not misleading or otherwise undesirable;

(e) that the premises to which the application relates and situation thereof, are suitable for the carrying on of the business of money lending;

(f) that the applicant has complied with the provisions and regulations relating to the application; and

(g) that in all the circumstances the granting of Money Lenders Licence is not contrary to public interest.

Conditions of Money Lenders Licence

The Licensing Court may impose conditions on licence granted or renewed as it deems fit.

Grounds of revocation or suspension of Money Lenders Licence

The Licensing Court may determine its own procedure subject to the Money Lenders Ordinance. On the application of the Registrar of Money Lenders or the Commissioner of Police, the Licensing Court may make an order to revoke or suspend any Money Lenders Licence granted if, in its opinion:

(a) the licencee has ceased to become a fit and proper person to conduct business as a money lender; or

(b) the premises specified in the Money Lenders Licence have ceased to be suitable for the carrying on of the business of money lending; or

(c) the licencee has been in serious breach of any condition of the Money Lenders Licence or has ceased to satisfy any other condition relating to his business as a money lender in respect of which the Licensing Court is required to be satisfied; or

(d) the business of the licencee has been carried on at any time or on any occasion since the date on which the Money Lenders Licence was granted by recourse to the use of any methods, or in any manner, contrary to public interest.

Our Group's compliance with the Money Lenders Ordinance

Licensing history of our Group

Oi Wah HK, one of the operating subsidiaries of our Group, commenced its money lending business upon the granting of its Money Lenders Licence by the Licensing Court in 2001. Subsequently, Oi Wah HK has successfully received endorsement on its Money Lenders Licence for the operations of money lending transactions at the respective addresses of all of our Pawnshops and our Customer Service Centre.

Since the first granting of the Money Lenders Licence up to the Latest Practicable Date, Oi Wah HK has not received any objection from the Registrar of Money Lenders or the Commissioner of Police, nor has it been the subject of any investigation by the Registrar

of Money Lenders or the Commissioner of Police in relation to its applications for and renewal of Money Lenders Licences. Most recently, our Money Lenders Licence was renewed and shall be valid until 17 May 2013.

The Commissioner of Police would normally conduct site visit to any new address as part of their investigation process when we apply for endorsement of our Money Lenders Licence for the operations of money lending transactions. In addition, the Commissioner of Police may visit some of the above addresses during the application for renewal of our Money Lenders Licence.

Regulations of money lending transactions

(i) Money Lenders Ordinance

The Money Lenders Ordinance imposes a number of regulations on the transactions and arrangements which may be conducted by a licensed money lender. These include, but are not limited to, the matters set out below:

Requirement of a written agreement

Section 18 of the Money Lenders Ordinance stipulates that, any agreement entered into by a money lender for the repayment of money, the payment of interest on money so lent and any security given in respect of such agreement or loan shall be unenforceable unless a note or written memorandum of the agreement (containing the information specified in the Money Lenders Ordinance) is signed personally by the borrower within seven days after making of the agreement and a copy of such note or memorandum is given to the borrower at the time of signing.

The note or memorandum shall contain all the terms of the agreement and in particular shall set out:

(a) the name and address of the money lender;

(b) the name and address of the borrower;

(c) the name and address of the surety, if any;

(d) the amount of the principal of the loan in words and figures;

(e) the date of the making of the agreement;

(f) the date of the making of the loan;

(g) the terms of repayment of the loan;

(h) the form of security for the loan, if any;

(i) the rate of interest charged on the loan expressed as a rate per cent per annum or the rate per cent per annum represented by the interest charged as calculated in accordance with Schedule 2 of the Money Lenders Ordinance; and

(j) a declaration as to the place of negotiation and completion of the agreement for the loan.

Section 18(3) of the Money Lenders Ordinance states that, if the court before which the enforceability of any agreement comes in question is satisfied that in all the circumstances it would be inequitable that any such agreement which does not comply with section 18 should be held not to be enforceable, the court may order that such agreement is enforceable to such extent, and subject to such modifications or exceptions, as the court considers equitable.

Pursuant to sections 32 and 29 of the Money Lenders Ordinance, any money lender who contravenes this section commit an offence and is liable to a fine of HK$100,000 (being the maximum penalty for committing each offence by breaching section 18 of the Money Lenders Ordinance) and to imprisonment for 2 years.

Time limitation for making any complaint pursuant to section 18 of the Money Lenders Ordinance

Section 26 of the Magistrates Ordinance provides that for offences, other than an indictable offence (being any crime or offence for which a Magistrate is authorised or empowered or required to commit the accused person to prison for trial before the Court), unless any other law which provides otherwise, complaint in respect of the breach to any relevant government authority shall be made within 6 months from the time when the matter of such complaint arose.

As advised by our Legal Counsel, an offence pursuant to section 18 of the Money Lenders Ordinance is not an indictable offence but a summary offence, and the relevant time limit for making any complaint under section 18 of the Magistrates Ordinance is 6 months under section 26 of the Magistrates Ordinance.

Borrowers entitled to early repayment

Borrowers are entitled at any time, by notice in writing to the money lender, to make early repayment of all amount payable as principal under any loan agreement together with interest computed up to the date of such payment.

Terms rendering an agreement illegal

Section 22 of the Money Lenders Ordinance states that any agreement made for the loan of money by a money lender shall be illegal if it provides directly or indirectly for (a) the payment of compound interest; (b) prohibiting the repayment of the loan by instalments; or (c) the rate or amount of interest being increased by reason of any default in the payment of sums due under the agreement; provided that provision may be made by any such agreement that if default is made in the payment upon the due

date of any sum payable to the money lender under the agreement, whether in respect of principal or interest, the money lender shall be entitled, subject to Part IV of the Money Lenders Ordinance, to charge simple interest on that sum from the date of the default until the sum is paid at an effective rate not exceeding the effective rate payable in respect of the principal apart from any default, and any interest so charged shall not be reckoned for the purposes of the Money Lenders Ordinance as part of the interest charged in respect of the loan.

Notwithstanding the above, if the court is satisfied that in all the circumstances it would be inequitable that any such agreement which does not comply with this section should be held to be unenforceable, the court may order that such agreement is enforceable to such extent, and subject to such modifications or exceptions, as the court considers equitable.

Maximum interest rate chargeable by a money lender

Section 24 of the Money Lenders Ordinance stipulates that it is a criminal offence to lend or offer to lend money at an effective rate of interest which exceeds 60% per annum. No agreement for the repayment of, or for the payment of interest on, any such loan and no security given in respect of any such agreement or loan shall be enforceable in any case.

Any money lender who contravenes this section commits an offence and is liable i) on summary conviction to a fine of HK$500,000 and to imprisonment for 2 years; or ii) on conviction on indictment to a fine of HK$5,000,000 and to imprisonment for 10 years.

Authority of the court to re-open loan transactions as it may think fit

Section 25 of the Money Lenders Ordinance provides that if in any proceedings for the recovery of any money lent or the enforcement of any agreement or security in respect of any loan, the court is satisfied that the transaction is extortionate, the court may re-open the transaction and make such orders and give such directions as it may think fit. A transaction is extortionate if it requires the borrower or a relative of the borrower to make payments which are grossly exorbitant or it otherwise grossly contravenes ordinary principles of fair dealing. Any agreement for the repayment of a loan or for the payment of interest on a loan in respect of which the effective rate of interest exceeds 48% per annum shall be presumed to be a transaction which is extortionate. If the court, having regard to all circumstances relating to the agreements, is satisfied that such rate is not unreasonable or unfair, the court may (except where such rate exceeds 60% per annum) declare that any such agreement is not extortionate.

Incidental charge for granting of loans not allowed

Any agreement for the payment by the borrower to the money lender of any sum for or on account of costs, charges or expense (other than stamp duties or similar duties) incidental to or relating to the negotiations for or the granting of the loan or

proposed loan or the guaranteeing or securing of the repayment thereof is illegal. It is also illegal for any money lender to charge, recover or receive any sum as for or on account of any such costs, charges or expenses (other than stamp duties or similar charges) or to demand or receive any remuneration or reward from a borrower for or in connection with or preliminary procuring, negotiating or obtaining any loan made or guaranteeing or securing the repayment of a loan.

Exempt loans from the provision of the Money Lenders Ordinance

As detailed in Part 2, Schedule 1 of the Money Lenders Ordinance, certain types of loan granted by licensed money lenders are exempted from the provisions of the Money Lenders Ordinance (except sections 24 and 25 as described above, which apply to any person (whether a money lender or not)). These include, but are not limited to: (i) loans granted bona fide by an employer to its employee; (ii) loans made to a company secured by a mortgage, charge, lien or other encumbrance; (iii) loans made under bona fide credit card schemes; (iv) loans made to a company that has a paid up share capital of not less than HK$1.0 million; and (v) loans made to a company the shares or debentures of which are listed on a recognised stock market.

Conviction of offence under the Money Lenders Ordinance

Under section 32 of the Money Lenders Ordinance, where any person is convicted of an offence under the Money Lenders Ordinance, the Magistrate may order that such person shall be disqualified from holding a licence for such period not exceeding 5 years from the date of such conviction as may be specified in the order.

(ii) Money Lenders Regulations

The Money Lenders Regulations constitute a piece of subsidiary legislation of the Money Lenders Ordinance. They mainly govern the administrative matters in relation to the operation of money lender business such as regulating certain procedures, formats, fees etc. for applications and renewals of Money Lenders Licences. Our Group has to follow such prescribed forms and procedures etc. when making relevant applications and conducting its money lending business.

OTHER REGULATIONS

There are certain legislations in Hong Kong (namely (1) Drug Trafficking (Recovery of Proceeds) Ordinance; (2) Organized and Serious Crimes Ordinance; and (3) United Nations (Anti-Terrorism Measures) Ordinance) which concern money laundering and stipulate that it is an offence to carry on a transaction or a series of transactions effected with the aim to conceal or change the identity of criminal proceeds or disguise the origin of funds. In essence, those legislations (i) prohibit a person from dealing with any property which directly or indirectly represents any person's proceeds of drug trafficking or an indictable offence; and (ii) require disclosure of a person's knowledge or suspicion of any terrorist property and property which directly or indirectly represents any person's proceeds of or usage (actual or intended) in connection with drug trafficking or an indictable offence. Our Directors confirm that we have been in compliance with these legislations.

Certain guidelines in respect of anti-money laundering have also been issued by different governmental or authoritative bodies such as HKMA. Although our Group, being a legal entity carrying on business in Hong Kong, is subject to the legislation prohibiting the money laundering activities, Pang & Co., legal advisers to our Company as to Hong Kong law, have advised us that the guidelines issued by HKMA for the prevention of money laundering activities (i.e. anti-money laundering measures) are not applicable to our Group since our Group is neither an authorised institution regulated by HKMA nor a licensed corporation under the SFO. Notwithstanding, we endeavour to conduct procedures recommended in the Guideline on Prevention of Money Laundering issued by the HKMA. These include adopting the "Know Your Customer" principle where we conduct checks on customers' origin and background, nature of their business or occupation, to ascertain whether they may pose risk of money laundering. We also maintain a system of record keeping for all our transactions. Staff is regularly reminded to be aware of anti-money laundering issues and relevant internal guidelines and training have been provided.

We regularly collect, hold, process and use personal data of our customers and potential customers due to the nature of our money lending business. We are therefore required to follow the fair information practices as stipulated in the data protection principles of the PDPO. We inform our customers of their rights under the said ordinance and the purpose for which their data may be used.

Notwithstanding any duty of confidentiality owed by our Group to our customers and other laws and regulations on privacy and personal data (such as PDPO), our Group is entitled to report suspicious cases to the relevant authorities. The Hong Kong legislation which deals with money laundering specifically provides that disclosure of certain suspicious transactions to law enforcement agency pursuant to the legislation concerned shall not be treated as a breach of any restriction upon the disclosure of information imposed by contract or by any enactment, rule of conduct or other legislation provision and such disclosure shall not render the person who made it liable in damages for any loss arising out of the disclosure or any act done or omitted to be done in relation to the property concerned in consequence of the disclosure. Furthermore, section 58 of PDPO provides that if the personal data is used for any of the purposes referred to in section 58(1) of the PDPO (which include but not limited to prevention or detection of crimes, prosecution or detention of offenders and prevention, preclusion or remedying of unlawful or seriously improper conduct or dishonesty or malpractice by persons etc.) ("**Exempted Matters**") and the application of the personal data protection principle in relation to such use would be likely to prejudice any of the Exempted Matters, then: (i) such personal data are exempted from the provisions of certain data protection principle; and (ii) if there is proceeding against any person for a contravention of any of those provisions of PDPO, it shall be a defence if that person can show that he has reasonable grounds for believing that failure to so use the data would have been likely to prejudice any of the Exempted Matters.

HISTORY AND DEVELOPMENT

HISTORY AND DEVELOPMENT

Our history can be traced back to April 1975, when Wai Wah Pawnshop was established by Mr. Chan Chart Man and Ms. Mui as partnership to provide pawn loan services in Hong Kong. Our second Pawnshop, Hing Wah Pawnshop, was subsequently established by Mr. Chan Chart Man as sole proprietorship in 1986. In 1997, Ms. Mui retired from the partnership and Wai Wah Pawnshop became a sole proprietorship with Mr. Chan Chart Man as its sole proprietor. Since then, each of these two Pawnshops was operated as a sole proprietorship with Mr. Chan Chart Man as its sole proprietor until the implementation of the Reorganisation.

In March 2000, the Chan Family expanded the pawn loan business and incorporated Oi Wah HK, which was first incorporated under the name of Oi Wah Estate and Investment Limited, and changed its name to Oi Wah Pawnshop Holding Limited on 26 August 2008, and was subsequently changed to its current name of Oi Wah Pawnshop Credit Limited on 8 September 2011.

Since the incorporation of Oi Wah HK, our Pawnshops have been managed and operated by our executive Director, Mr. Edward Chan, being the chairman of HKKPA (港九押業商會) and the honorary chairman of the Macau General Chamber of Pawnbrokers (澳門當押業總商會), under the brand name of "Oi Wah" and ten further Pawnshops were established in different areas of Hong Kong from 2000 to 2004. We have further expanded into mortgage loan business in 2009 and a Mortgage Centre was established at our Wanchai head office to provide private and personalised one-on-one mortgage loans services to our customers. In 2011, a Customer Service Centre was set up in the premises of Tak Wah Pawnshop located in Central to provide our customers with private and personalised pawn loan services and customer service support. We have private conference rooms in the Customer Service Centre so as to serve customers who prefer discreet and would not ordinarily attend pawnshops. Although the pawn loan services provided are the same, our Customer Service Centre is capable of providing a higher degree of privacy to our customers than our other Pawnshops.

HISTORY AND DEVELOPMENT

The following table sets out the names of shareholders and their respective shareholdings in Oi Wah HK, which had remained unchanged since its incorporation and up to the implementation of the Reorganisation:

Name	**Shareholdings in Oi Wah HK** *(%)*
Ms. Chan Ying Yu	25
Mr. Chan Chart Man	20
Mr. Edward Chan	15
Ms. Chan Nga Yu	10
Ms. Chan Kit Yu	10
Ms. Chan Mei Fong	10
Ms. Mui	10
Total:	100

As at the Latest Practicable Date, our Group owned and operated 12 Pawnshops in Hong Kong, each of which is a member of HKKPA.

The following table sets forth the significant milestones in our history:

1975	•	The establishment of Wai Wah Pawnshop
1986	•	The establishment of Hing Wah Pawnshop
2000	•	The incorporation of Oi Wah HK and the establishment of Ho Wah Pawnshop, Sung Wah Pawnshop, Chun Wah Pawnshop and Po Wah Pawnshop
2001	•	The establishment of Tak Wah Pawnshop
2002	•	The establishment of Hung Wah Pawnshop
2003	•	The establishment of Kwong Wah Pawnshop
2004	•	The establishment of Heng Wah Pawnshop, Cheung Wah Pawnshop and Kei Wah Pawnshop
2009	•	The expansion of our business to mortgage loan services and the establishment of our Mortgage Centre at our Wanchai head office
2011	•	The establishment of our Customer Service Centre at the premises of our Tak Wah Pawnshop in Central

HISTORY AND DEVELOPMENT

REORGANISATION

In preparation for the [•], our Group underwent the Reorganisation whereby our Company became the holding company of our Group and the steps are as follow:

(i) Incorporation of Hing Wah HK and Wai Wah HK

On 12 April 2012, Hing Wah HK and Wai Wah HK were incorporated in Hong Kong. Each of Hing Wah HK and Wai Wah HK has an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. One fully-paid share of each of Hing Wah HK and Wai Wah HK was allotted and issued to Mr. Chan Chart Man at par.

(ii) Incorporation of the Oi Wah Holding

On 31 May 2012, Oi Wah Holding was incorporated in the BVI and was authorised to issue 50,000 shares with no par value. Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui were issued and allotted with 20 shares, 15 shares, 25 shares, 10 shares, 10 shares, 10 shares and 10 shares, respectively.

(iii) Incorporation of our Company and Kwan Lik

On 31 May 2012, Kwan Lik was incorporated in the BVI which is authorised to issue 50,000 shares with no par value. Initially, 40 shares, 20 shares, 20 shares, 5 shares, 5 shares, 5 shares and 5 shares, representing 40%, 20%, 20%, 5%, 5%, 5% and 5% of the issued shares of Kwan Lik, were allotted and issued as fully-paid shares to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively.

On 5 June 2012, our Company was incorporated as an exempted company in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 Shares of HK$0.01 each, of which one Share was allotted and issued to the first subscriber, Reid Services Limited, as fully-paid Share, which was transferred to Kwan Lik on the same day.

(iv) Transfers of businesses

Pursuant to two agreements for sale and purchase of business both dated 19 April 2012 as supplemented by two supplemental agreements both dated 8 June 2012, Mr. Chan Chart Man transferred all the assets, liabilities, undertakings and licence of each of Hing Wah Pawnshop and Wai Wah Pawnshop to Hing Wah HK and Wai Wah HK, respectively, each at a consideration of HK$1.00.

(v) Acquisition of Hing Wah HK and Wai Wah HK

Pursuant to two sale and purchase agreements, dated 31 January 2013 and 4 February 2013, Oi Wah Holding acquired from Mr. Chan Chart Man the entire issued share capital of each of Hing Wah HK and Wai Wah HK, respectively, in consideration of which Oi Wah Holding issued and allotted, at the direction of the Chan Family, which they have all consented pursuant to the two sale and purchase agreements, an aggregate of 80 shares, 60 shares, 100 shares, 40 shares, 40 shares, 40 shares and 40 shares, as fully-paid shares, to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively.

(vi) Acquisition of Oi Wah HK and shareholder's loans

Pursuant to a sale and purchase agreement dated 5 February 2013, Oi Wah Holding acquired the entire issued share capital of Oi Wah HK from its shareholders, in consideration of which Oi Wah Holding issued and allotted 100 shares, 75 shares, 125 shares, 50 shares, 50 shares, 50 shares and 50 shares, as fully paid shares, to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively, in proportion to their then existing shareholdings of Oi Wah HK.

Pursuant to the same agreement, Oi Wah Holding also acquired the shareholder's loans in the sums of HK$42,363,406 and HK$2,600,000 from Mr. Chan Chart Man and Mr. Edward Chan, respectively, in consideration of which 600 shares, 250 shares and 150 shares were issued and allotted to Mr. Chan Chart Man, Mr. Edward Chan and Ms. Chan Ying Yu, respectively, as fully-paid shares at the direction of Mr. Chan Chart Man and Mr. Edward Chan as a family arrangement (such 1,000 shares would have been issued and alloted to Mr. Chan Chart Man and Mr. Edward Chan as to 942 shares and 58 shares if based on the ratio of the shareholder's loans).

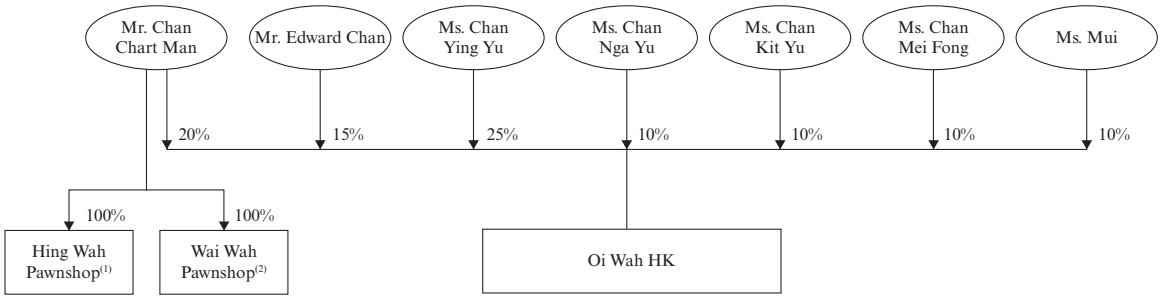
(vii) Acquisition of Oi Wah Holding

Pursuant to the sale and purchase agreement dated 18 February 2013, our Company acquired all issued shares of Oi Wah Holding from its then shareholders, in consideration of which our Company, at the direction of the then shareholders of Oi Wah Holding, allotted and issued 9,999,999 Shares, as fully-paid Shares, to Kwan Lik.

Details of the Reorganisation are also set out in the section headed "A. Further information about our Company — 4. Corporate reorganisation" in Appendix IV to this document. Save for the Reorganisation, no further changes in shareholding of our Company and its subsidiaries will take place after the Reorganisation and at the time of [•].

HISTORY AND DEVELOPMENT

The following diagram sets forth our corporate and shareholding structure immediately prior to the implementation of the Reorganisation:



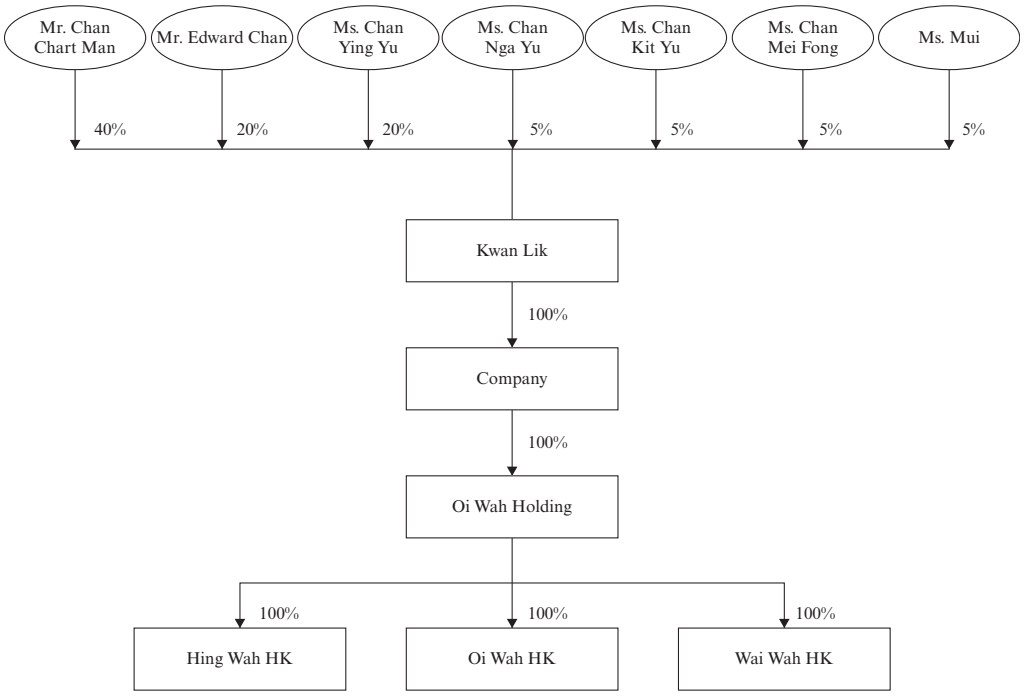
Notes:

1. Hing Wah Pawnshop was established by Mr. Chan Chart Man as sole proprietorship in 1986. Pursuant to the agreement for sale and purchase of business dated 19 April 2012 as supplemented by the supplemental agreement dated 8 June 2012, all the assets, liabilities, undertakings and licence of Hing Wah Pawnshop were transferred to Hing Wah HK.

2. Wai Wah Pawnshop was established by Mr. Chan Chart Man and Ms. Mui as partnership in 1975 and became a sole proprietorship with Mr. Chan Chart Man as its sole proprietor in 1997. Pursuant to the agreement for sale and purchase of business dated 19 April 2012 as supplemented by the supplemental agreement dated 8 June 2012, all the assets, liabilities, undertakings and licence of Wai Wah Pawnshop were transferred to Wai Wah HK.

HISTORY AND DEVELOPMENT

The following diagram sets forth our corporate and shareholding structure immediately before the completion of the [•] and [•]:



BUSINESS

OVERVIEW

We are a financing service provider in Hong Kong operating under the brand name of "Oi Wah" mainly providing short-term secured financing, including pawn loans and mortgage loans. We provide pawn loans whereby personal properties are used as collaterals for the security of such loans, and first and subordinated mortgage loans.

According to the Ipsos Report, we are the largest pawn loan service provider in Hong Kong in 2011 in terms of loan amount granted and number of Pawnshops. The aggregate amount of pawn loans granted by us amounted to approximately 9.4% of the total value of loans and advances granted by all pawn loan service operators in Hong Kong in 2011. Our first Pawnshop was established in Hong Kong in 1975 and we expanded into a group with 12 Pawnshops as at the Latest Practicable Date located in various locations in Hong Kong including commercial district and areas with residential clusters. We have also set up a Customer Service Centre in the premises of Tak Wah Pawnshop located in Central to provide customers with private and personalised pawn loan services and customer service support.

We are one of the few financing service providers in Hong Kong having both the Pawnbrokers Licences and the Money Lenders Licence which provide us with the flexibility in granting pawn loans with different interest rates, loan amounts and terms to suit the different needs of our customers, and enable us to grant mortgage loans. We have been developing and expanding our mortgage loan business since 2009. We provide private and personalised one-on-one mortgage loan services to our customers at our Mortgage Centre in Wan Chai.

While some financing service providers may have lengthy and complicated approval process and may not accept low value collaterals for short-term financing, we aim to provide loans to our customers on a timely manner so as to serve their immediate liquidity needs. Our approval process for pawn loans usually completes within minutes while that for mortgage loans completes within days. We also accept a variety of personal properties as collaterals for our pawn loans. With the expected growing demand in short-term financing, we plan to increase our loan portfolio in order to meet the growing needs of our customers in Hong Kong.

Our Group was established and controlled by the Chan Family. Mr. Edward Chan is our chairman, executive Director and chief executive officer. Mr. Chan Chart Man is the founder of our Group and an executive Director. Ms. Chan Mei Fong and Ms. Chan Ying Yu are both executive Directors. Mr. Macksion Chan, also a family member of the Chan Family, is a non-executive Director. Other members of the Chan Family, namely, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Ms. Mui, do not have management positions in our Group.

Our total turnover for each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 were approximately HK$46.7 million, HK$54.7 million, HK$66.4 million and HK$52.6 million, respectively, while our profit attributable to the owners of our Company for the same period were approximately HK$20.2 million, HK$23.6 million, HK$33.4 million and HK$19.3 million, respectively.

OUR COMPETITIVE STRENGTHS

We have a well established position in the market

According to the Ipsos Report, we were the largest pawn loan service provider in Hong Kong in 2011 in terms of loan amount granted and number of Pawnshops. Our first Pawnshop was established in 1975 and expanded into a group with 12 Pawnshops as at the Latest Practicable Date, which are located in different parts of Hong Kong to serve our customers. We are one of the few pawn loan service providers in Hong Kong operating as a group. We market our business under the "Oi Wah" brand name and we are of the view that our brand name and uniform approach in conducting our business as a group enhanced our reputation in the pawn loan industry. We offer private and personalised service to our customers who would prefer discreet at our Customer Service Centre, which is located in commercial building with private conference rooms. Although the pawn loan services provided are the same, our Customer Service Centre is capable of providing a higher degree of privacy to our customers than our other Pawnshops. Through the establishment of our Customer Service Centre in the premises of Tak Wah Pawnshop in Central, we are able to expand our customer base to those who would not ordinarily attend pawnshop and to capture more opportunities in offering our financing service to these customers.

Our business model enables us to provide quick and convenient diversified financing services catered for different types of customers with different needs

We are one of the few financing service providers in Hong Kong having both the Pawnbrokers Licences and the Money Lenders Licence which provides us with the flexibility in granting pawn loans with different interest rates, loan amounts and terms to suit the different needs of our customers, and enable us to grant mortgage loans to our customers. With the stable income streams from our pawn loan services, we diversified our financing services to include the provision of mortgage loan services to our customers since June 2009. Our Directors believe that such business model positioned us well in further developing and expanding our mortgage loan service and/or other peripheral financing businesses in the future to cater for the different needs of our customers.

Customers of our financing services are mostly individual customers. Different types of customers have different financing needs and possessed different types of properties. We accept a variety of personal properties such as gold and jewellery, diamonds, watches, and consumer electronic products, and mortgaged real estates as collaterals for the security of pawn loans and mortgage loans, respectively. We offer to our customers both first mortgage loans and subordinated mortgage loans so as to suit their needs.

While some financing service providers may have lengthy and complicated approval process and may not accept low value collaterals for short-term financing and relatively rigorous credit approving policies, we aim to provide loans to our customers on a timely manner so as to serve their immediate liquidity needs. Our approval process for our pawn loans usually completes within minutes while that for our mortgage loans completes within days.

Many of our customers are recurring customers and we believe that our customers come back to us due to our reputation and integrity, and most importantly, our quick and convenient services and the wide variety of properties and real estates accepted by us. We are able to build on our established customer base and to expand gradually by providing different financing services to these customers to suit their needs.

We adopt standardised and computerised operating and risk management systems

Since we are operating in a much bigger scale as compared with many pawn loan service providers in Hong Kong, we have developed and adopted a systematic approach in running our business in an efficient way, including the adoption of stringent internal control procedures and operations guidelines for risk management purposes. Our risk management procedures are integral parts to our continued success over the years. We adopted computerised system for the running of business operations. We maintain a database of blacklisted customers, including those customers pawning fake collaterals identified by us and industry players and information of unlawful goods provided by the Hong Kong police, in our computerised system that will perform checks against the blacklisted customer and unlawful goods automatically when processing our pawn loan transactions. Please refer to the section headed "Business — Internal control" in this document for further details. We believe that our adoption of standardised and computerised operating procedures across all our Pawnshops and Mortgage Centre had minimised our risks in accepting unlawful or fake collaterals and will continue to enable us to manage our business more efficiently and our risks more effectively, and thereby maintaining our quality in service delivery and reinforcing our brand reputation.

We have well established relationships with a network of second-hand product dealers

Our first Pawnshop was established in 1975. Throughout the years of our operation, we had been in contact with numerous second-hand product dealers and had established a wide network of second-hand product dealers for our collaterals which were generally classified into gold and jewellery, diamonds, watches, and consumer electronic products. The wide network of second-hand product dealers allows us to compare the second-hand resale prices and therefore would better ensure the smooth selling of the collaterals.

Furthermore, the established relationships with second-hand product dealers also allow us to obtain updated information on the resale value of different personal properties on the second-hand market timely. Our Directors believe that such updated information enables us to make well-informed decisions in collateral valuations, thus enhancing our competitiveness in the granting of loan amounts to our customers and our ability to manage the downside risks in the reselling of collaterals.

We have an experienced senior management team

Our executive Directors have joined our Group for an average of approximately 17 years. In particular, Mr. Edward Chan, our chairman, executive Director and chief executive officer who has more than 12 years of experience in the operation of pawn loan business, is currently the chairman of the HKKPA (港九押業商會) and the honourable chairman of the Macau General Chamber of Pawnbrokers (澳門當押業總商會). In addition,

Mr. Edward Chan has also accumulated in-depth industry knowledge and experience in the property market through his prior work experience in managing his family's property development business and property investments, which has been particularly insightful and useful in the development of our mortgage loan business. Ms. Chan Mei Fong, our executive Director and chief operating officer, is a fellow of The Gemmological Association of Great Britain and has years of experience in providing valuation of valuable collaterals such as watches, jewelries and gemstones. We believe that our experienced management team would continue to benefit our Group in the long run by being able to manage and expand our business effectively.

OUR BUSINESS STRATEGIES

Our primary business objective is to strengthen our market position in the pawn loan industry and to further develop our mortgage loan business in Hong Kong. We intend to achieve our objective by implementing the following strategies:

Expand our business operations by strengthening our mortgage loan business

We plan to expand our mortgage loan business. The size of our mortgage loan business is directly correlated to the size of our available funds. With increased available funds, we would be in a better position to expand our mortgage loan portfolio and generate more revenue through the higher interest income per transaction (as compared to the pawn loan business) incurred therefrom.

We plan to implement the followings to expand our mortgage loan business:

(a) promote our mortgage loan services by increasing the frequency and the channels of our advertisements including online advertisements through various platforms

(b) revamp our company website to include more information relating to our mortgage services and to enhance its functionality such as the provision of preliminary valuation services

(c) cooperate with referral agents to increase our customer base

(d) cooperate with realty agents for the promotion of our mortgage loan services

(e) introduce referral reward program for our customers

(f) recruit more personnel with experience in the mortgage loan business, in particular, those are experienced in handling mortgage loan transactions and marketing activities in the mortgage loan industry.

The Hong Kong Government has recently introduced measures to curb speculation in the real estates market, and the HKMA has also imposed tightening measures on the provision of mortgage loans by authorised institutions. Details of such measures are disclosed in the section headed "Industry overview — Recent government measures to curb speculation in the real estates market" in this document.

These measures not only may lower the liquidity of the real estate market, but also impose difficulties to borrowers wishing to obtain financing from authorised institutions such as banks as they will need to meet additional requirements. These borrowers will need to seek alternatives for obtaining financing such as from money lenders like our Group.

Our Directors are of the view that these tightening measures will ultimately bring positive impact to our mortgage loan business. For details of the possible impact of these tightening measures on our mortgage business, please refer to the section headed "Business — Our principal business activities — Mortgage loan services — Possible impact of recent government measures to curb speculation in the real estates market on our mortgage business" in this document.

Our Directors consider that our target customers are mainly those who could not meet the relatively more stringent requirements imposed by banks pursuant to the recent tightening measures of the HKMA. With our increased marketing campaigns, we aim to capture this group of customers for our mortgage loan services and at the same time promote our "Oi Wah" brand name.

Our Directors expect that the expansion of our mortgage loan business will bring about larger risk exposure to our Group. We will closely monitor our risk management measures and implement new measures such as adjusting the loan-to-value ratio and interest rate of the new mortgage loan granted by us if and when appropriate. For details of our risk management measures, please refer to the section headed "Business — Risk management" in this document.

Expand our pawn loan portfolio and enhance the services we provide to our pawn loan services customers

We plan to expand our pawn loan portfolio through the provision of more facilities to our customers including the establishment of an additional Customer Service Centre and using our Money Lenders Licence to serve customers in need of pawn loan services of larger amounts so as to increase our customer base and serve the different needs of our customers, in particular, customers who prefer discreet and do not prefer going to our Pawnshops. Our Directors believe that our relationships with customers would be much closer and more customers would be attracted by having more Customer Service Centres and thus business opportunities would increase to a great extent. We may also consider introducing loyalty reward program or referral program, so as to attract return customers and will continue to promote our pawn loan services through other marketing activities such as placing advertisements in a wide range of media.

As at the Latest Practicable Date, we were still exploring a suitable location in districts such as Causeway Bay, Kwun Tong and Sham Shui Po for the new Customer Service Centre and no capital expenditure had been incurred. We intend to establish the new Customer Service Centre by the third quarter of 2013.

Increase and enhance our marketing activities

We seek to strengthen our market position by improving the brand awareness of our customers. We will implement marketing strategies to enhance the image of "Oi Wah" in Hong Kong and will continue to market our Group and our Mortgage Centre and Customer Service Centre through placing advertisements in a wide range of media, such as newspapers, magazines, television, radio programs and online through various platforms targeting specific types of customers such as foreign domestic helpers for our pawn loan business. All our promotional leaflets and pamphlets will be in Chinese and English and even in other foreign language to cater for our customers of our pawn loan business who are foreign domestic helpers.

Our Directors believe that the above marketing strategies will enhance the "Oi Wah" brand name and the awareness of our Mortgage Centre and Customer Service Centre, which in turn will increase our market shares in both of the pawn loan business and mortgage loan business.

OUR PRINCIPAL BUSINESS ACTIVITIES

We are a financing service provider in Hong Kong mainly providing short-term secured financing, including pawn loans and mortgage loans. We provide pawn loans whereby personal properties are used as collaterals for the security of such loans, and first and subordinated mortgage loans.

For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, turnover contributed by the interest income on pawn loans amounted to approximately HK$40.4 million, HK$45.3 million, HK$52.4 million and HK$42.9 million, respectively, representing approximately 86.5%, 82.8%, 78.9% and 81.5% of our total turnover, respectively, while turnover contributed by the interest income on our mortgage loan business amounted to approximately HK$0.2 million, HK$0.8 million, HK$3.2 million and HK$4.8 million, respectively, representing approximately 0.3%, 1.5%, 4.8% and 9.1% of our total turnover, respectively.

Pawn loan services

Pawn loans are loans provided whereby personal properties such as gold, jewellery and diamonds, watches and consumer electronic products are used as collaterals for the security of the loans. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and as at the Latest Practicable Date, we had 12 Pawnshops located in various locations in Hong Kong providing pawn loan services. As at the Latest Practicable Date, we had in aggregate 40 staff working at our 12 Pawnshops.

We have both the Pawnbrokers Licences and the Money Lenders Licence. The Pawnbrokers Ordinance provides that the interest rate charged shall not exceed 3.5% per lunar month for an amount not exceeding HK$100,000 and that upon the expiration of four lunar months from the date of advancing the pawn loan, the collaterals become the

properties of the pawnbrokers if they were not redeemed or the loan was not renewed. As such, we generally provide a term of four lunar months at an interest rate of 3.5% per lunar month to our customers for pawn loans granted under our Pawnbrokers Licences.

Our Money Lenders Licence has provided us with the flexibility in granting pawn loans with different interest rates, loan amounts and terms, such as loans exceeding HK$100,000 to our customers. Our Money Lenders Licence is held by Oi Wah HK and we are licensed to carry on business as a money lender at each of our Pawnshops.

Pawn loans granted under the name of Oi Wah HK pursuant to our Money Lenders Licence are also secured by personal properties. The procedures for granting such pawn loans are similar to that for granting pawn loans pursuant to our Pawnbrokers Licences. We offer a term of one to four lunar months and a mutually agreed interest rate of not more than 3.5% per lunar month to our customers for pawn loans granted pursuant to our Money Lenders Licence. We are prohibited from offering pawn loans to our customers at an effective rate of interest which exceeds 60% per annum under the Money Lenders Ordinance.

The Pawnbrokers Ordinance provides a maximum threshold of the loan amount of HK$100,000 to be granted by a pawnbroker while the Money Lenders Ordinance does not impose a limitation on the loan amount. As such, for any pawn loan exceeding the amount of HK$100,000, we have to follow the Money Lenders Ordinance and grant such pawn loans pursuant to our Money Lenders Licence. We may grant pawn loans not exceeding the amount of HK$100,000 pursuant to both the Pawnbrokers Ordinance and the Money Lenders Ordinance. We generally grant such pawn loans pursuant to our Pawnbrokers Licences, however, in order to suit the different financing needs of our customers such as a loan term that is other than four lunar months, we will also consider granting such pawn loans pursuant to our Money Lenders Licence on a case by case basis.

As advised by Pang & Co., legal advisers to our Company as to Hong Kong law, any pawn loan in excess of the threshold (i.e. over HK$100,000) provided by the Pawnbrokers Ordinance would render the Pawnbrokers Ordinance inapplicable thereto and the loan will instead be governed by the Money Lenders Ordinance, and therefore our Group has not violated the provisions of the Pawnbrokers Ordinance when granting pawn loans pursuant to our Money Lenders Licence in excess of the HK$100,000 threshold under the Pawnbrokers Ordinance.

The following table sets out the major terms of the pawn loans granted by us under our Pawnbrokers Licences and Money Lenders Licence, respectively:

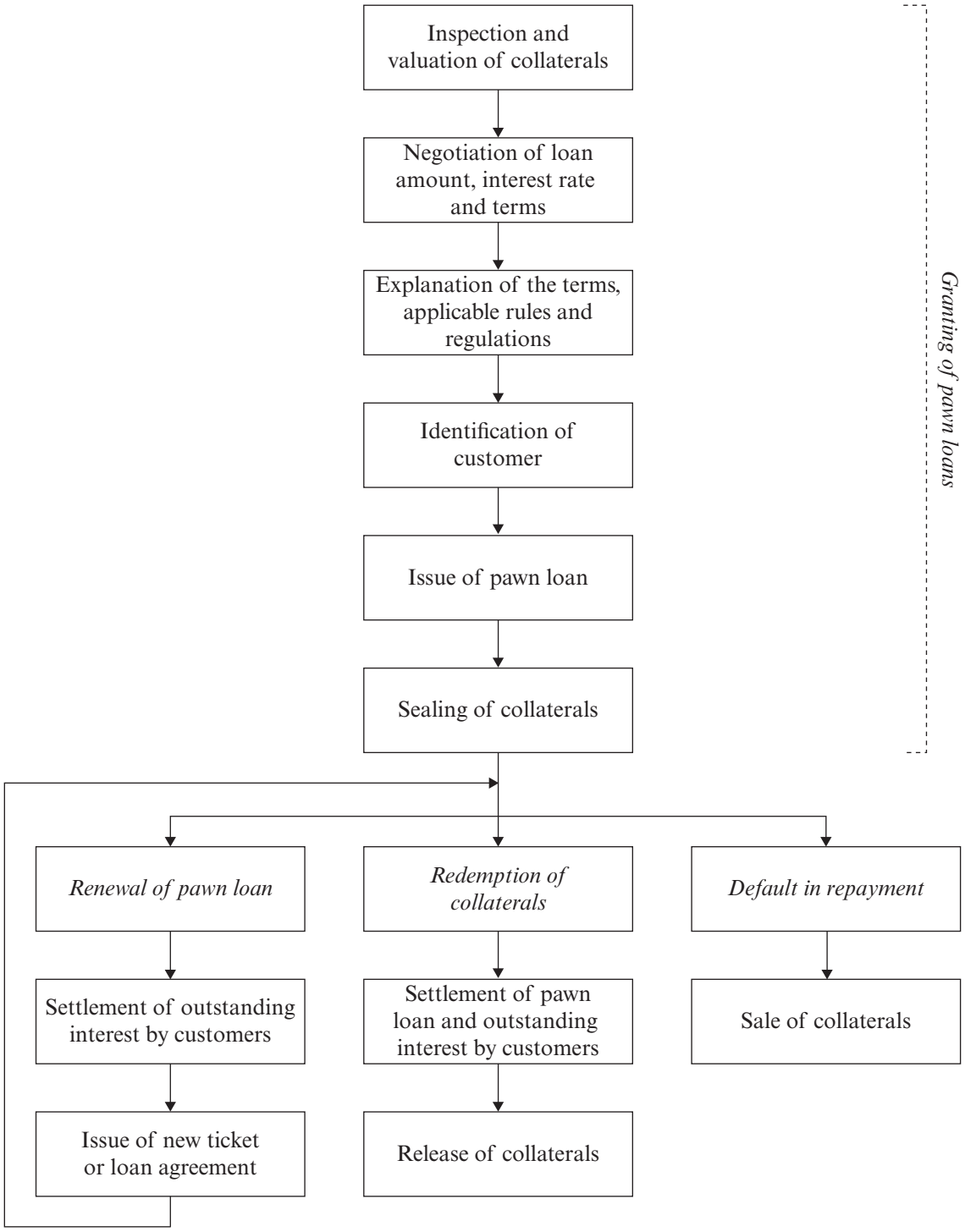
	Pawn loans granted under	
	Pawnbrokers Licences	**Money Lenders Licence**
Loan amount	Not exceeding HK$100,000	No restriction
Interest rate	Not exceeding 3.5% per lunar month	Not exceeding 3.5% per lunar month
Term	Four lunar months	Mutually agreed term of one to four lunar months
Documentation	Tickets	Loan agreements

During the term of the pawn loan, customers may redeem their collaterals at any time by repaying the loan amount and the outstanding interest. Customers may also renew their term of the pawn loan after paying the outstanding interest for the previous term. Upon the expiry of the term of the pawn loans, we may sell the collaterals not having been redeemed. The turnover contributed to our Group by the gain on disposal of repossessed assets for each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 amounted to approximately HK$6.1 million, HK$8.6 million, HK$10.8 million and HK$4.9 million, respectively, representing approximately 13.2%, 15.7%, 16.3% and 9.4% of our total turnover, respectively. Please refer to the section headed "Business — Our principal business activities — Pawn loan services — Default in repayment" in this document for further details regarding the sale of our collaterals.

BUSINESS

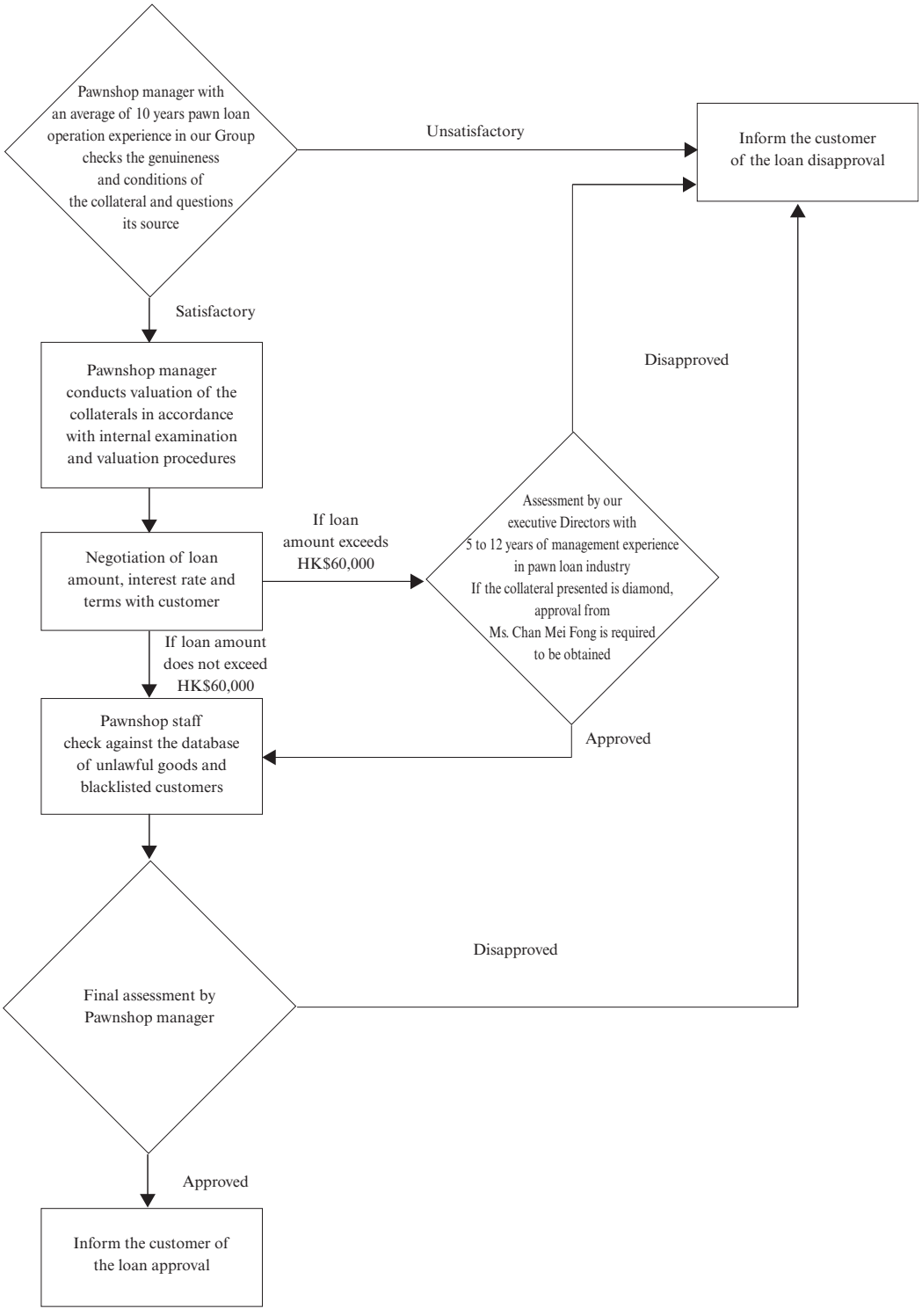
As at 30 November 2012, the outstanding pawn loan amount (including pawn loans granted under our Pawnbrokers Licences and our Money Lenders Licence) amounted to approximately HK$123.1 million.

The following diagram sets out the steps involved in our pawn loan services:



Granting of pawn loans

The following flowchart illustrates the general valuation of collaterals and loan approval procedures in connection with our pawn loan services:



i. Inspection and valuation of collaterals

When a customer presents a collateral at our Pawnshop, we will examine the collateral in accordance with our internal procedures. We will check if the collateral is genuine and whether it has any damages or scratches. We will also question the source of the collateral and will seek further approval from our senior management if we are in doubt. We will inform the customer of the findings of our inspection. Upon satisfaction of the above, we will then value the collateral in accordance with our internal procedures.

Managers of our Pawnshops are responsible for the valuation of collaterals. Our Directors believe that they have sufficient experience and qualifications in conducting the valuations of collaterals as they have joined our Group for approximately 10 years in average and have extensive experience in the pawn loan industry ranging from 8 to 30 years. Furthermore, our executive Directors' prior approval is required if the loan amount for any kind of collateral to be offered to the customer exceeds HK$60,000, in particular, for loan amount exceeding HK$60,000 for diamond as collateral, prior approval from Ms. Chan Mei Fong is required. Mr. Edward Chan, our chairman, chief executive officer and one of the executive Directors, has over 12 years of experience in the pawn loan business and Ms. Chan Mei Fong, our chief operating officer and one of our executive Directors, has over 5 years of experience in the valuation of collaterals and is a fellow of The Gemmological Association of Great Britain having obtained a diploma in Gemmology and a Gem Diamond diploma from the Gemmological Association And Gem Testing Laboratory Of Great Britain. For further details of the background of our executive Directors, please refer to the section headed "Directors, senior management and employees — Directors — Executive Directors" of this document.

Our Pawnshop managers are required to strictly follow our internal manual in carrying out valuations of collaterals that sets out our policy with respect to the loan-to-value ratios for each type of collaterals, and the procedure and equipments to be used for checking the genuineness of the collaterals. Furthermore, regular discussions between our staff and our senior management are held at our Pawnshops to keep our staff updated with the prevailing market prices of the collaterals and our staff may also attend the negotiations of the disposal prices of collaterals between the second-hand product dealers and our senior management at our Pawnshops. Our Directors are not aware of any instances in which our staff has failed to identify any counterfeits as collaterals during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and up to the Latest Practicable Date.

The following sets out our examination and valuation procedures for the major types of collaterals accepted by us:

(a) Gold and jewellery

We will weigh the gold or the jewellery and observe its colour and design if it is a jewellery. We will also use magnifier to check the marks for the purity of gold and the brand mark. If in doubt, we will apply acid test to verify purity and genuineness of the gold.

Based on the gold price quoted from The Chinese Gold & Silver Exchange Society (金銀業貿易場) (a registered society in Hong Kong providing a trading platform, facilities and related services for gold, silver and precious metal transactions), we will offer loan amount which is usually approximately 80% of the gold price quoted real-time.

(b) Diamond

We will check the carat of the diamond, and will use magnifier to observe its cuts and internal and external characteristics. Identification devices are also used to test the genuineness of diamond.

We will grade the diamond according to its clarity, cutting, colour, weight and by fluorescence test. We offer a loan amount based on the grading of the diamond and the Rapaport Diamond Report we subscribed from the Rapaport Group (an authoritative service provider in diamond and jewellery markets) that provides a pricelist for different grading of diamonds and is updated on a weekly basis. Subject to the condition of the diamond, the loan amount we offer to our customers is usually approximately 50% of the value of the diamond as provided by the latest Rapaport Diamond Report.

The loan amount we offer may be higher if the customer could provide report from the Gemological Institute of America (GIA Report), the International Gemological Institute (IGI Report) or other recognised institutions whereby we could verify the genuineness and grading of the diamond.

(c) Watch

We will observe the parts of the watch such as its face, hands and band when we receive the same from the customer. We will also use magnifier to observe the surface and the calendar box of the watch. If in doubt, we will check the workings of the watch.

Each of our Pawnshops has two updated price lists, one with retail list prices compiled by the official dealers which is for reference and one with parallel import wholesale prices compiled by the parallel importers for each model of the popular brands of watches. We obtain both price lists from the parallel importers and we will keep close contact with them so as to ensure our price lists are up-to-date. Subject to the condition of the watch and whether the customer has any certificate or purchase receipt for the watch, the loan amount we offer will usually not exceed 70% of the parallel import wholesale price. In the event that the watch is not from a popular brand, we will consult second-hand watch dealers before offering the loan amount to our customer.

(d) Consumer electronic product

Consumer electronic product accepted by us as collateral mainly include mobile phones, cameras, video cameras and notebook computers. We will observe the condition of the electronic product and whether there is any scratches or damages.

We have a set of updated pricelists of second-hand consumer electronic products obtained from second-hand product dealers of electronic products from time to time. Subject to the condition of the electronic product, the loan amount we offer will usually not exceed 80% of the second-hand price indicated in the pricelists.

ii. Negotiation of loan amount, interest rate and terms

Upon inspection and valuation of the collaterals, we will offer a loan amount to the customer. The customer may negotiate with us the offered loan amount and we may adjust the loan amount offered with reference to the credibility of the customer and loan amount involved. Upon requests from the customers, we will also lower the loan amount to suit their needs. The maximum loan amount per transaction granted by us is HK$100,000 pursuant to the Pawnbrokers Regulations while there is no limitation on the loan amount under the Money Lenders Ordinance. The loan amount we offered to our customers is always lower than our valuation of the collaterals. Generally, we offer pawn loans at an interest rate of 3.5% per lunar month with a term of one to four lunar months. Upon requests from the customers and depending on their credibility, we may also offer pawn loans at a mutually agreed interest rate and term as permissible under the Pawnbrokers Ordinance and the Money Lenders Ordinance to suit their needs.

The approximate key operating data for our pawn loan services during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 is as follows:

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2012
Number of transactions				
Under our Pawnbrokers Licences	138,000	140,000	140,000	106,000
Under our Money Lenders Licence[1][2]	8,000	7,000	8,000	1,000
	146,000	147,000	148,000	107,000
Aggregated loan amount				
Under our Pawnbrokers Licences	HK$340.6 million	HK$378.8 million	HK$431.5 million	HK$366.4 million
Under our Money Lenders Licence[2]	HK$20.8 million	HK$35.0 million	HK$81.6 million	HK$47.7 million
	HK$361.4 million	HK$413.8 million	HK$513.1 million	HK$414.1 million
Range of loan size	HK$40–HK$620,000	HK$50–HK$1,200,000	HK$40–HK$2,000,000	HK$50–HK$2,000,000
Average loan amount	HK$2,500	HK$2,800	HK$3,500	HK$3,900
Range of interest rates[3]	1.0–3.5% per lunar month	1.5–3.5% per lunar month	1.0–3.5% per lunar month	2.0–3.5% per lunar month
Average interest rate[4]	3.43% per lunar month or 41.16% per annum	3.43% per lunar month or 41.16% per annum	3.45% per lunar month or 41.40% per annum	3.46% per lunar month or 41.52% per annum
Range of loan term[3]	1–4 lunar months	1–4 lunar months	1–4 lunar months	1–4 lunar months
Average loan repayment period[5]	78 days	85 days	83 days	83 days
Number of loans renewed	60,000	63,000	64,000	47,000
Loan renewal ratio[6]	41.1%	42.9%	43.2%	43.8%
Loan impairment ratio[7]	0.2%	0.1%	0.1%	0.1%
Loan default rate[8][9]	11.8%	10.0%	8.4%	9.1%

Notes:

(1) Given that the term for the pawn loans granted under our Money Lenders Licence can be agreed mutually between the customers and us, a significant number of pawn loans under HK$100,000 were granted by us under our Money Lenders Licence to those customers who prefer pawn loans with more flexible terms during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

(2) Including pawn loans which have not fully complied with the Money Lenders Ordinance. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, there were 54, 104, 153 and 4 incidents, respectively, with an aggregate loan amount granted of approximately HK$8.9 million, HK$16.0 million, HK$23.1 million and HK$0.6 million, respectively, where we mistakenly issued tickets to customers for pawn loans exceeding HK$100,000 granted pursuant to our Money Lenders Licence. Our Legal Counsel was of the opinion that the omission of the signature of the borrower on the relevant tickets constituted a breach of section 18 of the Money Lenders Ordinance. Please refer to the section headed "Business — Regulatory compliance" in this document for further details.

(3) According to the Pawnbrokers Ordinance, the interest rate of pawn loans is calculated with reference to "lunar month" and hence disclosed on the basis of each "lunar month".

(4) Average interest rate refers to the arithmetic average of interest rates of each of our pawn loans during the year/period. The average interest rate per annum is for illustrative purpose only and is calculated based on 12 lunar months per year.

(5) Average loan repayment period refers to the average number of days that our customers repay the loan.

(6) Loan renewal ratio is calculated by dividing the number of loans renewed by the total number of loan transactions during the year/period.

(7) Loan impairment ratio is calculated by dividing the loan impairment allowance as at the relevant year/period end by the outstanding pawn loan receivables balance as at the end of the same year/period.

(8) Loan default rate is calculated by the aggregated amount of defaulted loans divided by the aggregate amount of loans granted during the relevant year/period.

(9) Upon default in repayment of our pawn loans, we will sell the repossessed assets. We recorded gain on disposal of repossessed assets during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 that represented the gain arising from the difference between the disposal value of the relevant collaterals and the relevant loan amounts plus the relevant accrued interest.

The approximate breakdown of our pawn loan interest income by geographical area and by collateral type is as follows:

	Year ended 28 February 2010				Year ended 28 February 2011				Year ended 29 February 2012				Nine months ended 30 November 2012			
	Gold, jewellery and diamond	Watches	Others (Note)	Total	Gold, jewellery and diamond	Watches	Others (Note)	Total	Gold, jewellery and diamond	Watches	Others (Note)	Total	Gold, jewellery and diamond	Watches	Others (Note)	Total
	HK$ ('000)	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*	*HK$ ('000)*
Hong Kong Island	13,244	1,551	253	15,048	15,837	2,033	339	18,209	17,979	2,699	474	21,152	14,030	2,556	337	16,923
Kowloon	3,482	3,850	238	7,570	3,704	3,919	234	7,857	4,179	4,045	306	8,530	3,440	3,260	328	7,028
New Territories	10,502	6,754	482	17,738	12,098	6,563	544	19,205	13,952	7,892	825	22,669	11,611	6,411	880	18,902
	27,228	12,155	973	40,356	31,639	12,515	1,117	45,271	36,110	14,636	1,605	52,351	29,081	12,227	1,545	42,853

The approximate breakdown of our Group's aggregated pawn loan amount by geographical area and by collateral type is as follows:

	Year ended 28 February 2010				Year ended 28 February 2011				Year ended 29 February 2012				Nine months ended 30 November 2012			
	Gold, jewellery and diamond	Watches	Others (Note)	Total	Gold, jewellery and diamond	Watches	Others (Note)	Total	Gold, jewellery and diamond	Watches	Others (Note)	Total	Gold, jewellery and diamond	Watches	Others (Note)	Total
	HK$ (million)	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*	*HK$ (million)*
Hong Kong Island	94.0	16.2	3.2	113.4	119.8	16.7	4.0	140.5	144.2	22.0	5.6	171.8	110.1	26.5	4.0	140.6
Kowloon	33.0	42.2	4.0	79.2	38.0	45.9	4.1	88.0	42.8	53.9	5.8	102.5	34.2	50.5	5.7	90.4
New Territories	94.0	63.9	10.9	168.8	106.8	66.4	12.1	185.3	130.4	89.6	18.8	238.8	99.9	66.2	17.0	183.1
	221.0	122.3	18.1	361.4	264.6	129.0	20.2	413.8	317.4	165.5	30.2	513.1	244.2	143.2	26.7	414.1

Note: Others consist mainly consumer electronic devices and other personal properties.

iii. Explanation of the terms, applicable rules and regulations

Our staff will explain to the customers the terms of the pawn loan and applicable rules and regulations in Hong Kong in connection with pawn loans, including but not limited to, the term of the pawn loan, the calculation of interests, renewal method and consequence of default in repayment.

iv. Identification of customer

In the event that the customer is agreeable to the loan amount and terms offered by us, our staff will first check in our database to see if the collateral is unlawful good and whether the customer is being blacklisted. For our internal control measures in connection with our pawn loan services, please refer to the section headed "Business — Internal control" in this document.

The customer is required to present his identification document to our staff before we issue the pawn loan. Information such as the customer's name, number of identification document, residential address, details of collateral including any damage or scratch, amount of pawn loan granted, date of grant, expiry date and ticket or loan agreement number, are entered into our computer system.

v. Issue of pawn loan

Two of our staff at our Pawnshop will check the accuracy of the information in the ticket or loan agreement and the amount of pawn loan before handing the ticket or loan agreement and the cash to the customer. A ticket will be issued to our customers for pawn loans granted by us pursuant to our Pawnbrokers Licences while a loan agreement will be issued for pawn loans granted by us pursuant to the Money Lenders Licence. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, there were incidents where tickets were issued to our customers for pawn loans granted by us pursuant to our Money Lenders Licence that, as advised by our Legal Counsel, constituted a breach of section 18 of the Money Lenders Ordinance. Please refer to the section headed "Business — Regulatory compliance" in this document for further details. The ticket or loan agreement presents information such as name, identification number and residential address of customer, loan amount granted, collateral and date of expiry. Relevant provisions of the Pawnbrokers Ordinance and Money Lenders Ordinance are stated at the back of the ticket or loan agreement where applicable. Information of the customer and the pawn loan will be entered into our database and we will keep a duplicate copy of the ticket or loan agreement.

vi. Sealing of collaterals

The customer is required to sign at the seal of the plastic bag which will be used to contain his collateral. The seal is one-off and will be broken once being torn off. Unless the collateral is being redeemed by the customer or is to be sold by us upon default of repayment of the pawn loan, the plastic bag will not be opened once it is sealed. Our Directors believe that such arrangement will reinforce the confidence imposed by our customers on us, since their collaterals are guaranteed not to be misappropriated during the term of the relevant pawn loan. The sealed plastic bag with the collaterals will be placed together with the relevant ticket or loan agreement and stored in the safe of the relevant Pawnshop.

Renewal of pawn loans

Before the end of the term of the pawn loan, the customer may come to our Pawnshop to apply for a renewal of the pawn loan. Customers are required to present the ticket or loan agreement, and pay the outstanding interests calculated on a lunar monthly basis. A new ticket or loan agreement with a new expiry date and bearing same terms as the previous pawn loan will be issued to the customer. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the total number of renewed pawn loans granted by us amounted to approximately 60,000, 63,000, 64,000 and 47,000, respectively, with the aggregated loan amount of approximately HK$154.5 million, HK$170.1 million, HK$225.1 million and HK$186.1 million, respectively.

Redemption of collaterals

On or before the expiry date of the pawn loan, the customer may redeem its collateral from us by presenting the ticket or loan agreement and repaying the amount of the pawn loan together with the outstanding interests calculated on a lunar monthly basis. We will then return the collateral to the customer. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, average loan repayment period of our pawn loans were approximately 78 days, 85 days, 83 days and 83 days, respectively.

Default in repayment

By the end of the term of the pawn loan, it is considered that the customer has defaulted in repayment of the pawn loan if the customer has not redeemed the collateral or renewed the pawn loan. At our sole discretion, a grace period of up to six weeks may be provided to customers after the end of the loan period during which we may allow them to renew the pawn loan and/or redeem the collaterals. We will proceed to dispose of the collaterals if the customer has not redeemed the collaterals or renewed the pawn loan by the end of the loan period or the grace period provided.

For those pawn loans granted by us under our Money Lenders Licence, although there are no provisions in the Money Lenders Ordinance requiring us to return the surplus (being the excess amount of the sale proceeds of the collaterals after netting off the principal loan amount and accumulated interests) from the disposal of collaterals to the customers, as advised by the Legal Counsel, the customers may bring legal action against us to claim for such surplus. Further, as advised by Pang & Co., legal advisers to our Company as to Hong Kong law, pursuant to section 17 of the Pawnbrokers Ordinance, if the collateral was not redeemed or the loan was not renewed before the expiry of four lunar months, the collateral shall become the property of the pawnbroker. Therefore, the whole of the sale proceeds arising from the disposal of collaterals for pawn loans granted by us under our Pawnbrokers Licences shall belong to us. In view of this, we are only subject to potential claim of surplus mentioned above for pawn loans granted under our Money Lenders Licence. As further advised by Pang & Co., legal advisers to our Company as to Hong Kong law, under section 20(2) of the Limitation Ordinance (Chapter 347 of the Laws of Hong Kong), our customers may be barred from claiming such surplus against us after the expiration of six years from the date on which the cause of action accrued, i.e. from the date of disposal of the collaterals. The aggregate amount of surplus on disposal of collaterals relating to our pawn loans granted under our Money Lenders Licence that is within the statutory limitation period above as at the Latest Practicable Date amounted to approximately HK$1.0 million. Save for one incident that we have returned the surplus in the amount of HK$86,000 to a customer in October 2012, no other customer has collected or claimed against us for such surplus until the Latest Practicable Date.

We had informed and will inform our customers of our pawn loan granted after July 2012 under our Money Lenders Licence to come to our Pawnshops to collect such surplus to minimise the chances of legal actions brought against us.

The Controlling Shareholders have executed the Deed of Indemnity in favour of our Group whereby they will jointly and severally indemnify each of the members of our Group against, inter alia, all expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including, but not limited to, legal and other professional costs), charges, liabilities, fines, penalties and tax which any member of our Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any legal actions brought against us for keeping the gains on disposals of collaterals relating to our pawn loans granted pursuant to our Money Lenders Licence prior to the [•]. Please refer to the section headed "E. Other information — 1. Estate duty, tax and other indemnities" in Appendix IV to this document for further details of the Deed of Indemnity.

We have connections with various second-hand product dealers for the sale of our collaterals. We will contact different dealers to obtain preliminary price quotation for the collaterals. These dealers will, in general, come to our Pawnshops on a monthly basis to purchase the collaterals. Prices of these collaterals are further negotiated with our senior management at our Pawnshops. In general, the prices of the collaterals are agreed between our executive Directors and the second-hand product dealers and settled in cash or cheque for each batch of the collaterals. In coming up with the prices of the collaterals, second-hand product dealers will make reference to the prevailing second-hand market prices.

For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we have 17, 20, 20 and 32 second-hand product dealers purchasing collaterals from us, respectively. All of these second-hand product dealers are Independent Third Parties and we had not entered into any long term sales agreements with these second-hand product dealers.

Mortgage loan services

To diversify our loan portfolio and cater to the needs of our different customers, we extended our business activities during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 by providing mortgage loans to our customers. We had issued one mortgage loan in June 2009 and commenced our full mortgage loan operation in July 2010. We carry on our mortgage loan business under our Money Lenders Licence. We serve our mortgage loan customers in our Mortgage Centre in Wan Chai and offer both first mortgage loans, which are secured by the first mortgage on the real estate, and subordinated mortgage loans, which are secured by mortgages subordinated to the first or higher ranking mortgages charged on the mortgaged real estate. The mortgaged real estates accepted by us include residential properties such as apartments, village houses and commercial real estates such as parking lots and offices, and our mortgage loans are offered to both individuals and corporate customers.

As at the Latest Practicable Date, we had five staff who have approximately three years of experience in the mortgage loan industry in average engaged in our mortgage business and we have granted 99 new cases of mortgage loans during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012. For each of the two years ended 28 February 2011, the

year ended 29 February 2012 and the nine months ended 30 November 2012, the turnover contributed by the interests income under our mortgage loan services amounted to approximately HK$0.2 million, HK$0.8 million, HK$3.2 million and HK$4.8 million, respectively, representing approximately 0.3%, 1.5%, 4.8% and 9.1% of our total turnover, respectively. Our Directors are of the view that the results of our mortgage loan services have been positive and we are devoted to expand our mortgage loan business.

The following table sets out the turnover contributed by the interest income on different types of mortgaged real estates for each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

	Year ended 28 February 2010	**Year ended 28 February 2011**	**Year ended 29 February 2012**	**Nine months ended 30 November 2012**
	HK$	*HK$*	*HK$*	*HK$*
Residential mortgage loans	156,956	800,749	2,662,431	4,371,947
Commercial mortgage loans	—	22,604	529,880	430,718
	156,956	823,353	3,192,311	4,802,665

The following table sets out the turnover contributed by the interest income on different types of mortgage loans for each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

	Year ended 28 February 2010	**Year ended 28 February 2011**	**Year ended 29 February 2012**	**Nine months ended 30 November 2012**
	HK$	*HK$*	*HK$*	*HK$*
First mortgage loans	156,956	823,353	2,209,390	2,982,893
Subordinated mortgage loans	—	—	982,921	1,819,772
	156,956	823,353	3,192,311	4,802,665

As at 30 November 2012, our outstanding mortgage loans amounted to approximately HK$71.4 million.

The key operating data for our mortgage loan services during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 is as follows:

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2012
New mortgage loan case[1]				
Number of loan case[2]	2	12	31	54
Aggregate loan amount	HK$3.9 million	HK$23.2 million	HK$38.3 million	HK$67.0 million
Range of loan amount	HK$1.6 million–HK$2.3 million	HK$0.5 million–HK$6.6 million	HK$0.1 million–HK$5.0 million	HK$0.1 million–HK$6.2 million
Average loan amount	HK$2.0 million	HK$1.9 million	HK$1.2 million	HK$1.2 million
Interest rate range per annum	10.0%–12.3%	7.8%–24.0%	8.0%–30.0%	9.6%–25.2%
Range of loan term	3–24 months	6–120 months	6–240 months	6–240 months
Average loan term	14 months	24 months	61 months	61 months
Average loan-to-value ratio[3]	46.6%	41.3%	34.2%	32.1%
Renewed mortgage loan case				
Number of loans renewed	2	1	3	5
Loan renewal ratio	50%	7.7%	8.8%	8.5%
Average interest rate per annum[4]	10.6%	11.1%	16.3%	14.9%
	As at 28 February 2010	**As at 28 February 2011**	**As at 29 February 2012**	**As at 30 November 2012**
Number of outstanding loans				
First mortgage loans	2	9	13	33
Subordinated mortgage loans	nil	nil	9	24
	2	9	22	57
Aggregate outstanding loan amount				
First mortgage loans	HK$2.9 million	HK$22.2 million	HK$20.7 million	HK$46.4 million
Subordinated mortgage loans	nil	nil	HK$11.9 million	HK$25.0 million
	HK$2.9 million	HK$22.2 million	HK$32.6 million	HK$71.4 million

Notes:

(1) Refer to the new mortgage loan cases granted during the year/period.

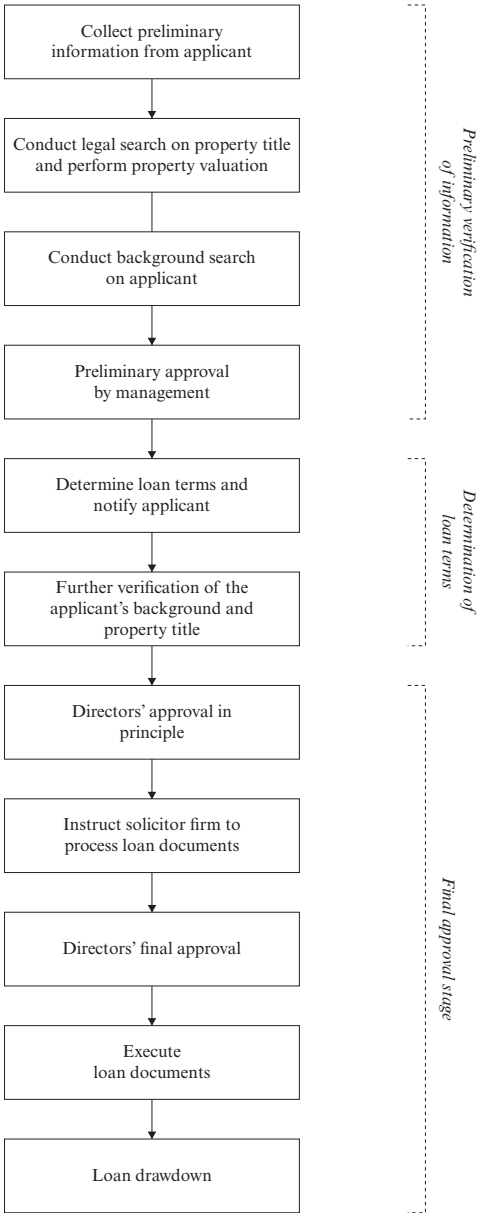
(2) All of our mortgage loans were granted under our Money Lenders Licence.

(3) Average loan-to-value ratio refers to the arithmetic average of loan-to-value ratios of the mortgage loans during the year/period.

(4) Average interest rate refers to the arithmetic average of interest rates of the mortgage loans during the year/period.

Granting of mortgage loans

We generally complete the granting of a mortgage loan to our customer from collecting preliminary information from our customer to the loan drawdown within days. The following diagram sets out the steps involved in our mortgage loan services:



i. Preliminary verification of information

After receiving the applicant's information in relation to the real estate to be mortgaged and the requested amount of the loan, we will obtain proof of identity, background and contact details from them. We will also conduct background search, credit search, and bankruptcy and insolvency searches against the applicants. For applications of subordinated mortgage loans, details on the status of repayment and outstanding loan amount under the first mortgage and copies of bank statements and bank books will also be obtained from applicants. In the event that we consider personal guarantee is required to be given for the mortgage loan, we will obtain information regarding the financial background of the guarantor and will conduct credit search and bankruptcy and insolvency searches against the guarantor. If necessary, we may consult an independent surveyor firm for preliminary valuation of the real estate to be mortgaged. Such information will then be submitted to the management of our Group for preliminary approval. We do not accept real estates that are located outside Hong Kong as pledges.

ii. Determination of loan terms

Our executive Directors will determine the offer terms of the mortgage loan, such as the amount and the interest rate of the loan and the period of repayment, on a case-by-case basis considering the applicant's background and other factors such as the following:

- tenor of the loan;
- any encumbrances on the mortgaged real estate;
- liquidity and marketability of the mortgaged real estate;
- the outstanding loan from the first mortgage loan, in the case of subordinated mortgage loan under application;
- the status of repayment of the first mortgage loan, in the case of subordinated mortgage loan under application;
- valuation of the mortgaged real estate.

We place strong emphasis on the valuation of the mortgaged real estates in determining the loan terms. We will also make reference to the prevailing market terms offered by our competitors of similar scale in Hong Kong in order to stay competitive. We charged our customers on prime rate plus a fixed margin basis for our mortgage loans since early 2011, while prior to 2011, we charged our customers at fixed rate. The customer will be required to provide further details such as address proof and bank statements to support the application. We will present the offer letter to the applicant after we are satisfied with the results of verification.

iii. Final Approval Stage

After receiving the acceptance to the offer letter from the customer in response to our letter of confirmation, our executive Directors will be responsible for performing further credit assessment of the applicant and approve the application if they think fit based on the results of our background checks and legal searches.

A more in-depth valuation report from an independent surveyor firm engaged by us in respect of the real estate to be mortgaged may be required. We have not entered into any long term engagement with any surveyor firm. We will engage surveyor firms to prepare valuation reports as and when necessary and on a case-by-case basis such as where the real estates are less popular in terms of the volume of transactions and where market information relating to their market prices and liquidity cannot be readily obtained from public sources including the Land Registry of Hong Kong. The key responsible staff of Prudential Surveyors (Hong Kong) Limited, the independent surveyor firm previously engaged by us for the preparation of valuation reports of real estate proposed to be mortgaged, are members of The Hong Kong Institute of Surveyors. Our staff may also conduct an on-site visit to the real estate to examine its condition if and when necessary. We will then appoint a solicitor firm to process the legal documents in relation to the mortgage loan and notify the customer of the loan approval after we are informed of the good titles of the real estates. The drawdown of the loan will then be subject to the signing of the mortgage loan agreement and any other related documents prepared by the solicitor firm. To ensure the repayment ability of our corporate customers and aged customers, we may also require personal guarantee from the companies' directors and ultimate shareholders, and a third party for the aged customers. We generally grant first mortgage loans with a loan-to-value ratio of no more than 75% of the market value of the real estate. In connection with the grant of our subordinated mortgage loans, the loan-to-value ratio in respect of the outstanding primary mortgage loan amount and our subordinated loan amount will generally not in aggregate exceed 75% of the market value of the real estate and will also depend on our assessment on the repayment capacity of the borrower. We grant our mortgage loans as a money lender and, as advised by Pang & Co., legal advisers to our Company as to Hong Kong law, we are not subject to any restriction on the loan-to-value ratio imposed by the HKMA for granting of mortgage loans. The 75% maximum threshold for the loan-to-value ratio in respect of our subordinated mortgage loans mentioned above is determined by our Directors after assessing the prevailing real estate market conditions and the risks involved together with the measures we have adopted to mitigate our credit risk. Our Directors will adjust the maximum threshold for the loan-to-value ratio in connection with our subordinated mortgage loans as and when necessary and as they deem appropriate.

Key features of our typical mortgage loan agreements

i. Repayment of loan

Borrowers are required to settle the outstanding loans by monthly installments by cheques in general. We will deposit the relevant cheque at the designated date of the month. If the cheque is dishonoured on the designated date, we will contact the borrower and in general, we will be able to deposit the same the next day.

ii. Early repayment

We allow early repayment or partial repayment during the repayment period for our mortgage loans. However, we may charge the customers a handling fee ranging from 1% to 12% of the loan amount and we may require the customers to bear the legal and valuation costs. We will arrange for the redemption of titles of the underlying real estates when we confirm we have received the relevant fees and the total outstanding repayment amounts. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the aggregated handling fee charged by us and the legal and valuation costs borne by our customers amounted to approximately nil, nil, HK$52,000 and HK$208,000, respectively.

iii. Late payment

For any payment of loan, interest or fees which our customers are unable to pay as they fall due, we reserve our rights to demand immediate repayment of the loan with the interest and to enforce our rights as the mortgagee to sell the underlying real estate. It is considered that the customer has defaulted in repayment of the loan if the customer failed to pay the monthly mortgage installments for three days after the due date after our staff has exhausted different means to follow up with the late payment. The customers are generally required to pay a sum of up to HK$1,000 as administrative fee. We have not experienced any default cases for the mortgage loans advanced to our customers during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and up to the Latest Practicable Date. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the administrative fee for late payment charged by us amounted to nil, nil, HK$500 and HK$260, respectively.

iv. Top-up mortgage

Our loan agreements do not restrict our customers to top-up their mortgage with us. A new set of loan documentations will be entered into among the customers and us which may or may not be with the same terms of the original loan documentations.

v. Administrative, legal and valuation fees

Our customers shall bear the legal and valuation fees under the circumstances where (i) the loan amount is less than HK$500,000; or (ii) the term of the loan is less than six months. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the legal and valuation fees above borne by our customers amounted to approximately nil, nil, HK$18,000 and HK$15,000, respectively. We may also charge our customers administrative fees for such loans that are not drawn within 45 days after the loan agreements are executed and such administrative fees usually equivalent to the monthly interest of the loans offered. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the administrative fees for loans that were not drawn within 45 days charged by us amounted to approximately nil, nil, HK$25,000 and HK$28,000, respectively.

As advised by our Legal Counsel, save for the legal and valuation fees under (v) above, all other fees mentioned above do not fall within the definition of "interest" under the Money Lenders Ordinance. Hence, these fees will not be included in the calculation of the prescribed effective interest rate of 60%. Our Directors confirm that the effective interest rates charged by us for all of our mortgage loans granted did not exceed the statutory maximum of 60% under the Money Lenders Ordinance.

vi. Other principal terms

We set forth below a summary of the other principal terms of our mortgage loan since we started this service in 2009 up to the end of the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

Loan type	No. of new loan case	Commercial use	Residential use	Loan amount range	Average loan amount	Interest rate range per annum	Average loan term	Average loan-to-value ratio	Range of loan-to-value ratio
First mortgage loan	64	14	50	HK$0.1 million–HK$6.6 million	HK$1.5 million	7.8%–24.0%	66 months	43.3%	6.1%–71.4%
Subordinated mortgage loan	35	3	32	HK$0.1 million–HK$4.0 million	HK$1.1 million	13.3%–30.0%	35 months	17.4%	2.4%–64.5%
	99	17	82						

Loan collection process

We have not engaged any collection agents for the purpose of collecting overdue mortgage loans from customers in the past. In the event of default in repayment of mortgage loans, we will firstly provide verbal reminders by telephone to the relevant customer. If the overdue amount remains unsettled after verbal reminders, we will issue written reminders and notices to the relevant customer. Where the amount is overdue and we are unable to contact the relevant customer or the amount remains overdue after a lapse of 7 days after notification by us, we will consider taking legal action against the relevant

customer for the overdue loan and enforcing and recovering possession of the mortgaged real estates by obtaining court orders. If judgment is granted in favour of our Group, in relation to any first mortgage loans, we shall be entitled to sell the mortgaged real estate by way of public auction or private contract; and in relation to any subordinated mortgage loans, we shall register the court order against the real estate and the owner shall be obliged to repay the overdue loan from the proceeds in the future sale of the real estate. As and when necessary and on a case by case basis, we may consider engaging loan collection agents after seeking legal advice from our legal advisers in the future.

Possible impact of recent government measures to curb speculation in the real estates market on our mortgage business

The Hong Kong Government has recently introduced measures to curb speculation in the real estates market, and the HKMA has also imposed tightening measures on the provision of mortgage loans by authorised institutions. Details of such measures are disclosed in the section headed "Industry overview — Recent government measures to curb speculation in the real estates market" in this document. The introduction of the above-mentioned measures by the government may lower the liquidity of the real estate market, in particular, the introduction of special stamp duty and buyer stamp duty may deter the potential property buyers to acquire residential properties due to the increased transaction cost. As a result, the overall demand for mortgage loans for the purchase of real estates may decrease and our mortgaged residential properties may not be readily sold in the market when we exercise our enforcement rights in the mortgaged properties in the event of any loan default. Any delay in the timetable for sale of mortgaged properties upon the enforcement of our security rights to recover the outstanding loan amount and interest accrued may adversely affect our liquidity.

Notwithstanding the above, our Directors are of the view that all these measures will ultimately bring positive impact to our mortgage loan business as both the special stamp duty and the buyer stamp duty may lower the liquidity of the real estates market and real estates owners who wish to sell their real estates for their financing needs may face difficulties, in that the lowered liquidity of the real estate market may lead to a decline in the prices of real estates, and those owners who wish to sell their real estates may as a result not be able to sell their real estates on terms acceptable to them and may turn to us for alternative financing.

On the other hand, borrowers wishing to obtain financing from authorised institutions such as banks will find difficulties as they will need to meet additional requirements. As such, these borrowers who have difficulties selling their real estates by reason of the lowered liquidity of the real estate market or who do not meet the additional requirements imposed by banks will need to seek alternatives for obtaining financing.

As advised by Pang & Co, legal advisers to our Company as to Hong Kong law, unlike authorised institutions, our Group as licensed money lender is not subject to the regulations and restrictions imposed by the HKMA. In particular, we have the flexibility to adjust the loan-to-value ratio for the mortgage loans granted by us. We believe such flexibility will attract borrowers who find difficulties in obtaining financing from authorised institutions.

Furthermore, our Directors consider that although the recent quantitative easing measures launched by overseas governments will increase the liquidity in the global banking system and prolong the low interest rates environment in Hong Kong that may intensify our competition with banks in short-term secured financing services as they may offer lower interest rates to borrowers, our target customers are mainly those who could not meet the relatively more stringent requirements imposed by banks. With our increased marketing campaigns, we aim to capture this group of customers for our mortgage loan services and at the same time promote our "Oi Wah" brand name.

INTERNAL CONTROL

We adhere to strict internal control system in respect of our pawn loan services and mortgage loan services.

Our executive Directors, Mr. Edward Chan and Ms. Chan Mei Fong, are responsible for the formulation and overseeing the implementation of our internal control measures. Since they joined our Group, they have been accumulating experience in the formulation and implementation of our internal control measures. We have also engaged an internal control adviser to perform agreed-upon-procedures in relation to our internal control measures and provide recommendations on improving our internal control measures.

In relation to our pawn loan business, we have adopted internal control procedures such as identification and evaluation of creditworthiness of the borrower and most importantly providing an accurate close to second-hand market valuation of personal property. As a matter of risk management, depending on the types of collaterals, we grant pawn loans with a loan-to-value ratio of a discount to the prevailing market price, and which value is with reference to the prevailing second-hand market price of the collaterals. We have also designated two full-time general staff, both of them have prior experience in accounting and joined our Group since February 2012 and April 2012 respectively, to be responsible for monitoring the implementation of internal control procedure by our staff at our Pawnshops. They will visit our Pawnshops on a daily basis and cross check the figures submitted by the Pawnshops to the head office and the actual tickets, loan agreements and number of collaterals and to check that the internal control measures are being followed by our staff.

In relation to our mortgage loan business, we have also adopted internal control procedures for the identification and evaluation of creditworthiness of the borrower and the legal ownership and accurate valuation of real estate. As a matter of risk management, we generally grant first mortgage loans with a loan-to-value ratio of no more than 75% of the market value of the real estate. In connection with the grant of our subordinated mortgage loans, the loan-to-value ratio in respect of the primary mortgage loan amount and our subordinated loan amount will not in aggregate exceed 75% of the market value of the real estate and will also depend in the repayment capacity of the borrower.

We will engage legal advisers upon [•] to provide us with updates on the changes in the applicable laws and regulations from time to time to see if any change is required to be made with our operation and internal control procedures. Upon [•], we will also engage internal control advisers to review our internal control systems on a regular basis and a [•] to advise us on matters relating to the [•].

Pawn loan services

We have detailed internal manuals governing the procedure for granting of pawn loans as well as the valuation of the collaterals. Our staff is required to adhere strictly to our internal manual. Our executive Directors will conduct routine visits to our Pawnshops to monitor the operation. Below sets out some of our significant internal control measures in connection with our pawn loan services.

Valuation

To ensure the accuracy of the valuation, collaterals are valued by our Pawnshop managers at our Pawnshops according to our internal guideline on valuation. Our Pawnshop managers will conduct tests to check for the genuineness of the collaterals. If they are in doubt, they will seek instruction and confirmation from our executive Directors. If the loan amount for any kind of collaterals to be offered to the customer exceeds HK$60,000, our Pawnshop managers must obtain approval from our executive Directors for granting such loan and prepare detailed valuation reports. In particular, where diamonds are presented as collaterals for loan amount over HK$60,000, our Pawnshop managers must obtain approval from Ms. Chan Mei Fong, one of our executive Directors who is a fellow of The Gemmological Association of Great Britain. Detailed valuation record will also be required for any loan amount offered to our customers exceeding HK$10,000 when diamonds are presented as collaterals. Although there is no daily limit on the total amount of pawn loan that can be granted by each of our Pawnshops, in the event that the aggregate loan amount granted by one of our Pawnshops exceeds HK$250,000 in one day, our staff of the relevant Pawnshop is required to report to our executive Directors details of all the collaterals including the valuation records. These measures including the obtaining of approval from our executive Directors for certain amount of loans, particularly the obtaining of approval from Ms. Chan Mei Fong relating to accepting diamonds as collaterals for loan amounts over HK$60,000, are included in our internal guidelines and are circulated to all our staff at our Pawnshops. All the staff at our Pawnshops are required to sign the internal manuals after perusal to confirm that they understand and will abide with the internal manuals.

Training courses have been and will be provided to selected staff in connection with valuation of collaterals. Our head office will also regularly circulate updated price lists of the common types of collaterals, including gold, diamonds, watches and some consumer electronic products, to the staff of our Pawnshops. The valuation amounts of the collaterals are not to be higher than the amounts stated in the relevant price lists. Our two staff members responsible for internal control will visit our Pawnshops on a daily basis to perform sample check of pawn loan transactions so as to ensure our staff has followed the internal guidelines and price lists provided. Our Directors confirm that we had not

encountered any material loss on disposal of collaterals during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

For the basis of the loan amount we offer to our customers, please refer to the section headed "Business — Our principal business activities — Pawn loan services — Inspection and valuation of collaterals" in this document.

Customers

We maintain lists of blacklisted customers in our database which is compiled based on the information provided by industry players and internal sources. Blacklisted customers include those with history of pawning counterfeited or unlawful goods. When we enter details of the customer into our system, an automated check is performed by our system to ensure that the customer is not blacklisted. We will also provide details of each transaction including the identities of the customers and the collaterals to the police as required.

Tickets and loan agreements

It is our policy to have two staff members at each of our Pawnshops to check the accuracy of the information in the ticket or loan agreement to ensure such information is consistent with the details recorded in our database. The Pawnshop manager will also double check the details. Our duplicate copy of the ticket or loan agreement will be kept together with the collateral. It is also our policy for our staff to ensure that the terms of the pawn loan, and applicable rules and regulations in Hong Kong are properly explained to each customer.

We will issue a replaced pawn loan ticket or agreement if the customer has lost the original ticket or loan agreement and the collateral remains unredeemed or unsold. In the event that the ticket or loan agreement is lost and the customer does not want a replacement, such customer will have to report the loss of ticket or loan agreement to us and we will take note of such information in our database. When the customer redeems the collateral, it is our policy to have two staff members at each of our Pawnshops to make sure the ticket or loan agreement presented by the customer is identical to the duplicate copy kept by us, and the customer's identification document matches with our records before returning the collateral.

Cash

Depending on the transaction volume of the Pawnshop, our Pawnshops are required to keep a cash amount not exceeding a range of HK$400,000 to HK$800,000. Excessive cash is required to be deposited into the bank account of the relevant Pawnshop once the threshold is passed. Cash maintained in our Pawnshops are not allowed to be carried outside the relevant Pawnshop except for depositing into bank.

It is our policy to have two staff members at each of our Pawnshops to check the amount of pawn loan before handling the cash to the customers. Our staff at our Pawnshops will also compile a daily cash position report for each of our Pawnshop before

the end of business each day indicating the use of cash and the remaining cash available for that particular day for that particular Pawnshop. The physical counting of the cash at each of our Pawnshops is conducted daily before business closes by one of our staff and counter-checked by the Pawnshop manager. Upon confirmation of the amount of physical cash against the records, the physical cash is kept in the safe of the Pawnshop. The daily cash position report of each of our Pawnshops is submitted to our head office on a daily basis for record. Our two staff responsible for internal control will visit our Pawnshops on a daily basis to check the figures submitted to the head office and the amount of cash kept in the relevant Pawnshop.

Our Directors confirm that we had not encountered any material loss of cash during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

Collaterals

Each collateral is required to be placed and sealed in a one-off plastic bag together with the relevant ticket or loan agreement, and we require the customers to sign at the seal of the plastic bag. Collaterals collected on a particular day are counted by one of our staff and counter-checked by the Pawnshop manager at the Pawnshop before close of business on that day. If the number and details of collaterals and the relevant tickets or loan agreements matches with each other, the collaterals together with the tickets or loan agreements will be stored in the safe of the Pawnshop in sequence of the date and number of the ticket or loan agreement. Staff at the Pawnshop is required to submit a list of collaterals to the head office on a daily basis for record. Our two staff responsible for internal control will visit our Pawnshops on a daily basis to check the list of collaterals and the actual number of collaterals kept in the relevant Pawnshop. In the event that our staff is required to carry collaterals out of the Pawnshop such as carrying the collaterals to another Pawnshop for the disposal of the same to second-hand product dealers, the staff must obtain approval from the manager of the relevant Pawnshop and record the same in writing.

For disposal of collaterals, our staff at each of the Pawnshops will generate a list of collaterals for further sorting. Based on the types and weights (where applicable) of the collaterals, a list of assets for sales for each type of collaterals of each Pawnshop is further compiled. For the disposal of gold, our executive Directors will check the weight of the gold sold as specified on the sales receipt against the original gold weight list to ensure that all the gold is sold and is not misappropriated. For other types of collaterals, we will gather all the relevant collaterals from our Pawnshops and contact different second-hand product dealers for disposal. The total amount of sale proceeds to be collected for each Pawnshop is calculated and recorded in the respective list of assets for sales.

To further prevent misappropriation of collaterals, it is our policy to have different staff responsible for managing collaterals and managing cash at each of our Pawnshops during the daily operation and the daily physical counting of cash and collaterals before business closes conducted by the responsible staff will be supervised and counter-checked by our Pawnshop managers.

Our Directors confirm that we had not encountered any material loss of collaterals during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

Unlawful goods

We will question the source of the collaterals when they are presented by our customers. In addition, the police will send to our Pawnshops a copy of the Police Notice everyday (except public holidays), which entails the latest information of unlawful goods. We will enter the latest information of unlawful goods into our database immediately upon receipt of the Police Notice. Information of unlawful goods provided includes but not limited to type, details and serial numbers of the unlawful goods. When we enter the details of the collaterals into our computer systems during the loan approval process, an automated check is also performed by our system to ensure that the collateral presented is not on the list of unlawful goods.

We update our database of unlawful goods based on the latest Police Notice provided. However, the Police Notice provided may not be exhaustive, and there are still chances that a customer may bring an unlawful item to us that is not included in the latest Police Notice delivered to our Pawnshops. In the event that the police suspected any of our collaterals were unlawful goods, they will seize such collaterals for their investigation. If the police could not establish a case after investigation, the seized collaterals will be returned to us. On the contrary, if a case could be established and the legal owner of the collaterals could be identified, we would negotiate with the legal owner of the collaterals for a mutually agreed settlement. In the event that settlement could not be reached, the case would be brought to the court and the court would then determine the amount of compensation to be payable to us for all or any part of the pawn loan we had provided. We have maintained insurance to cover 80% of the loss suffered by us arising thereof. The maximum amount of claim covered by our insurance for each of our Pawnshops is HK$200,000 in aggregate during the term of the relevant insurance policy.

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had encountered 80, 82, 75 and 82 incidents where collaterals pawned to us were seized by the police for investigations and the aggregated loan amounts involved were approximately HK$0.3 million, HK$0.3 million, HK$1.7 million and HK$0.3 million, respectively. For the same period, the amount of losses arising from the seizure of our pawned collaterals by the police net of insurance compensation amounted to approximately HK$21,000, HK$18,000, HK$44,000 and HK$50,000, respectively. As at the Latest Practicable Date, we still have pawned collaterals being seized by the police pending their investigation, involving 62 pawn loan transactions with an aggregated loan amount of approximately HK$0.6 million.

Our Directors consider that incomplete or delayed Police Notice was the only reason leading to our wrongful receipt of unlawful goods during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 as all the unlawful goods accepted were either not included in the then Police Notice or were included in a Police Notice delivered to us after the date of pawning

of the relevant unlawful goods. Regardless whether the unlawful goods were included in the Police Notice, the police has the authority pursuant to the Pawnbrokers Ordinance to seize the goods from us if there are grounds to believe that the goods were pawned without the authority of their owners. Our Directors consider that the number of incidents that our collaterals were seized by the police for their investigation and the corresponding losses net of insurance compensation during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 are immaterial given the number of pawn loans granted by us and the total turnover recorded by us during the same period. Therefore, our Directors are of the view that the insurance coverage on loss arising from seizure of unlawful goods is adequate. Our Directors are not aware of any industry practice of such insurance coverage and believe that the insurance coverage for any pawnshops shall be determined by their operators or owners with reference to their own assessment on the risks exposure of the respective pawnshops.

Security

Security is important to our pawn loan operations. Each of our Pawnshops is equipped with 24-hour surveillance cameras and infra-red motion detectors installed on the walls of our Pawnshops. We have alarm systems which are directly linked to an independent security control centre which provides regular maintenance to our security systems. Our Pawnshops are double locked by two doors. Our safes in our Pawnshops cannot be opened during non-business hours as they are time-locked and can only be opened with two different sets of passwords which are assigned to different staff at each Pawnshop, and entered simultaneously. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, there were no circumstances where our Pawnshops had been broken into or being robbed.

The counting and storage of cash and collaterals by the close of business each day at each of our Pawnshops is conducted by the manager of the Pawnshop in front of all staff. The safe will be closed in front of all staff at the Pawnshop after the counting and storage of cash and collaterals and no staff is allowed to return to the Pawnshops during non-business hours.

Staff

We select our staff at our Pawnshops with care. As at the Latest Practicable Date, we had in aggregate 40 staff working at our 12 Pawnshops. Over 70% of our staff at our Pawnshops had joined our Group for more than 5 years. In order to ensure our staff has the requisite knowledge and experience in connection with the pawn loan industry, we engage our staff by way of referral by other industry players. We provide training to staff who has less experience.

Server and computers

Each of our Pawnshops is equipped with at least two sets of computers set up with a tailor-made system for our pawn loan business. We have engaged an independent server provider for the provision and maintenance of our server. If the server or the computer breaks down, our staff will record the details of the customers and pawn loans manually

until the server or the computer has been repaired. Our system performs full back-up on pawn loan data every night. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we did not encounter any disruption of business due to server system failure.

Mortgage loan services

Details of our mortgage loan agreements are recorded in our computerised mortgage loan management system which keeps track of the repayment schedules of each loan granted. Our Group has in place a credit check procedures to verify the identity and the credit worthiness of every customer and to avoid money laundering. Such procedures and other policies of our mortgage loan business, such as the requirement of our executive Directors' approval before granting of the loans, are included in the staff manuals and guidelines which are circulated to all relevant staff members. In our credit assessment procedure, we will conduct legal search on the real estate and bankruptcy and insolvency searches of the customers.

Our Group is also aware that it is the prevailing market practice in respect of the subordinated mortgage loans that the first mortgagees will generally not provide consent in respect of second mortgage loans, and even if given, the first mortgagees generally will not provide undertakings which could fully eliminate the risks which a subordinated mortgagee may subject to, such as increasing the first mortgage loan amount and compromising the security as of the second mortgagee, or the first mortgagee demanding the borrower to make early repayment on the loan and causing the borrower to sell the mortgaged real estate in advance of the second mortgagee's repayment schedule.

In light of the aforesaid market practices, our Group has strengthened our aforesaid credit assessment procedure, in particular in processing subordinated mortgage loan application. Our Directors are of the view that the higher interest rates charged on our subordinated mortgage loans in comparison to those charged on our first mortgage loans has reflected the risks borne by our Group. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our Group has not written off any of our first and subordinated mortgage loans.

Adequacy and effectiveness of our internal control systems

To assist our assessment of the adequacy and effectiveness of our internal control systems, we had engaged an internal control adviser to perform agreed-upon-procedures in relation to our internal control systems. Upon completion of the agreed-upon-procedures, the internal control adviser has provided us with a number of recommendations on the internal control improvement opportunities identified.

We have taken action in response to the internal control adviser's recommendations. The internal control adviser has also performed follow-up procedures including enquiry of relevant Company's management regarding the implementation status in relation to those recommendations.

To address the internal control improvement opportunities identified, we have implemented measures to improve the internal controls, and intend to continue to monitor, test and enhance our internal control systems. We also plan to continue to invest resources to improve the effectiveness of our internal controls and procedures going forward and to closely monitor areas where internal control improvement opportunities were identified. We will also set up an internal audit department by first quarter of 2013. Our Directors are of the view that our internal control systems have been properly implemented and the internal control measures taken or to be taken are adequate and effective. Based on its due diligence work performed, including the review of our internal control procedures and the result of the agreed-upon-procedures performed by the internal control adviser, the [•] is of the view that, save for the issuing of tickets to customers for pawn loans exceeding HK$100,000 granted pursuant to our Money Lenders Licence as further elaborated in the section headed "Business — Regulatory compliance" in this document which our Group has already adopted measures to circumvent any possible non-compliance instances in the future, it is not aware of any material deficiencies in our internal control systems and concurs with the view of our Directors that our internal control measures taken or to be taken are adequate and effective.

We intend to set up an internal audit department as a separate independent function as soon as possible in the first quarter of 2013 which shall be led by the department head with internal control experience to review and assess the effectiveness and adequacy of our internal control measures. The audit committee of our Company shall be responsible to oversee the internal control procedures, and to make recommendations to the Board on the appointment of the person responsible to head such internal audit department. The internal audit department shall be responsible for the monitoring and overseeing the daily operation of internal control matters and to review the effectiveness of the internal control policies and procedures adopted by our Group from time to time. The internal audit department will seek legal opinions as and when necessary and will report to the audit committee of our Company on a regular basis to ensure that our Group's operations are in compliance with the applicable laws, rules and regulations. The internal audit department shall also be responsible for the implementation of remedial plans recommended by the audit committee of our Company.

RISK MANAGEMENT

In the course of conducting our pawn loan and mortgage loan businesses, we are exposed to various types of risks, including credit risks, operational risks, market risks, liquidity risks and regulatory risks, which are further elaborated below.

Save for establishing and implementing internal control procedures as mentioned above, our executive Directors are responsible for overseeing and reviewing the implementation of our Group's internal control and risk management measures.

Credit risk management

Our pawn loan and mortgage loan businesses are subject to credit risk, which is the risk of loss arising from the borrower who defaults in making repayment. To mitigate such credit risk, our pawn loans and mortgage loans granted to our customers are all secured by

collaterals with valuation higher than the loans granted and we have developed and adopted a set of pawn loan and mortgage loan approval procedures, which are reviewed from time to time to ensure its effectiveness.

We do not regularly review the loan performance of our pawn loans granted due to the nature of pawn loans that the loan-to-value ratios for such loans granted cannot be adjusted subsequently and our Directors confirm that as far as they are aware, it is the industry practice not to regularly review the pawn loan performance. However, we will manage the credit risk by closely monitoring the fluctuation in resale value of the collaterals and adjusting (where necessary) the loan-to-value ratios of those new pawn loans to be offered to the customers by us.

Our senior management will review on a weekly basis the price trend of each type of collaterals with reference to the market data such as the gold price quoted from The Chinese Gold & Silver Exchange Society (金銀業貿易場), the pricelist for different grading of diamonds set out in the Rapaport Diamond Report, the updated pricelists of second-hand consumer electronic products obtained from second-hand product dealers and the retail list prices and parallel import wholesale prices for watches. Our senior management will also review the monthly transaction records of our disposal of collaterals to second-hand product dealers in cases of default in repayment of our pawn loans to monitor the actual resale value of the collaterals. Based on the updated information on the resale value of collaterals, our senior management may consider adjusting the loan-to-value ratios of those new pawn loans to be offered to the customers so as to reflect the fluctuation in the price trend of collaterals and to ensure our competitiveness and to manage our credit risk exposure. While we have maintained flexibility by not fixing a certain threshold for triggering the adjustment to the loan-to-value ratios which our Directors confirm to be an industry practice, our senior management will closely monitor the market trend and will consider adjusting the relevant loan-to-value ratios as and when necessary. In the event that the loan-to-value ratio for a particular type of collateral is to be adjusted pursuant to the decision made by our senior management, notices in connection thereto will be distributed to our Pawnshops as soon as practicable and our internal manual and guidelines will also be updated at the same time.

In addition, in relation to our mortgage loans, we will monitor the manner of repayment by our customers. In the event of any default of repayment in accordance with the repayment schedule, we will initiate our loan collection procedures. For details of our loan collection process relating to mortgage loans, please refer to the section headed "Business — Our principal business activities — Loan collection process" in this document. We will conduct valuation of the real estates mortgaged with us and review the respective loan-to-value ratios for every six months so as to monitor the overall credit risk associated with our mortgage loans, and our senior management may consider adjusting the loan-to-value ratios of those new mortgage loans to be offered to the customers and the interest rate for mortgage loan if and when appropriate in order to keep the offer terms of our mortgage loan competitive as well as to minimize the risk exposure of our Group. Our executive Director, Mr. Edward Chan, will generally be responsible for the determination of the offer

terms of the mortgage loan. We will also conduct valuation of the mortgaged real estates in the event that borrowers wish to top up the amount of mortgage loans or renew the term of the mortgage loans.

Operational risk management

Our Pawnshop managers are responsible for the maintaining of the operation and assessing the operational risks of their respective Pawnshops. They are also responsible for implementing our risk management policies and procedures. Our executive Directors visit our Pawnshops from time to time and our Pawnshop managers will report any irregularities in connection with the operation of the Pawnshops. In the event that there are any uncertainties, such as the genuineness of the collaterals and cash related matters, our Pawnshop managers will immediately inform our executive Directors and seek for directions. As to our mortgage loan business, we have implemented standardised procedures for granting of mortgage loans. These procedures together with the loan files are reviewed regularly by our executive Directors to ensure proper processing and documentation.

Further, to reduce the operational risk caused by failures of information technology systems, we maintain separate backup server for our systems for our pawn loan and mortgage loan businesses.

Market risk management

We are exposed to general market risks related to changes in macro economic environment and movements in market variables such as GDP, interest rates and property prices in Hong Kong, and other market changes. Our Board is responsible for monitoring activities in the market to identify and assess the potential risks and from time to time formulate policies to mitigate these market risks.

Liquidity risk management

Unlike banks and other financial institutions which may be subject to strict requirements under various banking regulations, we are not required to comply with any specific rules and regulations or operating requirements related to liquidity, such as liquidity ratios or any inter-bank lending and borrowing ratios. Notwithstanding, our objective in liquidity management is to be able to meet all our payment obligations and fund our lending opportunities on a timely basis. Our executive Directors are responsible for the day-to-day monitoring and management of our liquidity. Our management will monitor our Group's cash inflow and outflow regularly to ensure the accuracy of cash collection and deployment and that there is no shortfall in cash which may interrupt our Group's business and sufficient cash buffer of at least two month's requirement to meet the liquidity needs for our business operations. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our Group had not experienced any shortfall in cash for meeting our liquidity needs.

Regulatory risks regarding our Group's compliance with the Money Lenders Ordinance

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, there were incidents where we issued tickets to customers for pawn loans exceeding HK$100,000 granted under our Money Lenders Licence whereby our tickets were not in full compliance with the requirements of the Money Lenders Ordinance. Upon observation of such non-compliance, we had implemented various measures to rectify the same and improved our internal procedures to ensure that we are in full compliance with the Money Lenders Ordinance. For details of these incidents, please refer to the section headed "Business — Regulatory compliance" in this document.

Regulatory risks regarding anti-money laundering

Cash is regularly handled by us in the course of conducting our short-term financing businesses. We are therefore subject to the risk of involving in anti-money laundering activities.

There are certain legislations in Hong Kong which concern money laundering and stipulate that it is an offence to carry on a transaction or a series of transactions effected with the aim to conceal or change the identity of criminal proceeds or disguise the origin of funds. Certain guidelines in respect of anti-money laundering have also been issued by different governmental or authoritative bodies such as HKMA.

Although our Group, being a legal entity carrying on business in Hong Kong, is subject to the legislation prohibiting the money laundering activities, Pang & Co., legal advisers to our Company as to Hong Kong law, have advised us that the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by HKMA and the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by [•] respectively (together, the "**Guidelines**") for the prevention of money laundering activities (i.e. anti-money laundering measures) are not applicable to our Group since our Group is neither an authorised institution regulated by HKMA nor a licensed corporation under the SFO. Nevertheless, we carry out and implement procedures and measures such as the identification of customers and maintaining of records of customers pursuant to the requirements of the Pawnbrokers Ordinance since the enactment of the Pawnbrokers Ordinance in 1984. In particular, for our pawn loan services, we are required to deliver the list of customers and details of collaterals of the day to the police on a daily basis.

Set out below are our latest measures for prevention of money laundering activities which were formulated by our executive Directors, Mr. Edward Chan and Ms. Chan Mei Fong, based on the procedures and measures recommended by the Guidelines (in particular paragraphs 4.2, 8.3 and 9.2 of the Guidelines):

Verification of identity

In respect of our anti-money laundering effort for our business operation, we had adopted the "know your customer" principle as provided by the Guidelines where we carry out a customer profile verification process whereby customers are required to produce identification documents and contact details.

Record keeping

We maintain customer files in our system recording all essential information of our existing and past customers, including identity, loan amount and contact details.

Staff training

We also provide training to our staff on anti-money laundering. Our guidelines on anti-money laundering are provided to our staff to ensure that they are sensitive to the possibility of money laundering and their own personal legal obligations in relation thereto. We will seek legal advice from time to time and inform our staff as to any updates of related laws and regulations on anti-money laundering as well as any changes in our policies and practices relating to anti-money laundering.

Reporting of suspicious transactions

We also have monitoring procedures for the identification of suspicious transactions in place. In the event that any suspicious transaction is observed by our staff, they will report to our management. Subject to our management's assessment, the suspicious transactions as well as any funds or property known or suspected to be proceeds to crime or terrorist property may be reported to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs and Excise Department to monitor and investigate suspected money laundering. Our procedures of identifying suspicious activities include (i) recognition of indicators of suspicious financial activity; (ii) questioning of the customer; (iii) review on information already known about the customer to decide if suspicious activity is to be expected from the customer; and (iv) make reasonable subjective decision on whether the customer's financial activity is genuinely suspicious or not. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our Group did not identify any suspicious case that needs to be reported.

Our Directors confirm that we had not been or is not currently subject to any investigation of money-laundering activities since the commencement of our operations.

Having considered our measures to prevent money laundering activities are proved to be effective on the basis that our Group has not been subject to any investigation of money-laundering activities since the commencement of our operations, our Directors are of the view that our anti-money laundering measures in force are and should be effective and adequate.

The [•], after considering the above and reviewing our anti-money laundering measures for the prevention of money laundering activities, the result of the agreed-upon-procedures in relation to our internal control performed by the internal control adviser engaged by us and the intention of our Company to engage an internal control adviser upon the [•] providing advice on our internal control measures, concurs with the view of our Directors that our anti-money laundering measures in force are and should be adequate for our pawn loan and mortgage loan businesses.

PRICING AND INTEREST CHARGES

Pawn loan services

We usually charge a fixed interest rate of 3.5% per lunar month, being the maximum allowable interest rate under the Pawnbrokers Regulations, for a term of four lunar months for pawn loans granted under our Pawnbrokers Licence. We normally offer a term of one to four lunar months and a mutually agreed monthly interest rate of not more than 3.5% per lunar month to our customers of pawn loans granted under our Money Lenders Licence. We do not charge administration fees from our pawn loan customers.

Mortgage loan services

Depending on the terms of the mortgage loan as agreed with the borrower, we charge an interest rate ranging from approximately 7.8% to 24.0% per annum for first mortgage loan and approximately 13.3% to 30.0% per annum for subordinated mortgage loan from our customers.

The interest rate we offered to customers is determined with reference to the market rate and the creditworthiness of the customers, and shall not exceed the prescribed monthly interest rate of 3.5% per lunar month as provided under the Pawnbrokers Regulations for pawn loans granted pursuant to our Pawnbrokers Licences and the maximum effective interest rate of 60% per annum as provided by the Money Lenders Ordinance for pawn loans and mortgage loans granted pursuant to our Money Lenders Licence.

Our Directors confirm that as at the Latest Practicable Date, they are not aware of any impending changes in the relevant laws, rules and regulations that would affect our Group, in particular, the possible lowering of legally permitted maximum interest rates mentioned above.

CUSTOMERS

Pawn loan services

Customers of our pawn loan services consist of walk-in individuals such as local households, foreign domestic helpers, travellers from the PRC and SME businessmen. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had approximately 45,000, 43,000, 41,000 and 39,000 customers, respectively, of our pawn loan services being individuals of which approximately 27,000, 27,000, 26,000 and 24,000, respectively, were repeated customers.

Differ from customers of second-hand product dealers on the streets who sell their personal properties directly for a certain amount of money, our customers are individuals in need of short-term financing without the intention to sell their personal properties. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, over 88% of our pawn loans granted had their collaterals redeemed by our customers within the term of the relevant pawn loans.

We also have second-hand product dealers as our customers for the disposal of collaterals which mainly include gold and jewellery, diamonds, watches and consumer electronic products. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we have 17, 20, 20 and 32 second-hand product dealers purchasing collaterals from us, respectively. As at the Latest Practicable Date, all of these second-hand product dealers are Independent Third Parties and we had not entered into any long term supply agreements with these second-hand product dealers.

Mortgage loan services

Our customers in connection with our mortgage loan services include mostly individual borrowers who are referred by third parties or are walk-in customers and range from owners of small and medium enterprises, business executives to civil servants. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had an aggregate of 80 customers in connection with our mortgage loan services, 36 of whom were repeated customers. During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, save for eight mortgage loan cases where we had paid referral fees amounted to approximately HK$42,000 in aggregate to third party referees, including five consultancy firms, the staff of a property agency and the staff of two consultancy firms, we had not paid any referral fee to other third party referees. Our turnover contributed by the interest income on those eight mortgage loan cases during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 amounted to approximately nil, nil, 10.0% and 6.8% of our total turnover contributed by the interest income on our mortgage loan services, respectively.

For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our five largest customers who are second-hand product dealers or customers of our pawn loan or mortgage loan business, all being Independent Third Parties, accounted for approximately 8.3%, 13.0%, 14.8% and 12.1%, respectively, of our total turnover, while the largest customer, who are second-hand product dealers accounted for approximately 4.1%, 7.1%, 7.8% and 6.5%, respectively, of our total turnover for the same period.

The following table sets forth our total turnover contributed by the interest income on our pawn loan and mortgage loan services by types of customers for each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

	Year ended 28 February 2010		Year ended 28 February 2011		Year ended 29 February 2012		Nine months ended 30 November 2012	
	HK$('000)	*%*	*HK$('000)*	*%*	*HK$('000)*	*%*	*HK$('000)*	*%*
Pawn loans *(Note 1)*								
• Hong Kong identity card holders (excluding foreign domestic helpers)	27,358	67.8	29,936	66.1	34,878	66.7	28,653	66.9
• Foreign domestic helpers	12,533	31.0	14,514	32.1	16,253	31.0	12,721	29.7
• Others *(Note 2)*	465	1.2	821	1.8	1,220	2.3	1,479	3.4
	40,356	100.0	45,271	100.0	52,351	100.0	42,853	100.0
Mortgage loans								
• Individuals	157	100.0	823	100.0	2,914	91.3	4,418	92.0
• Corporates	—	—	—	—	278	8.7	385	8.0
	157	100.0	823	100.0	3,192	100.0	4,803	100.0
	40,513		46,094		55,543		47,656	

Notes:

1. All of our pawn loan customers are individuals.

2. Others include non-Hong Kong identity card holders such as PRC citizens and foreigners.

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our customer mix remained stable. All of our pawn loan customers during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 were individuals and comprised of mainly Hong Kong identity card holders (excluding foreign domestic helpers). For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our turnover contributed by the interest income on our pawn loans granted to Hong Kong identity card holders (excluding foreign domestic helpers) accounted for approximately 67.8%, 66.1%, 66.7% and 66.9%, respectively, of our turnover contributed by the interest income on our pawn loan. Our mortgage loan customers during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 mainly comprised of individuals.

None of our Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of our Company (immediately following completion of the [•]) had any interest in any of the five largest customers of our Group during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

SOURCE OF FUNDS

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had been financing our operations mainly through a combination of our internal generated funds, funds from our Shareholders, bank loans and overdrafts. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had entered into 11, 11, 13 and 14 facility agreements with local banks in Hong Kong, respectively, for the facility in the aggregate amount of HK$7.5 million, HK$7.5 million, HK$13.0 million and HK$46.9 million, respectively, as contingent capital for our pawn loan and mortgage loan services. As at the Latest Practicable Date, our unutilised banking facilities available for drawdown amounted to approximately HK$21.7 million. As at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, loans from our Shareholders amounted to approximately HK$40.5 million, HK$43.7 million, HK$42.0 million and HK$45.0 million, respectively. All of the Shareholders' loans had been fully capitalised as at the Latest Practicable Date. Our source of funds for our operations after the [•] will be a combination of internal generated funds, banks loans and overdrafts and [•] from the [•].

Each of our Pawnshops has individual bank account. Save for our Pawnshop located in Tsuen Wan, each of our Pawnshops has an overdraft line of credit provided by the local bank at which it has a bank account. The overdraft line of credit provides each Pawnshop with funds in the event that we do not have sufficient cash for providing pawn loans to our customers. Our Pawnshops replenish the overdraft amount to their respective bank accounts in a short period of time to keep the overdraft line of credit active. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we have not encountered any non-repayment of overdraft amount by our Pawnshops.

MARKETING

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we advertise our "Oi Wah" brand and services through media such as newspapers, over the internet and on radio and television in Hong Kong and mailing of promotional leaflets.

For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the total amount spent on advertising our services was approximately HK$0.6 million, HK$2.6 million, HK$2.1 million and HK$2.0 million, respectively. As part of our business development plan, our Directors expect that we will continue with our marketing effort through various forms of advertising in the media.

BUSINESS

LICENCES

The following table sets out a summary of the licences we have for the carrying out of our business and operations:

	Licence	Licence holder	Issued by	Date of issue	Expiry date
1.	Pawnbrokers Licence for our Wai Wah Pawnshop	Ms. Chan Ying Yu on behalf of Wai Wah HK	Commissioner of Police	12 April 2012	12 April 2013
2.	Pawnbrokers Licence for our Hing Wah Pawnshop	Ms. Chan Ying Yu on behalf of Hing Wah HK	Commissioner of Police	29 September 2012	29 September 2013
3.	Pawnbrokers Licence for our Ho Wah Pawnshop	Mr. Edward Chan on behalf of Oi Wah HK	Commissioner of Police	2 May 2012	2 May 2013
4.	Pawnbrokers Licence for our Sung Wah Pawnshop	Mr. Edward Chan on behalf of Oi Wah HK	Commissioner of Police	10 May 2012	10 May 2013
5.	Pawnbrokers Licence for our Chun Wah Pawnshop	Ms. Chan Ying Yu on behalf of Oi Wah HK	Commissioner of Police	12 June 2012	12 June 2013
6.	Pawnbrokers Licence for our Po Wah Pawnshop	Ms. Chan Ying Yu on behalf of Oi Wah HK	Commissioner of Police	12 June 2012	12 June 2013
7.	Pawnbrokers Licence for our Tak Wah Pawnshop	Ms. Chan Ying Yu on behalf of Oi Wah HK	Commissioner of Police	1 March 2012	1 March 2013
8.	Pawnbrokers Licence for our Kwong Wah Pawnshop	Mr. Edward Chan on behalf of Oi Wah HK	Commissioner of Police	31 December 2012	31 December 2013
9.	Pawnbrokers Licence for our Heng Wah Pawnshop	Ms. Chan Ying Yu on behalf of Oi Wah HK	Commissioner of Police	4 March 2012	4 March 2013
10.	Pawnbrokers Licence for our Cheung Wah Pawnshop	Mr. Edward Chan on behalf of Oi Wah HK	Commissioner of Police	24 April 2012	24 April 2013
11.	Pawnbrokers Licence for our Kei Wah Pawnshop	Ms. Chan Ying Yu on behalf of Oi Wah HK	Commissioner of Police	6 December 2012	6 December 2013
12.	Pawnbrokers Licence for our Hung Wah Pawnshop	Mr. Edward Chan on behalf of Oi Wah HK	Commissioner of Police	12 April 2012	12 April 2013
13.	Money Lenders Licence for Oi Wah HK	Oi Wah HK	Licensing Court	17 May 2012	18 May 2013

As advised by Pang & Co., legal advisers to our Company as to Hong Kong law, pursuant to the Pawnbrokers Ordinance, where a body corporate wishes to obtain a Pawnbrokers Licence, a person authorised in that behalf shall apply as the representative of the body corporate and the granting of a Pawnbrokers Licence shall be expressed to be granted to that person on behalf of the body corporate. As such, our Group is not permitted to hold a Pawnbrokers Licence without a person acting as our Group's representative and therefore, all of our Pawnbrokers Licences are currently held by our executive Directors, Mr. Edward Chan and Ms. Chan Ying Yu, respectively, as the authorised representatives on behalf of our Group. Mr. Edward Chan and Ms. Chan Ying Yu, both being our executive Directors, would have to tender a notice period of 3 months before termination of their service contracts entered with the Company. As the transfer of a Pawnbrokers Licence would normally take one month to complete, this would leave us sufficient time to transfer the Pawnbrokers Licence to another representative should either or both of them cease to be connected with us by tendering a notice of resignation. Such transfer may be effected by making an application in writing to the Commissioner of Police pursuant to section 6(2) of the Pawnbrokers Ordinance. The new representative will be subject to the same licensing requirements under the Pawnbrokers Ordinance. For details of the licensing requirements for pawnbrokers, please refer to the section headed "Regulatory overview — Regulations and supervision of pawnbroking business in Hong Kong — Qualification criteria" in this document. In the absence of any non-compliance of the licensing requirements, there should not be any impediment for the transfer of the Pawnbrokers Licences. In addition, since we also possesses the Money Lenders Licence which is held in the name of Oi Wah HK and covers all of our Pawnshop's addresses, we could continue to provide pawn loan services to our customers using our Money Lenders Licence at our Pawnshop premises if necessary. Therefore, our Directors consider that the potential financial and operational impacts on our Group would be minimal.

We will renew our licences before their respective expiry dates. Our Group had not experienced any refusal of renewal of the licences necessary for our operations during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

INSURANCE

We maintain for each of our Pawnshops insurance policies which cover, inter alia, loss and damage against fire and other physical loss or damage of properties within our Pawnshops, loss or damage arising from transiting the collaterals and cash of our Pawnshops, loss or damage by burglary or theft, and the loss and damage arising from unlawful pawning of goods. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the total amount of insurance premium paid by our Group in connection to the above was approximately HK$0.3 million, HK$0.3 million, HK$0.3 million and HK$0.3 million, respectively.

We have also maintained insurance against employees' compensation and group life insurance for our staff. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the total amount of insurance premium paid by our Group against employees' compensation was approximately

HK$22,000, HK$22,000, HK$23,000 and HK$19,000, respectively, and total amount of insurance premium paid by our Group for group life insurance was approximately HK$14,000, HK$17,000, HK$16,000 and HK$12,000, respectively.

As at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

PROPERTY INTEREST

Our Pawnshops

Our Group has 12 leased properties in Hong Kong for use as Pawnshop, an overview of which is set out as below:

No.	Trading Name	Address	Saleable Area *(sq.ft.)*	Continuing Connected Transactions	Rent *(HK$)*	Term
1.	Wai Wah Pawnshop	Shop 6, Ground Floor, Wah May Building Block B, Nos. 36C–36F Shantung Street, Kowloon	265	Yes	HK$40,000 per month exclusive of government rent, rates and management fees.	From 8 June 2012 to 7 June 2014
2.	Hing Wah Pawnshop	Shop G-24A & Portion of G-25 on Ground Floor, Sun Hing Building, 603, 603A–B, 605, 605A, 607A–B, 609, 609A Nathan Road, 17A–B & 19 Soy Street, 174, 176 & 178 Portland Street, Mongkok, Kowloon	275	Yes	HK$40,000 per month exclusive of government rent, rates and management fees.	From 8 June 2012 to 7 June 2014
3.	Ho Wah Pawnshop	Portion of Flat B, Ground Floor, Tak Yan House, Nos. 337–339 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	420	No	HK$41,926.5 per month exclusive of government rates and management fees. HK$53,000.00 per calendar month for the period between 1 April 2013 to 31 March 2014 and HK$56,000.00 per calendar month for the period between 1 April 2014 to 31 March 2016 exclusive of government rates and management fees.	From 1 April 2011 to 31 March 2013 From 1 April 2013 to 31 March 2016

No.	Trading Name	Address	Saleable Area *(sq.ft.)*	Continuing Connected Transactions	Rent *(HK$)*	Term
4.	Sung Wah Pawnshop	Shop 8A, Ground Floor, Palm Court, Nos. 3/7, 11/17, 21/23 and 27/29 Tak Ching Court, Tuen Mun, New Territories, Hong Kong	570	No	HK$43,923 per month exclusive of government rates and management fees.	From 4 January 2012 to 3 January 2014
5.	Chun Wah Pawnshop	Shop C, Ground Floor (including Cockloft), Nos. 76–86 Lung Sum Avenue, Shek Wu Hui, Sheung Shui, New Territories, Hong Kong	Shop: 775 Cockloft: 525	No	HK$47,000 per month exclusive of government rates, rent and management fee. Remark: the whole of cockloft is subleased to an independent third party at a sublease rental of HK$9,350 per month inclusive of government rent and rates for a sublease term from 9 December 2012 to 8 December 2013.	From 1 December 2009 to 30 November 2014
6.	Po Wah Pawnshop	Shop 3, Ground Floor, No. 75 San Hong Street, Sheung Shui, New Territories, Hong Kong	345	No	HK$52,800 per month exclusive of government rates, rent and management fee.	From 22 June 2012 to 21 June 2013

No.	Trading Name	Address	Saleable Area *(sq.ft.)*	Continuing Connected Transactions	Rent *(HK$)*	Term
7.	Tak Wah Pawnshop	Shop B, Ground Floor, Heung Lam Building, No. 23 Connaught Road Central and No. 3 Douglas Streets, Central, Hong Kong	160	No	HK$45,980 per month for the period between 16 December 2011 and 15 December 2013 and HK$50,578 per month for the period between 16 December 2013 and 15 December 2015 exclusive of government rates and management fee	From 16 December 2011 to 15 December 2015
		2nd Floor Heung Lam Building, No. 23 Connaught Road Central, Central and No. 3 Douglas Streets, Hong Kong (location of Our Customer Service Centre)	990	No	HK$26,000 per month exclusive of government rates and management fee.	From 1 February 2011 to 31 January 2014
8.	Kwong Wah Pawnshop	Shop C, Ground Floor, Kar Ho Building, Nos. 27–31 Yuen Long Hong Lok Road, Yuen Long, New Territories, Hong Kong	Shop: 710 Cockloft: 645	No	HK$50,935 per month for the period between 15 December 2011 and 14 December 2012 and HK$53,480 per month for the period between 15 December 2012 and 14 December 2013 exclusive of government rent, rates and management fee. Remark: portion of shop unit on Ground Floor and whole of the cockloft is subleased to an independent third party at a sublease rental of HK$26,000 per month inclusive of government rent and rates for a sublease term from 15 December 2011 to 14 December 2013.	From 15 December 2011 to 14 December 2013

No.	Trading Name	Address	Saleable Area *(sq.ft.)*	Continuing Connected Transactions	Rent *(HK$)*	Term
9.	Heng Wah Pawnshop	Shop B, Ground Floor, (including Cockloft) Nos. 2–4 San Lok Street, Sheung Shui, New Territories, Hong Kong	Shop: 510 Cockloft: 340	No	HK$52,500 per month for the 1st and 2nd years and HK$59,000 per month for the 3rd and 4th years and HK$67,800 per month for the 5th year exclusive of government rent, rates and management fee. Remark: portion of shop unit on Ground Floor and whole of the cockloft is licensed to an independent third party at a license fee of HK$25,500 per month inclusive of government rates and management fee for a license term from 1 March 2012 to 28 February 2013.	From 1 February 2009 to 31 January 2014
10.	Cheung Wah Pawnshop	Shop 3B, Level 1, Shatin New Town, Nos. 1–15 Wang Pok Street, Shatin, New Territories, Hong Kong	390	No	HK$53,235 per month for the period between 1 April 2010 and 31 March 2011 and HK$59,623 per month for the period between 1 April 2011 and 31 March 2012 and HK$60,800 per month for the period between 1 April 2012 and 31 March 2013 exclusive of government rent, rates and management fees. HK$81,000.00 per month for the period between 1 April 2013 to 31 March 2014 and HK$85,000.00 per month for the period between 1 April 2014 to 31 March 2015 and HK$88,000.00 per month for the period between 1 April 2015 to 31 March 2016 exclusive of government rent, rates and management fees	From 1 April 2010 to 31 March 2013 From 1 April 2013 to 31 March 2016

No.	Trading Name	Address	Saleable Area *(sq.ft.)*	Continuing Connected Transactions	Rent *(HK$)*	Term
11.	Kei Wah Pawnshop	Shop YIII, Ground Floor, Wing On House, No. 71 Des Voeux Road Central, Central, Hong Kong	160	No	HK$58,000 per month inclusive of government rent, rates and management fees	From 1 January 2013 to 31 December 2015
12.	Hung Wah Pawnshop	Shop 80, Ground Floor, Fortune Plaza, No. 4 On Chee Road, Tai Po, New Territories, Hong Kong	236	No	HK$32,000 per month exclusive of management fee but inclusive of government rent and rates.	From 15 December 2011 to 14 December 2013

Save for the premises of Wai Wah Pawnshop and Hing Wah Pawnshop, all the above leases were entered into with lessors who are Independent Third Parties. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the total amount of rentals in connection with our Pawnshops paid by our Group was approximately HK$5.5 million, HK$6.1 million, HK$6.7 million and HK$5.3 million, respectively.

Additions/alterations in Wai Wah Pawnshop

According to the inspection made by Jones Lang LaSalle, there is a cockloft with an internal staircase in Wai Wah Pawnshop. There is no information available showing that formal approval has been granted for such additions/alterations by the relevant government authorities. Pursuant to the tenancy agreement for Wai Wah Pawnshop, if the property is to be rendered unfit for use and occupation or being declared unfit for use and occupation or becoming subject to a closure order, payment of rent, management fees and rates shall be suspended until the said premises be rendered fit for occupation and use or become accessible again or until the closure order has been removed. In the event that an order is being imposed by the relevant government authority to the premises where Wai Wah Pawnshop locates, the landlord may be required to remove the additions or alterations. Pang & Co., legal advisers to our Company as to Hong Kong law, have advised us that notwithstanding the existence of the additions or alterations, the tenancy agreement for Wai Wah Pawnshop is valid and subsisting and in full force and effect in favour of our Group and we are entitled to exclusively possess the property for our quiet enjoyment subject to the terms of the relevant tenancy agreement.

Our Directors confirmed that the additions or alterations in Wai Wah Pawnshop were not built by the landlord or us. Such additions or alterations are within premises of Wai Wah Pawnshop and any removal of them by the landlord might have influence to the operation of Wai Wah Pawnshop. Our Directors estimated that the demolition of the

additions or alterations might require our operation to suspend for approximately seven days and the potential loss due to such suspension would amount to approximately HK$99,000.

In the event that the operation of Wai Wah Pawnshop is required to be suspended, we will allocate staff at the entrance of the Wai Wah Pawnshop to direct our customers to our nearby Pawnshop. Customers will be able to renew their pawn loans and redeem their collaterals at our nearby Pawnshop. We will also increase our staff force at the nearby Pawnshop so as to ensure the smooth running of our operation.

The Controlling Shareholders have executed the Deed of Indemnity in favour of our Group whereby they will jointly and severally indemnify each member of our Group against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Group as a result of directly or indirectly or in connection with the unauthorised addition/alteration at the premises of Wai Wah Pawnshop.

Notice to demolish a structure located at the yard of the premises of Ho Wah Pawnshop

Pursuant to the land search for the premises of Ho Wah Pawnshop, a notice was served by the Building Authority in June 2006 whereby a structure located at the yard of the premises was informed to be demolished. The notice is not a building order, where it did not impose any deadline for completion of the rectification work. In accordance with the relevant tenancy agreement entered into between the landlord and our Group, the structure at the yard is not included in the portion of the premises which we are in use. Pang & Co., legal advisers to our Company as to Hong Kong law, have advised us that notwithstanding the existence of the notice mentioned above, the tenancy agreement for Ho Wah Pawnshop is valid and subsisting and in full force and effect in favour of our Group and we are entitled to exclusively possess the property for our quiet enjoyment subject to the terms of the relevant tenancy agreement.

Our Directors confirmed that the above-mentioned structure was not built by us. As it is located at the back yard of the premises of Ho Wah Pawnshop which falls outside of our rented area, any demolition of it by the landlord would not have any direct impact or cause any disruption to the daily operation of our Ho Wah Pawnshop. Our Directors believe that the potential loss to us due to the demolition of the relevant structure would be minimal.

The Controlling Shareholders have executed the Deed of Indemnity in favour of our Group whereby they will jointly and severally indemnify each member of our Group against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Group as a result of directly or indirectly or in connection with the suspension of business or operation of Ho Wah Pawnshop in the event that the landlord is required to remove the illegal structure and the removal of which has impact on the daily operation of Ho Wah Pawnshop.

As at the Latest Practicable Date, we had informed the respective landlords of Wai Wah Pawnshop and Ho Wah Pawnshop requesting for the demolition of the additions, alterations or illegal structures. The costs for such demolition works shall be borne by the respective landlords of Wai Wah Pawnshop and Ho Wah Pawnshop.

Subletting of our Pawnshops

We have sublet part of the premises of three of our Pawnshops to third parties as detailed above. Pursuant to the tenancy agreements for Chun Wah Pawnshop and Kwong Wah Pawnshop, there are provisions granting us the rights to sublet part of the premises, subject to certain requirements with which we have complied with during the respective terms of the tenancy agreements.

As detailed above, the tenancy agreement of Heng Wah Pawnshop does not contain any provision granting us the right to sublet. Despite the landlord's knowledge of our subletting, a written consent for our subletting was turned down by the landlord. In view of that, our subletting amounted to a breach of contract which would entitle the landlord to terminate the tenancy agreement and exercise the right of re-entry to the premises. We will not renew the term of the sub-lease upon its expiry. In the event that we are required to vacate upon termination of the tenancy agreement by the landlord, we will be required to relocate our operation and compensate the sub-tenant. Our Directors estimated that the total relocation and compensate costs would amount to approximately HK$335,000.

The Controlling Shareholders have executed the Deed of Indemnity in favour of our Group whereby they will jointly and severally indemnify each member of our Group against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Group as a result of directly or indirectly or in connection with the subletting of part of the premises of Heng Wah Pawnshop in the event that the landlord terminates the tenancy agreement on such basis and our Group is required to relocate Heng Wah Pawnshop to another premises.

Our Head Office

We rent an office premises for our head office and Mortgage Centre uses, from Kwan Chart Estate as Lessor, a connected party, the details is as follows:

Address	**Saleable Area** *(sq.ft.)*	**Continuing Connected Transactions**	**Rent** *(HK$)*	**Term**
Rooms 2302–3, Kwan Chart Tower, No. 6 Tonnochy Road, Wan Chai, Hong Kong	1,251	Yes	HK$39,000 per month inclusive of government rent, rates and management fee.	From 31 May 2012 to 30 May 2014

For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the total amount of rentals in connection with our head office and Mortgage Centre paid by our Group was approximately HK$0.5 million, HK$0.5 million, HK$0.5 million and HK$0.4 million, respectively.

As at the Latest Practicable Date, save as disclosed, our Directors (i) were not aware of any investigations, notices, pending litigation, breaches of law or title defects; (ii) had no plan in relation to construction, renovation, improvement, development or change the use, of the leased properties of our Group.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we were the owner of one trademark in Hong Kong.

Please see the section headed "B. Further Information about our business — 2. Intellectual property rights of our Group" in Appendix IV to this document for further details.

As at the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and our Directors believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights. As at the Latest Practicable Date, we were also not aware of any pending or threatened claims against us or any of our subsidiaries in relation to the infringement of any intellectual property rights of third parties.

COMPETITION

Pawn loan industry

According to the Ipsos Report, there were about 150 pawn loan service operators in Hong Kong in 2011, operating 202 pawnshops. Out of the 150 pawn loan service operators, only five of them are also engaged in the mortgage loan services. Our Group is the largest pawn loan service operator in Hong Kong in 2011 in terms of loan amount granted and number of Pawnshops.

Our business operation depends on the sufficiency of funds to support our pawn loan business. With our long history of operation, market reputation and our established relationships with various local banks and second-hand product dealers in Hong Kong, our Directors believe that our business operation will stay competitive.

We obtain updated information regarding price trends from the second-hand product dealers, and hence our pricing is updated reflecting the resellable price. Collaterals are sold to second-hand product dealers in front of all staff of the relevant Pawnshop, so that our staff is aware of recent price trends of the market.

Further, we have caught up with the rapid development of information technology and have tailor-made our own computer system for efficient business operations. We have also set up a website to provide customers the latest news of our business operation.

In addition, our Directors believe that the barriers to entry are relatively high as our pawn loan business is capital intensive and subject to the Pawnbrokers Ordinance and Money Lenders Ordinance.

Mortgage loan industry

According to the Ipsos Report, there were about 959 money lenders in Hong Kong in 2012, inclusive of pawn loan service providers engaging in mortgage loan services. The mortgage loan industry in Hong Kong is highly competitive. As we have only commenced our mortgage loan services in June 2009, our Directors believe that we are still considered as a new entrant to the mortgage loan market and have to compete with competitors who may have better market position, such as more established reputations, longer operating history, wider range of loan services and more available funds. While mortgage loan providers in Hong Kong adopt similar sales and marketing strategies such as advertisement through the media and target on the same groups of customers in Hong Kong and may offer a wider range of services, we strive to expand our mortgage loan services and compete with other market players in terms of speed, service quality and pricing.

Our growing market reputation is built upon our efficient customer service. The time needed for our loan approval process is often within days upon receiving all the necessary documents from our customers. Our Directors also regularly review our pricing to ensure that we can respond to changing market demands in a timely manner.

LITIGATION

As at the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's financial condition or results of operations.

REGULATORY COMPLIANCE

Pawn loans granted under our Money Lenders Licence

Pawn loans granted under our Money Lenders Licence are governed by the provisions of the Money Lenders Ordinance.

As advised by the Legal Counsel, "pawnbroker" means a person carrying on business by advancing on interest, or for or in expectation of profit, gain or reward, any sum of money on the security of goods taken by such person in pawn. Any pawn loan exceeding the amount of HK$100,000 causes the Pawnbrokers Ordinance not applicable to such loan, or to the goods pawned as security, or to the pawnbroker or borrower in relation to any such loan or the goods so pawned, and it would not constitute the pawnbroker being not carrying on its trade as pawnbroker or the loan becoming a non-pawn-loan in nature. In addition, our Group also possesses Money Lenders Licence which allows us to grant pawn loans exceeding the amount of HK$100,000 at the premises of any of our Pawnshops. Therefore, the Legal Counsel has advised that the provision of pawn loans under the Money Lenders Licence at our Pawnshops would not constitute any breach of the Pawnbrokers Ordinance.

Non-Compliance incidents

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and up to the Latest Practicable Date, we had mistakenly issued tickets to customers for pawn loans exceeding HK$100,000 due to inadvertent administrative oversight, and where our computer system could generate tickets for pawn loans exceeding HK$100,000 prior to our upgrading of such system.

There were 315 incidents, the first of which occurred in March 2009 while the last of which occurred in June 2012, with an aggregate loan amount granted of approximately HK$48.6 million. These loans range from HK$102,000 to HK$500,000 and are classified as loans granted under our Money Lenders Licence. Under section 18 of the Money Lenders Ordinance, the form of loan agreement between us as the money lender and any of our pawn loan customers requires, among others, signature of the borrowers. Such 315 incidents represented approximately 0.06% of our total number of pawn loan transactions and their aggregated loan amount represented approximately 2.9% of our aggregated pawn loan amounts granted during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012. The interest income derived from such pawn loans during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and up to the Latest Practicable Date amounted to approximately HK$4.1 million. Our Directors confirmed that they are not aware of any irregularities in respect of the interest rates offered and the collaterals pledged in the above non-compliance incidents compared with other pawn loan transactions of our Group.

Breach of section 18 of the Money Lenders Ordinance

Our Legal Counsel, after having perused certain tickets which served as the loan agreements between us and our pawn loan customers for pawn loans over HK$100,000 granted by us pursuant to our Money Lenders Licence, was of the opinion that the omission of the signature of the borrower, as we did not require our customers to sign on the tickets, constituted a breach of section 18 of the Money Lenders Ordinance.

Possible liabilities and consequences and time barred under the Magistrates Ordinance

As advised by Pang & Co., legal advisers to our Company as to Hong Kong law, pursuant to section 32 of the Money Lenders Ordinance, the maximum penalty shall be a fine of HK$100,000 for committing each offence and to imprisonment for 2 years, and any person convicted of an offence under the Money Lenders Ordinance may be disqualified from holding a money lenders licence for a period not exceeding 5 years from the date of conviction by the Magistrate. In light of the above, the directors of Oi Wah HK (including our three executive Directors, namely, Mr. Chan Chart Man, Mr. Edward Chan and Ms. Chan Ying Yu) may be subject to imprisonment for 2 years and Oi Wah HK may be subject to a fine of HK$100,000, being the maximum penalty for committing each offence by breaching section 18 of the Money Lenders Ordinance. We had reported these non-compliance incidents to the Police Licensing Office on 30 November 2012. Our Directors confirmed that as at the Latest Practicable Date, no action had been taken by the Police Licencing Office against our Group.

As advised by our Legal Counsel, the non-compliance incidents were breaches of section 18 of the Money Lenders Ordinance but of minor nature as the breaches were trivial, the relevant lending transactions were genuine and there was no doubt that the borrowers were perfectly clear about the terms of the agreement notwithstanding that they did not sign anything. Our Legal Counsel is of the view that such non-compliances would be pardoned by the Court and in such cases, it is impossible for prosecution to be successfully brought as they were time barred under section 26 of the Magistrates Ordinance.

In normal circumstances, where prosecution was not time barred under section 26 of the Magistrates Ordinance, the police on receipt of a complaint would conduct an investigation into the matter before deciding whether a prosecution should be instituted at all. If a prosecution was considered appropriate, a charge would be brought for the non-compliance incidents to be heard before a Magistrate.

Our Directors consider that the relevant lending transactions were genuine and no borrowers had been misled on the basis that:

(a) (i) the major terms of the loan (i.e. the loan amounts, the term and the interest rate), as in the case of all pawn loans, have been negotiated between our Group and the customer under the general operation procedures of our Group; (ii) the ticket has been prepared based on the terms agreed between our Group and the relevant customer; (iii) the terms of the loan have been further explained to the relevant customer by our staff pursuant to the internal control policies adopted by our Group prior to the granting of the loan; and (iv) after explanation of the terms of the loan, a copy of such ticket containing the major terms agreed with the relevant customer would be given to the relevant customer for his or her retention prior to the drawdown of the loan;

(b) the obligations under the tickets have been duly performed by the respective parties by way of conduct (i.e. the repayment of the loan, the payment of the interest, and the redemption of the collaterals before the expiry of the term); and

(c) our Directors confirmed that our Group did not receive any complaints from any customers that they had been misled. No legal dispute between the parties in relation to such tickets has been arisen;

As advised by our Legal Counsel, section 26 of the Magistrates Ordinance provides that for offences, other than an indictable offence, unless any other laws which provides otherwise, complaint to the relevant government authority in respect of any breach shall be made within 6 months from the time when the offence was committed. Our Legal Counsel is of the view that, an offence pursuant to section 18 of the Money Lenders Ordinance is not an indictable offence (being an offence which can commit the accused person to prison for trial before the court) but a summary offence, and the relevant time limit for our customer to lodge a formal report or complaint to the police in order for the police to institute any criminal prosecution for our breaches of section 18 of the Money Lenders Ordinance shall be 6 months from the date when the relevant transactions were occurred. The last incident where we issued ticket to customer for pawn loan exceeding HK$100,000 granted pursuant to our Money Lenders Licence occurred in early June 2012. The 6-month limitation period

for such pawn loan has lapsed as at the Latest Practicable Date. Accordingly, as advised by our Legal Counsel, on the basis that our letter to the police on 30 November 2012 was not a formal report or complaint with a view to bring prosecution and no formal report or complaint was lodged to the police within 6 months from the date when the relevant transactions occurred, and even if a formal report or complaint is now lodged with the police all prosecution against our Group or Directors were already time barred under section 26 of the Magistrates Ordinance and the court has no jurisdiction to extend the time limit, there should not be any potential liability or consequences on our Group or our Directors. Our Legal Counsel is also satisfied that the renewal of our Money Lenders Licence should not be affected, on the basis that i) the Company did not deliberately foul the requirement of the Money Lenders Ordinance and the breach was of minor nature; ii) no customer has filed any complaint with the police and iii) there were no other breaches of the Money Lenders Ordinance.

Enforceability of the relevant tickets

As advised by our Legal Counsel, under normal circumstances the tickets and loan agreement are governed and enforced under the Pawnbrokers Ordinance and Money Lenders Ordinance, respectively. As at the Latest Practicable Date, all the relevant pawn loans had been settled and were historical transactions. As advised by our Legal Counsel, for those relevant pawn loans, where they were redeemed and paid off by the customers, there is no question of enforceability, as the borrowers chose to tender and we were in the position to give valid discharges of our obligations and liabilities. Hence the customers in such scenarios would have no basis to bring any legal action against our Group at all. For some of those relevant pawn loans, where goods pawned were not redeemed by the customers and were subsequently sold off by us, and if those customers sue us for the return of the pawned goods and the Court refuses to exercise its discretion under section 18(3) of the Money Lenders Ordinance *(Note)*, our Group would be liable to return the goods and if the goods were dealt with, our Group had to account for the proceeds on conversion.

However, our Legal Counsel had advised that our Group has an almost certain prospect of success to have the Court exercise its discretion in our favour, on the basis that (i) we did not deliberately foul the requirement of the Money Lenders Ordinance; (ii) the objective of section 18 requiring customer to sign the loan agreement is to confirm and acknowledge the terms of the transaction and at the same time the objective of section 18 of the Money Lenders Ordinance is for the customer to have something which he can understand and from which he will gather his liabilities and is not intended to restrain genuine money-lending transactions, or to let the money lender lose all the money he has lent out or the security he has because of a failure to comply with all such requirements, given that it is a trivial or unintentional breach; (iii) there is no question of the genuineness of the transaction as it was conducted in a pawnshop where a loan was paid out depending on the security provided by the customer and a copy of ticket which set out all the terms was provided to the customer and the transaction was conducted in straight accordance with the terms of the ticket and the failure was unintentional and trivial; and (iv) the Court will look at all the circumstances and in particular is likely to uphold the contract if the customer has

Note: Section 18(3) of the Money Lenders Ordinance states that, if the court before which the enforceability of any agreement comes in question is satisfied that in all the circumstances it would be inequitable that any such agreement which does not comply with section 18 should be held not to be enforceable, the court may order that such agreement is enforceable to such extent, and subject to such modifications or exceptions, as the court considers equitable.

not been misled. In light of the above mentioned, our Legal Counsel has advised that the Court would find it inequitable not to enforce such transactions. As such, the relevant tickets which served as the loan agreements between us and our pawn loan customers for pawn loans granted by us pursuant to our Money Lenders Licence were legally binding and enforceable under applicable laws and regulations. In view of the above, no provisions have been made for these non-compliance instances.

Immediate rectification

Prior to our Directors became aware of the non-compliance incidents, there was no written internal guideline in relation to the issuance of tickets or loan agreements to customers. Our staff were informed by our Directors that our Group possessed two licences, the Pawnbrokers Licences and the Money Lenders Licence, when they joined our Group or were promoted to work at frontline of our Pawnshops. For pawn loans not exceeding the amount of HK$100,000, tickets shall be issued for these pawn loans under our Pawnbrokers Licences. For pawn loans over HK$100,000 or where the term of the pawn loan is not fixed at 4 lunar months, loan agreements must be issued for these pawn loans under our Money Lenders Licence. Our Directors became aware of such non-compliance incidents only after the reviewing of our internal control procedures.

Upon becoming aware of the above, we have adopted various measures to ensure our full compliance with the Money Lenders Ordinance in connection with our pawn loans granted under our Money Lenders Licence. We have issued an internal guideline specifically for the preparation and execution of loan agreement for pawn loans exceeding HK$100,000 in August 2012. Each staff at our Pawnshops is required to read and acknowledge the content of the internal guideline. Furthermore, we have a computerised pawn loan approval process and after considering that prior to the upgrade of our computer system, tickets could be generated by our staff upon loan approval even a pawn loan amount exceeding HK$100,000 was entered into the computer system, we have upgraded our computer system in August 2012 in order to detect and restrict the misuse of ticket for pawn loan exceeding HK$100,000 granted under our Money Lenders Licence by our Pawnshop staff. We have upgraded the computer system to include a cap function that when our staff enters any pawn loan of amount over HK$100,000 into our computer system, the system will restrict our pawnshop staff from generating a ticket. Our staff will then issue a loan agreement which requires the signature of the customer that will in turn circumvent any possible non-compliance instances in the future. Our staff is also reminded to adhere to our internal guidelines in relation to the issue of loan agreements for pawn loans, in particular, our staff must ensure that our customers sign the loan agreements before providing such pawn loans to them. Trainings have been provided to our staff relating to the operation of the upgraded computer system. New staff joining our Group will also be trained in this regard. Similar measures have been adopted for our mortgage loan agreements so as to ensure full compliance with the Money Lenders Ordinance. As at the Latest Practicable Date, all of the relevant pawn loans had been settled.

Renewal of Pawnbrokers Licences and Money Lenders Licences

Save as disclosed above, our Legal Counsel has confirmed that as at the Latest Practicable Date, our Group had complied with all relevant laws and regulations in all material respects of our operations in Hong Kong, including obtaining all required permits and licences. As advised by Pang & Co., legal advisers to our Company as to Hong Kong law, in the absence of any non-compliance of the Pawnbrokers Ordinance, there should not be any legal impediment for the renewal of the Pawnbrokers Licences by us. Furthermore, as mentioned above, our Legal Counsel is satisfied that there should not be any legal impediment for the renewal of our Money Lenders Licence in spite of the historical non-compliance instances, on the basis that i) the Company did not deliberately foul the requirement of the Money Lenders Ordinance and the breach was of minor nature; ii) no customer has filed any complaint with the police and iii) there were no other breaches of the Money Lenders Ordinance.

Indemnity from our Controlling Shareholders

The Controlling Shareholders have executed the Deed of Indemnity in favour of our Group whereby they will jointly and severally indemnify each of the members of our Group against, among others, all expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (among others, but not limited to, legal and other professional costs), charges, liabilities, fines, penalties and tax which any member of our Group may incur, suffer or accrue, as a result of directly or indirectly or in connection with, or in consequence of any non-compliance with or breach of any applicable laws, rules or regulations in any jurisdiction by any member of our Group on or before the [•]. Please refer to the section headed "E. Other information — 1. Estate, tax and other indemnities" in Appendix IV to this document for further details of the Deed of Indemnity.

Findings and recommendation by our internal control adviser

To assist our assessment of the adequacy and effectiveness of our internal control systems, we have engaged an internal control adviser in March 2012 to perform agreed-upon-procedures in relation to selective areas of our Group's internal controls over corporate governance, compliance, collateralised money lending, collateral management, cash management and accounting and financial reporting. The procedures, which were determined by our Directors, were performed by the internal control adviser at the selected premises of our Group. The agreed-upon-procedures performed included discussions with our Directors and relevant members the senior management of our Group, the obtaining of the understanding of the procedures and policies in relation to the selected areas of our Group's internal controls as discussed above, the obtaining of samples of documents such as manuals for relevant procedures and policies on the selected areas of internal controls, pawnshops operations guidelines, pawnshop staff responsibilities guidelines, relevant agreements or tickets of the loan transactions and records of collaterals, etc. The key findings identified by the internal control adviser in respect of our non-compliance with the relevant rules and regulations, the recommendation given by the internal control adviser and the implementation progress of our Group are as follows:

Key findings	Recommendation	Implementation progress
Ticket instead of loan agreement was issued for pawn loan granted to customer exceeds HK$100,000 under our Money Lenders Licence. The omission of the signature of the borrower on the ticket constituted a non-compliance of section 18 of the Money Lenders Ordinance.	Our management should regularly review and test the functionality and effectiveness of our computer system in prohibiting the issue of ticket for any pawn loans over the amount of HK$100,000.	We have upgraded our computer system since August 2012 so that no ticket will now be generated for pawn loan over the amount of HK$100,000. Our executive Directors will review and test the functionality of our computer system on a quarterly basis to ensure that it is operating effectively.

The regular review and testing of the functionality of our computer system will involve (i) the random inputting of loan amounts over HK$100,000 to the computer system to test the restriction on issuance of tickets; (ii) the checking of records of loan agreements for loan amounts over HK$100,000; and (iii) the upgrading of our computer system if necessary to further enhance its effectiveness. Apart from the above, our Directors will also review our internal control procedures, such as reviewing and updating our tickets and loan agreements so as to ensure its compliance with relevant rules and regulations and reviewing of our internal guidelines to ensure it is up-to-date. We will remind our staff from time to time to ensure their adherence to the internal guidelines.

Our internal audit department will review the internal control policies of our Group every 6 months and will report its findings to our audit committee and the Board. The external internal control advisers to be appointed by our Group upon the [•] will also

review our Group's internal control system every 6 months. The findings and results of the review of our Group's internal control system will be disclosed in the interim and annual reports of our Group after the [•].

Our Directors and the [•] views

Having considered that since the implementation of the above internal control measures and up to the Latest Practicable Date, (i) our Group has not issued any ticket for pawn loans exceeding HK$100,000 granted pursuant to our Money Lenders Licence; and (ii) the adherence of our internal guidelines by our staff in relation to the issue of loan agreements for pawn loans granted by us under our Money Lenders Licence to ensure compliance with section 18 of the Money Lenders Ordinance, our Directors are of the view that the various internal control measures adopted by us are and should be adequate and effective under [•]. The [•], after considering the above and reviewing our internal control measures and the result of the agreed-upon-procedures in relation to our internal control performed by the internal control adviser engaged by us, concurs with the view of our Directors that the various internal control measures adopted by us are and should be adequate and effective under [•].

Our Board considers that those non-compliance incidents above were inadvertent administrative oversight where we issued tickets to our pawn loan customers that do not require their signatures for pawn loans over HK$100,000 granted by us pursuant to our Money Lenders Licence, and would not affect the suitability of our executive Directors under [•] and the suitability of [•] of the Company under [•]. In particular, (i) the executive Directors had many years of experience in pawn loan and mortgage industries by devoting themselves in running our Group's business; (ii) our Legal Counsel is of the view that the non-compliance incidents, being a breach of section 18 of the Money Lenders Ordinance, was of minor nature; and given the minor nature of the breach, the renewal of our Money Lenders Licence should not be affected; (iii) the non-compliance incidents 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; (iv) we have taken remedial actions including the implementation of internal control measures and upgrading of our computer system immediately upon discovery of the non-compliance; (v) to assist our assessment of the effectiveness and adequacy of the internal control systems, we have engaged an internal control adviser to perform agreed-upon-procedures in relation to our internal control systems; (vi) our Group has not issued any ticket for pawn loans exceeding HK$100,000 granted pursuant to our Money Lenders Licence since the implementation of the above internal control measures and up to the Latest Practicable Date; (vii) we had adopted other internal control measures to ensure the strict compliance with applicable laws, rules and regulations by our Group and we intend to set up the internal audit department by first quarter of 2013; (viii) we had engaged a [•] to advise us after [•]; and (ix) we shall engage an internal control adviser to review our internal control procedures on a regular basis after [•]. The [•], 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 [•] and that those non-compliance incidents above would not affect the suitability of our Directors under [•] and the suitability of [•] of the Company under [•] the [•].

NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

NOTIFIABLE TRANSACTIONS AND DISCLOSURE PURSUANT TO CHAPTER 13 OF THE [•]

We are a financing service provider providing financial assistance to our customers in our ordinary course of business. Pursuant to [•], the term "ordinary and usual course of business", in the context of financial assistance, means financial assistance provided by a banking company or by a securities house pursuant to [•] only and does not apply to us operating as money lender and pawnbroker. As such, the financial assistance provided by us to our customers constituted transactions pursuant to [•] and may constitute notifiable transactions under [•] upon [•] and subject to the relevant notification, announcement and/or independent shareholders' approval requirements.

Based on our loan portfolio as at 30 November 2012, there was no outstanding loan where its percentage ratios (other than equity capital ratio which is not applicable) calculated pursuant to [•] exceeded 5%. As a result, none of our outstanding loans provided to our customers constitutes a notifiable transaction of our Company under [•] or is otherwise subject to the relevant notification, announcement and/or independent shareholders' approval requirements.

In addition, the loans provided by us to our customers may also trigger a general disclosure obligation pursuant to [•] and be subject to announcement and reporting requirements, in the event that the relevant advance to an entity by our Group individually exceeds 8% under the assets ratio as defined in [•].

We have put in place procedures to ensure that the relevant requirements under Chapter 13 and Chapter 14 of the [•] above are complied with on or after the [•].

NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we have entered into transactions with connected persons of our Company. These transactions will continue after [•], thereby constituting continuing connected transactions of our Company under the [•]:

(A) Personal guarantees

	Type of transaction	Term	Waiver sought
(i)	Personal guarantee provided by Mr. Edward Chan to the landlord of the premises of our Cheung Wah Pawnshop	Six years from 1 April 2010 to 31 March 2016	None (De minimis transaction)
(ii)	Personal guarantee provided by Mr. Edward Chan to the landlord of the premises of our Kwong Wah Pawnshop	Two years from 15 December 2011 to 14 December 2013	None (De minimis transaction)
(iii)	Personal guarantee provided by Mr. Chan Chart Man to the landlord of the premises of our Heng Wah Pawnshop	Five years from 1 February 2009 to 31 January 2014	None (De minimis transaction)

(B) Tenancy agreements

	Type of transaction	Term
(i)	Tenancy agreement between Kwan Chart Holding and Hing Wah HK	Two years from 8 June 2012 to 7 June 2014
(ii)	Tenancy agreement between Mr. Chan Chart Man and Wai Wah HK	Two years from 8 June 2012 to 7 June 2014
(iii)	Tenancy agreement between Kwan Chart Estate and Oi Wah HK	Two years from 31 May 2012 to 30 May 2014

CONNECTED PERSONS

The following persons or entities, namely (i) Mr. Edward Chan, our executive Director; (ii) Mr. Chan Chart Man, our executive Director; (iii) Kwan Chart Holding, which is owned as to 90% by Mr. Chan Chart Man and the remaining 10% by his spouse, Ms. Mui; and (iv) Kwan Chart Estate, which is owned as to 95% by Mr. Chan Chart Man and the remaining 5% by his spouse, Ms. Mui, are connected persons. They entered into the abovementioned continuing connected transactions with our Group.

NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

(A) CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Personal Guarantees

Oi Wah HK is principally engaged in money lending and pawnbroking businesses. In connection with the premises of our Cheung Wah Pawnshop, Kwong Wah Pawnshop and Heng Wah Pawnshop, Mr. Edward Chan and Mr. Chan Chart Man provided personal guarantees to the respective landlords at the time when the relevant tenancy agreements were entered into to secure the due performance of the obligations of Oi Wah HK under the tenancy agreements, particulars of which are set out in the following table:

Guarantor	Premises	Tenant	Trading Name	Term
Mr. Edward Chan	Shop 3B, Level 1, Shatin New Town, Nos.1–15 Wang Pok Street, Shatin, New Territories, Hong Kong	Oi Wah HK	Cheung Wah Pawnshop	Six years from 1 April 2010 to 31 March 2016
Mr. Edward Chan	Shop C, Ground Floor, Kar Ho Building, Nos. 27–31 Yuen Long, Hong Lok Road, Yuen Long, New Territories, Hong Kong	Oi Wah HK	Kwong Wah Pawnshop	Two years from 15 December 2011 to 14 December 2013
Mr. Chan Chart Man	Shop B, Ground Floor (including Cockloft), Nos. 2–4 San Lok Street, Sheung Shui, New Territories, Hong Kong	Oi Wah HK	Heng Wah Pawnshop	Five years from 1 February 2009 to 31 January 2014

No consideration has been paid by us to Mr. Edward Chan and Mr. Chan Chart Man for their respective provision of the personal guarantees to the said landlords for the benefits of our Group.

We have requested the said landlords to accept our Company as replacement of personal guarantees for Mr. Edward Chan and Mr. Chan Chart Man but were refused by the respective landlords. Save for exceptional circumstances where personal guarantees by natural persons must be provided, we will not let any connected person of our Company to act as our personal guarantee when renewing any tenancy agreement or entering into any new tenancy agreement after [•].

As the personal guarantees are provided by connected persons for the benefit of our Company on normal commercial terms where no security over the assets of our Group is granted in respect of the personal guarantees, the above transactions will constitute continuing connected transactions for our Company which are exempt from the reporting, announcement and independent Shareholders' approval requirements under [•].

(B) CONTINUING CONNECTED TRANSACTIONS WHICH ARE SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Tenancy Agreements

We have been leasing various properties in Hong Kong from Mr. Chan Chart Man, Kwan Chart Holding and Kwan Chart Estate and it is expected that we will continue to do so after [•]. As Mr. Chan Chart Man, Kwan Chart Holding and Kwan Chart Estate are our connected persons, each of the tenancy agreements will become a continuing connected transaction of our Company upon the [•].

For the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the amount of rental paid by our Group in respect of the tenancy agreements between our Group and the respective connected persons were approximately HK$1.4 million, HK$1.3 million, HK$1.4 million and HK$1.1 million, respectively.

NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the written tenancy agreements between our Group and the respective connected persons (the "**Non-exempt Tenancy Agreements**") are set out in the table below:

Landlord	Tenant	Location	Monthly rental	Term	Type of Premises
Kwan Chart Holding	Hing Wah HK	Shop G-24A & Portion of G-25 on Ground Floor, Sun Hing Building, 603, 603A–B, 605, 605A, 607A–B, 609, 609A Nathan Road, 17A–B & 19 Soy Street, 174, 176 & 178 Portland Street, Mongkok, Kowloon	HK$40,000	Two years from 8 June 2012 to 7 June 2014	Shop premises with a saleable area of 275 sq.ft.
Mr. Chan Chart Man	Wai Wah HK	Shop 6, Ground Floor, Wah May Building Block B, Nos. 36C–36F Shantung Street, Kowloon	HK$40,000	Two years from 8 June 2012 to 7 June 2014	Shop premises with a saleable area of 265 sq.ft.
Kwan Chart Estate	Oi Wah HK	Rooms 2302–2303 Kwan Chart Tower, No. 6 Tonnochy Road, Wan Chai, Hong Kong	HK$39,000	Two years from 31 May 2012 to 30 May 2014	Office premises with a saleable area of 1,251 sq.ft.

Rent payable for each of the above tenancy agreements was negotiated between the landlord and the relevant member of our Group with reference to the prevailing market rate. Jones Lang LaSalle, an independent valuer, is of the opinion that the agreed annual rent of the leased properties stated above represented the prevailing market rent as at the date of the relevant tenancy agreements.

Given that the Non-exempt Tenancy Agreements were entered into based on prevailing market rates, our Directors consider that the rent of each of the respective Non-exempt Tenancy Agreements is fair and reasonable and was entered into on normal commercial terms.

It is expected that the aggregate annual rental for each of the three years ending 28 February 2015 payable by our Group in respect of the Non-exempt Tenancy Agreements will not exceed the maximum annual cap of HK$1,431,000, HK$1,428,000 and HK$476,000 which represents twelve months', twelve months' and four months' of aggregate rental, respectively. The rental payable under the Non-exempt Tenancy Agreements are payable on a monthly basis and were determined after arm's length negotiations with reference to the prevailing market rates. As the aggregate applicable ratios (other than the profits ratio) for the Non-exempt Tenancy Agreements are expected to be more than 0.1% but less than 5% on an annual basis, the transactions under the Non-exempt Tenancy Agreements constitute continuing

connected transactions for our Company which are subject to the reporting, annual review, announcements requirements but exempt from independent shareholders' approval requirement under [•].

CONFIRMATION FROM OUR DIRECTORS

Our Directors consider that it is in the interests of our Company to continue with these transactions after [•]. They also consider that all the continuing connected transactions as set out in paragraphs (A) and (B) above are in the interests of our Company and our Shareholders as a whole and are in the ordinary and usual course of our business. Our Directors are also of the view that all of the continuing connected transactions in paragraph (B) above were entered into on normal commercial terms and the annual caps are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Save as disclosed in this section, our Directors currently do not expect that immediately following the [•], there will be any transaction which will constitute a continuing connected transaction of our Company under the [•].

CONFIRMATION FROM [•]

After review of the relevant documentation (including the independent opinion from Jones Lang LaSalle) and historical figures provided by us, the [•] is of the opinion that (i) the terms of the Non-exempt Tenancy Agreements in relation to the continuing connected transactions referred to in paragraph (B) above were entered into in the ordinary and usual course of business of our Company and on normal commercial terms which are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (ii) the annual cap for the continuing connected transactions referred to in paragraph (B) above are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

WAIVER FROM THE [•]

On the basis of the above, we have applied to the [•] for a waiver under [•] from strict compliance with the announcement requirement under [•] at the time of the [•] in respect of the continuing connected transactions described in this section, subject to the conditions that such transactions are being carried out in compliance with the requirements of the [•] and that we shall comply with the relevant requirements for the continuing connected transactions in accordance with [•].

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Our Board of Directors consists of four executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth the information concerning our Directors and senior management:

Name	Age	Position	Date of Appointment
Directors			
Mr. Edward Chan (陳啟豪)	41	Executive Director, chairman and chief executive officer	5 June 2012
Mr. Chan Chart Man (陳策文)	81	Executive Director	5 June 2012
Ms. Chan Mei Fong (陳美芳)	42	Executive Director and chief operating officer	19 February 2013
Ms. Chan Ying Yu (陳英瑜)	47	Executive Director	19 February 2013
Mr. Macksion Chan (陳啟球)	57	Non-executive Director	19 February 2013
Mr. Chan Wing Lee (陳永利)	75	Independent non-executive Director	19 February 2013
Dr. Leung Shiu Ki Albert (梁兆棋)	63	Independent non-executive Director	19 February 2013
Dr. Yip Ngai (葉毅)	38	Independent non-executive Director	19 February 2013
Senior Management			
Mr. Cheng Yiu Hang (鄭耀衡)	29	Financial controller and company secretary	
Mr. Lo Kwok Keung Garlick (盧國強)	50	Manager	

DIRECTORS

Executive Directors

Mr. Edward Chan (陳啟豪), aged 41, was appointed as our Director on 5 June 2012 and redesignated as our chairman, executive Director and chief executive officer on 19 February 2013. He is also a director of each of Oi Wah Holding, Oi Wah HK, Wai Wah HK and Hing Wah HK. Mr. Chan is responsible for our Group's overall management, strategic planning and business development. He has over 12 years of experience in business management and pawn loan business. Mr. Chan is currently the chairman of the HKKPA (港九押業商會) and honorary chairman of Macau General Chamber of Pawnbrokers (澳門當押業總商會). Prior to joining our Group, Mr. Chan has been serving as a director in Kwan Chart Holding, a real estate investment company, from 1994. Mr. Chan obtained a Degree of Bachelor of Engineering in Civil Engineering from the City University, London, United Kingdom in

July 1994. Mr. Chan is the son of Mr. Chan Chart Man and Ms. Mui, and the brother of Ms. Chan Mei Fong, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Mr. Macksion Chan.

Mr. Chan Chart Man (陳策文), aged 81, is our founder and was appointed as our Director on 5 June 2012 and redesignated as our executive Director on 19 February 2013. He is also a director of each of Oi Wah Holding, Oi Wah HK, Wai Wah HK and Hing Wah HK. Mr. Chan is responsible for advising on overall strategic planning and business development of our Group. Mr. Chan established the business of our Group in 1975 and has played a significant role in the growth of our business. He has over 37 years of experience in finance and pawn loan business. Mr. Chan is the spouse of Ms. Mui and the father of Mr. Edward Chan, Ms. Chan Mei Fong, Ms Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Mr. Macksion Chan.

Ms. Chan Mei Fong (陳美芳), aged 42, was appointed as our executive Director and chief operating officer on 19 February 2013. Ms. Chan joined our Group in 2007 and is responsible for the overall operations of our Group's business. Ms. Chan obtained a Bachelor of Arts degree in Town and Country Planning from the University of the West of England, Bristol, United Kingdom in September 1996. Ms. Chan also obtained a diploma in Gemmology and Gem Diamond diploma from the Gemmological Association And Gem Testing Laboratory Of Great Britain in January 2006 and January 2007, respectively. Ms. Chan is a fellow of The Gemmological Association of Great Britain. Ms. Chan is the daughter of Mr. Chan Chart Man and Ms. Mui, and the sister of Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Mr. Macksion Chan.

Ms. Chan Ying Yu (陳英瑜), aged 47, was appointed as our executive Director on 19 February 2013. She is also a director of Oi Wah HK. Ms. Chan joined our Group in 2000 and is responsible for overseeing our administration and human resources matters. Ms. Chan obtained a Bachelor of Science degree in Hotel and Restaurant Management from the Middlesex University, United Kingdom in July 1995 and was elected as an associate of the Hotel and Catering International Management Association in October 1995. Ms. Chan is the daughter of Mr. Chan Chart Man and Ms. Mui, and the sister of Mr. Edward Chan, Ms. Chan Mei Fong, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Mr. Macksion Chan.

Non-executive Director

Mr. Macksion Chan (陳啟球), aged 57, was appointed as our non-executive Director on 19 February 2013. Mr. Chan is a lawyer with 28 years of experience in general practice. He has passed solicitor qualifying examinations in Hong Kong and was admitted as a Solicitor of the High Court of Hong Kong in March 1984 and has been a partner in Chow C.L. & Macksion Chan since 2001. Mr. Chan obtained a Bachelor of Arts in Pure Mathematics degree from The University of Calgary, Canada in June 1978. Mr. Chan is the son of Mr. Chan Chart Man and Ms. Mui, and the brother of Mr. Edward Chan, Ms. Chan Mei Fong, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Ms. Chan Ying Yu.

Independent Non-executive Directors

Mr. Chan Wing Lee (陳永利), aged 75, was appointed as our independent non-executive Director on 19 February 2013. Mr. Chan has over 36 years of commercial banking experience, where he worked for DBS Bank (Hong Kong) Limited and his last position was executive director. Mr. Chan was an independent non-executive director in Gemini Investments (Holdings) Limited, a company listed on the Main Board of the Stock Exchange, from August 2004 to November 2010.

Dr. Leung Shiu Ki Albert (梁兆棋), aged 63, was appointed as our independent non-executive Director on 19 February 2013. Dr. Leung currently also serves as an independent non-executive director in Tack Fiori International Group Limited and Universe International Holdings Limited, both of which are companies listed on the Main Board of the Stock Exchange. He is currently the Financial and Business Consultant of Beauchamp International Development Limited and is responsible for providing financial and business development service. Dr. Leung was also an assistant vice president in Citicorp International Limited from 1987 to 1992. Dr. Leung was admitted as an associate of The Chartered Association of Certified Accountants (now known as Association of Chartered Certified Accountants) in February 1987 and became an associate of the Hong Kong Society of Accountants (now known as HKICPA) in September 1988. Dr. Leung obtained a Doctorate degree of Philosophy in Economics from Shanghai University of Finance and Economics in September 2007, a Master degree of Business Administration from Brunel University, United Kingdom in December 1985 and a Diploma in Management Studies from The Polytechnic of Central London, United Kingdom in October 1983.

Dr. Yip Ngai (葉毅), aged 38, was appointed as our independent non-executive Director on 19 February 2013. Dr. Yip is a jewellery appraiser and valuation expert and has over 20 years of experience in jewellery and art industry. Dr. Yip became a fellow of the HKICPA in May 2012. He has also been appointed as a specialist by the Hong Kong Council for Accreditation of Academic & Vocational Qualifications and as a Visiting Associate Professor by the Shanghai Tongji University since July 2011. Dr. Yip obtained a Doctorate degree in business administration from the European University in May 2011 and a Bachelor of Business (Accounting) degree from the Monash University, Australia in November 1999. Dr. Yip obtained a diploma in gemmology from the Gemmological Association and Gem Testing Laboratory of Great Britain in October 1994. He is also a qualified jewellery appraiser and became a member of the National Association of Jewelry Appraisers in January 1995. Dr. Yip received the Preliminary Trade Prize from the Gemmological Association and Gem Testing Laboratory of Great Britain in 1993.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in public listed companies in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as disclosed in the section headed "Substantial

Shareholders" and the section headed "Further information about our Directors and substantial Shareholders" in Appendix IV to this document, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed in the document, none of our Directors have any interests in any business apart from business of our Group which competes or is likely to compete, either directly or indirectly, with business of our Group. Please refer to Appendix IV to this document for further information about our Directors, including details of the interest of our Directors in the Shares and underlying shares of our Company (within the meaning of Part XV of the SFO) and particular of their service contract and remuneration.

Except as disclosed in this document, each of our Directors has confirmed that there are no other matters relating to his or her appointment as a Director that need to be brought to the attention of the Shareholders and there is no information which is required to be disclosed pursuant to [•].

SENIOR MANAGEMENT

Mr. Cheng Yiu Hang (鄭耀衡), aged 29, is our financial controller. He joined our Group in June 2012 and was appointed as our company secretary on 19 February 2013. Mr. Cheng is responsible for overseeing the financial, accounting and secretarial affairs of our Group. Prior to joining our Group, Mr. Cheng worked at KPMG from 2006 to 2012 and his last position was assistant manager. Mr. Cheng was registered as a certified public accountant and a certified public accountant (practising) of the HKICPA in January 2010 and September 2012, respectively. Mr. Cheng obtained a Bachelor of Business Administration in Accountancy from the City University of Hong Kong in November 2006.

Mr. Lo Kwok Keung Garlick (盧國強), aged 50, is the manager of our Company and is responsible for the operation and management of our property mortgage department. Mr. Lo joined our Group in February 2011. Mr. Lo has been working in insurance industry since 2001. Prior to this, Mr. Lo worked as an accounts manager at a manufacturing company from 1993 to 1997. Mr. Lo became a member of Registered Financial Planners Institute in October 2008 and an associate member of the Hong Kong Management Association in November 1999. He has obtained a professional diploma in information technology from the Hong Kong Management Association in November 2000.

COMPANY SECRETARY

We have appointed Mr. Cheng Yiu Hang as our company secretary for the purpose of [•], whose brief biographic details are set out in the section headed "Directors, senior management and employees — Senior management" above.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company complies or intends to comply with the Corporate Governance Code in [•] except for code provision A.2.1, which requires the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Mr. Edward Chan currently holds both positions. Throughout the period consisting of the two

years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, Mr. Edward Chan has been the key leadership figure of our Group who has been primarily involved in formulation of business strategies and determination of the overall direction of our Group. He has also been chiefly responsible for our Group's operations as he directly supervises other executive Directors and senior management of our Group. Taking into account the continuation of the implementation of our business plans, our Directors (including our independent non-executive Directors) consider that Mr. Edward Chan is the best candidate for both positions and the present arrangements are beneficial and in the interests of our Company and the Shareholders as a whole.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports upon the [•].

BOARD COMMITTEES

Audit Committee

We have established an audit committee on 19 February 2013 with effect from the [•] with written terms of reference in compliance with the [•]. The audit committee consists of all of the independent non-executive Directors, namely, Dr. Yip Ngai, Dr. Leung Shiu Ki Albert and Mr. Chan Wing Lee. Dr. Yip Ngai is the chairman of the audit committee. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and the internal control systems of our Group.

Remuneration Committee

We have established a remuneration committee on 19 February 2013 with effect from the [•] with written terms of reference in compliance with the [•]. The remuneration committee consists of 3 members, namely Mr. Chan Wing Lee, Dr. Leung Shiu Ki Albert and Mr. Edward Chan. Mr. Chan Wing Lee is the chairman of the remuneration committee. The primary functions of the remuneration committee are to make recommendations to our Board on the remuneration of our Directors and senior management and determine on behalf of our Board regarding specific remuneration packages and conditions of employment for our Directors and senior management.

Nomination Committee

We have established a nomination committee on 19 February 2013 with effect from the [•] with written terms of reference in compliance with the [•]. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and senior management. The nomination committee consists of 3 members, namely Dr. Leung Shiu Ki Albert, Mr. Chan Wing Lee and Mr. Edward Chan. Dr. Leung Shiu Ki Albert is the chairman of the nomination committee.

STAFF

There were 52 full-time staff in our Group as at the Latest Practicable Date. The following sets forth the number of our staff in the respective functions of our Group:

	Number of Employees
Mortgage and administration	8
Account	4
Pawnshop operation	40
Total	52

Relationships with our employees

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we did not experience any significant problems with employees or other labour disturbances to our operations and we did not experience any difficulties in the recruitment and retention of experienced staff. We believe we have a good working relationship with our employees.

Employees' benefits

Our Group's remuneration to employees includes salaries. We also provide staff benefits including subsidies for academic expenses for children of our staff. Our Group provides insurance coverage in respect of life and work injury to our employees.

RETIREMENT BENEFIT SCHEME

Our Group participates in the mandatory provident fund for our employees in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Our Group has paid the relevant contributions in accordance with the aforesaid laws and regulations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS ACTING IN CONCERT

On 8 June 2012, the Chan Family entered into an acting-in-concert declaration, whereby, among other things, they confirmed that since March 2000, they have been managing and operating the business of Oi Wah HK, Wai Wah Pawnshop and Hing Wah Pawnshop collectively and would through discussions reach consensus among themselves before reaching any commercial decisions on an unanimous basis. Pang & Co., legal advisers to our Company as to Hong Kong law, advised us that the said acting-in-concert declaration is legal and valid under Hong Kong law.

The Chan Family further confirmed that they were given sufficient information and time to consider and discuss the issues before making any decision. Since March 2000, all decisions were made unanimously at the relevant meetings by the Chan Family.

The Chan Family had further jointly and severally undertaken that, during the period they remain in control of our Group (before and after the Reorganisation), they will maintain the acting-in-concert relationship.

As such, Chan Family and Kwan Lik, as a group of Shareholders entitled to exercise more than 30% of the voting rights at general meeting of our Company, are together regarded as our Controlling Shareholders. Upon completion of the [•] and the [•], our Controlling Shareholders will together own [•]% of the total issued share capital of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective associates (other than our Group) after the [•].

(i) Financial independence

The amounts due to Shareholders were approximately HK$40.5 million, HK$43.7 million, HK$42.0 million and HK$45.0 million as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, respectively. All of these interest-free Shareholders' loans had been fully capitalised as at the Latest Practicable Date. The notional interests that would have been charged to our Group in connection with the Shareholders' loans for the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, based on the interests with reference to the borrowing rate offered to us by banks in Hong Kong, would amount to approximately HK$2.9 million, HK$2.2 million, HK$2.5 million and HK$2.0 million respectively. Our Directors further confirm that such notional interests, had they been incurred, would not have materially affected the financial performance of our Group during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

The secured bank overdrafts of approximately HK$0.6 million, HK$2.3 million, HK$0.9 million and HK$0.7 million as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, respectively, were secured by personal guarantee deposits provided by Mr. Chan Chart Man and Ms. Mui and the unsecured bank loans of approximately nil, nil, HK$2.5 million and HK$5.0 million as at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012, respectively, were jointly guaranteed by Mr. Chan Chart Man and Mr. Edward Chan. As at the Latest Practicable Date, the respective banks providing us with the secured bank overdrafts and unsecured bank loans have all given their consents that the guarantee deposits and guarantees of the secured bank overdrafts and unsecured bank loans would be released and replaced by a corporate guarantee to be given by our Company upon [•].

We had entered into an uncommitted revolving term loan facility in July 2012 with a bank for an amount up to HK$55,000,000 or 80% of the aggregate principal amount of loan receivables from customers in respect of our first mortgage loan services. Mr. Chan Chart Man and Mr. Edward Chan act as guarantors to such facility. We had applied to the said bank for the termination of the personal guarantees provided by them and replacement of such guarantees with the corporate guarantee on similar terms to be provided by our Company upon the [•] and the said bank has provided their consent in this regard.

We have been granted by a bank an unsecured overdraft facility in the amount of HK$15.0 million in September 2012, whereby Mr. Chan Chart Man and Mr. Edward Chan act as guarantors to such facility. We have informed the said bank that the guarantee provided by Mr. Chan Chart Man and Mr. Edward Chan shall be released and replaced by a corporate guarantee to be given by the Company upon [•] and the said bank has provided their consent in this regard.

We have also been granted by a bank a term loan facility in the amount of HK$8.76 million in February 2013 to finance our profits tax payment, whereby Mr. Chan Chart Man and Mr. Edward Chan act as guarantors to such facility. We have informed the said bank that the guarantee provided by Mr. Chan Chart Man and Mr. Edward Chan shall be released and replaced by a corporate guarantee to be given by the Company upon [•] and the said bank has provided their consent in this regard.

We are in the course of negotiating with other banks for the provision of other financial resources which will be guaranteed by our Company upon [•].

Save for the above and the personal guarantees provided by Mr. Edward Chan and Mr. Chan Chart Man to relevant landlords of our Cheung Wah Pawnshop, Kwong Wah Pawnshop and Heng Wah Pawnshop for the benefits of our Group on normal commercial terms, particulars of which are set out in the section headed "Notifiable transactions and connected transactions" in this document, we are financially independent of our Controlling Shareholders and their respective associates. Our Directors confirm that our Group will not receive or rely on any future financial support from our Controlling Shareholders. In addition, we have sufficient capital to operate our business independently upon [•], and have adequate internal resources and a strong credit profile to support our daily operations.

(ii) Operational independence

Despite the fact that we will have certain continuing connected transactions by leasing certain properties from Mr. Chan Chart Man or companies controlled by him, particulars of which are set out in the section headed "Notifiable transactions and connected transactions" in this document, having considered that (i) we have established our own organisational structure comprising of individual departments, each with specific areas of responsibilities; (ii) our Group has not shared our operational resources, such as customers, marketing, sale and general administration resources with the Controlling Shareholders and/or their associates; (iii) our Group may lease properties at other locations for its Pawnshop operations and/or office premises in substitution for and/or in addition to the said properties leased by Mr. Chan Chart Man or companies controlled by him, our Directors consider that our Group can operate independently from our Controlling Shareholders from the operational perspective.

(iii) Management independence

As at the Latest Practicable Date, no executive Director has overlapping roles or responsibilities in any business other than our business nor has any business which competes or is likely to compete, either directly or indirectly, with our business.

Each of our Directors is aware of his or her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her interest to exist. 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) shall abstain from voting at the relevant meeting of the Board in respect of such transaction and shall not be counted in the quorum.

[•]

Prior to its deregistration in June 2003, Sincere Treasure was engaged in property development. Sincere Treasure completed a residential project in Shamshuipo known as Po Wah Court in 1999. For this project, Hoo Chart Enterprise had offered to provide second equitable mortgage loan to the buyers. As at the Latest Practicable Date, there were still two outstanding mortgage loans, which amounted to approximately HK$194,000 and HK$330,000 respectively. According to the payment schedule, these two outstanding loans will be fully redeemed in March 2019 and May 2029, respectively. Hoo Chart Enterprise is a real estate investment company with no business other than the two outstanding loans and is not engaged in nor seeking any business opportunity which competes or is likely to compete with our Group's business.

Save as disclosed above, none of the Controlling Shareholders and our Directors has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to [•].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company, pursuant to which our Controlling Shareholders have jointly and severally irrevocably and unconditionally undertaken to our Company (for ourselves and for the benefit of our subsidiaries) that it or he or she would not, and would procure that its or his or her associates (other than any member of our Group) would not, during the restricted period set out below, directly or indirectly, either on its or his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, principal, agent, director, employee or otherwise) any business which is or may be in competition with the current businesses of our Group (the "Restricted Business"). Such non-compete undertaking does not apply to:

(i) any interests in the shares of any member of our Group; or

(ii) interests in the shares of a company other than our Company whose shares are listed on a recognised [•] provided that:

  (a) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

  (b) the total number of the shares held by our Controlling Shareholders and/or their respective associates in aggregate does not exceed 10% of the issued shares of that class of the company in question and such Controlling Shareholders and/or their respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and their respective associates in aggregate; or

  (c) our Controlling Shareholders and/or their respective associates do not have the control over the board of such company.

The "restricted period" stated in the Deed of Non-competition refers to the period during which (i) the Shares of our Company remain [•] and traded on the [•]; (ii) as far as each Controlling Shareholder is concerned, it or he or she or its or his or her associate holds an equity interest in our Company; and (iii) the relevant Controlling Shareholders and/or their respective associates are entitled to jointly or severally exercise or control the exercise of not less than 30% in aggregate of the voting rights at general meetings of our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Company will adopt the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- the independent non-executive Directors will review, on an annual basis, the compliance with the non-compete undertaking by our Controlling Shareholders under the Deed of Non-competition;

- our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;

- our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of our Company; and

- our Controlling Shareholders will make confirmation on compliance with their undertaking under the Deed of Non-competition in the annual report of our Company.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our results of operations and financial condition in conjunction with our combined financial information as of and for the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2011 and 2012, including the notes thereto, included in Appendix I to this document. Our combined financial information has been prepared in accordance with HKFRSs. The following discussion contains forward-looking statements concerning events that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this document.

OVERVIEW

We are a financing service provider in Hong Kong mainly providing short-term secured financing, including pawn loans and mortgage loans. We provide pawn loans whereby personal properties are used as collaterals for the security of such loans, and first and subordinated mortgage loans.

Our turnover for the year ended 28 February 2010 ("FY2010"), the year ended 28 February 2011 ("FY2011"), the year ended 29 February 2012 ("FY2012") and the nine months ended 30 November 2012 were approximately HK$46.7 million, HK$54.7 million, HK$66.4 million and HK$52.6 million, respectively, while our profit and total comprehensive income for the same periods were approximately HK$20.2 million, HK$23.6 million, HK$33.4 million and HK$19.3 million, respectively.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 5 June 2012 and became the holding company of the companies now comprising our Group pursuant to the Reorganisation completed on 18 February 2013. Details of which are set out in the section headed "History and development" to this document.

For the purpose of preparation of our Group's combined financial statements, the financial year end date of Oi Wah HK has been changed to 28 February (or 29 February in a leap year) to conform with that of our Company as part of the Reorganisation.

Pursuant to the concert party agreement as detailed in the section headed "Relationship with our Controlling Shareholders" in this document, all the companies and businesses (including the sole proprietorship businesses) that took part in the Reorganisation were controlled by the same group of shareholders, namely the Chan Family. As the Chan Family owned or controlled the sole proprietorship business and the companies now comprising our Group before and after the Reorganisation, there was a continuation of the risk and benefits to the Chan Family and, therefore, the Reorganisation is considered to be a restructuring of entities and business under common control. The combined financial statements of our Group has been prepared using the principles of merger accounting and there was no change in the economic substance of the business of our Group. Accordingly, the combined financial statements of our Group has been prepared as if the Reorganisation has been completed as at the beginning of the period

consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and remained unchanged throughout the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATION

Our Group's financial condition and results of operations have been and will continue to be affected by a number of factors, including those set out below.

Source of funding

Our source of funds for our operations mainly comes from a combination of our internal generated funds, funds from our Shareholders and bank loans and overdrafts. The expansion of our pawn loan and mortgage loan business depends on our loan portfolio which will require us to maintain sufficient funds. Our profitability and financial performance will depend on our ability to obtain sufficient and/or alternative fundings on reasonable terms.

Interest rate environment, staff cost and rental expenses

Our Group's interest rate risks arise from the interest-bearing lending and borrowing of our pawn loan and mortgage loan business. Our profitability is highly correlated to the net interest margin. The interest rate chargeable by us to our customers is determined by the market demand of loans and the prevailing competition in the industry, and is capped by the relevant provisions of the Pawnbrokers Ordinance and the Money Lenders Ordinance. The net interest margin during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 was approximately 41.5%, 40.5%, 37.2% and 35.7% per annum respectively. Our borrowing cost is determined the overall local money lending market conditions and our credit positions. Our Directors noted that the interest rate environment is not stable and the interest rate changes from time to time that may affect the sustainability of our net interest margin. In order to mitigate the risk arising from the fluctuation of general interest rates, while we financed our mortgage loan business by bank borrowings based on the prime rate, we have since early 2011 granted mortgage loans with floating interest rate based on the prime rate plus a fixed margin. Furthermore, the prevailing low interest rate environment enables us to obtain debt financing to fund our pawn loan and mortgage loan operations at a lower cost which our Directors considered would enhance our interest rate risk management and sustainability of our net interest margin.

Notwithstanding the negative impact on our net interest margin due to various factors, our Group will endeavour to secure its source of funding at reasonable costs through debt and/or equity financing (or a combination of both) when and where necessary. We will endeavour to maintain a good relationship with our banks with an aim to ensure we could obtain debt financing at favourable terms whenever it is required and we will also negotiate with different banks when we seek for new bank borrowings in the future to compare the terms of the bank loans offered to us.

Staff cost and rental expenses attribute to the largest portion of our total operating expenses during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012. To mitigate the adverse impact of possible escalating staff cost and rental expenses, our Directors intend to offer performance-based bonus rather than offering salary increment as incentive to retain its staff and to secure the rental agreement in a longer term.

Competitiveness of our loan products

Our net loan receivables amounted to approximately HK$94.3 million, HK$125.5 million, HK$151.0 million and HK$194.3 million as at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012, respectively. The pawn loan and money lending industries are highly competitive. Our profitability and ability to expand our loan portfolio will be dependent on, among others, the competitiveness of our loan products in terms of interest charges, our ability to target and select customers with creditworthiness which commensurate with our interest charges, our marketing efforts in promoting our brand and loan products, and the service quality of our staff.

Fluctuation in the values of the collaterals

The values of the collaterals used as pledges for our pawn loans and mortgage loans may fluctuate due to various reasons such as the macro economic environment, fluctuation in prices of the commodities and real estates and inflation. The fluctuation in the values of the collaterals in turn affects the amount of our loans granted and thus the amount of our interest income as well as the amount of our gain on disposal of repossessed assets. Our results of operations may be affected by the volatility of the values of our collaterals.

Changes in laws and regulations governing the pawn loan and money lending industries in Hong Kong

Our business is governed by the Pawnbrokers Ordinance and the Money Lenders Ordinance. Changes in laws and regulations governing our business may affect our profitability and financial performance, such as the level of interest rate we may charge our customers or any new licensing requirements. A summary of the regulatory framework of pawn loan and money lending business in Hong Kong is set out in the section headed "Regulatory overview" in this document.

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in profit or loss on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, our Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired financial assets, the accrual of interest income based on the original terms of the financial assets is discontinued.

(ii) Fee income

Fee income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk are incurred or is accounted for as interest income.

(iii) Gain on disposal of repossessed assets

Disposal gain is recognised when the buyer of the repossessed assets has accepted the goods and the related risks and rewards of ownership.

(iv) Dividends

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payment receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Financial instruments

(i) Initial recognition

Our Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Our Group recognises financial assets and financial liabilities on the date we become a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Classification

Fair value through profit or loss

This category comprises financial assets held for trading which are financial assets acquired or incurred principally for the purpose of trading.

Financial assets under this category are carried at fair value. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal the difference between the net sale proceeds or net payment and the carrying value is included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that our Group intends to sell immediately or in the near term, which are classified as held for trading; (2) those that our Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (3) those where our Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise pawn loans, mortgages and unsecured loans. Pawn loans are loans provided whereby personal property such as gold, jewellery and diamonds, watches and consumer electronic products are used as collaterals for the security of the loans. Mortgages are loans secured by real estates and unsecured loans are loans without collaterals.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any.

Other financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

Our Group uses the weighted average method to determine realised gains or losses to be recognised in profit or loss on derecognition.

Impairment of financial assets

The carrying amounts of our Group's financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of our Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;

- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When our Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for impairment losses consists of two components: individual impairment allowances, and collective impairment allowances.

Our Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If our Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

The individual impairment allowance is based upon management's best estimate of the present value of cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management make judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of our Group. Each impaired asset is assessed on its merits.

In assessing the need for collective loan loss allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, our Group makes assumptions both to define the way our Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

Where there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

(ii) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that other assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of comprehensive income in the year in which the reversals are recognised.

Repossessed assets

In the recovery of impaired loan receivables granted under the Pawnbrokers Ordinance, our Group takes possession of the collateral assets from the customers. This possession takes place once a loan becomes overdue, subject to a grace period at the discretion of our Group granted in certain cases.

Repossessed assets are initially recognised at the amortised cost of the related outstanding loans on the date of repossession, which is generally below the net realisable value of the repossessed assets. Upon repossession of the assets, the related loans and advances together with the related impairment allowances, if any, are derecognised from the statement of financial position. Subsequently, repossessed assets are carried at the lower of the amount initially recognised or net realisable value and are therefore written down if and when the net realisable value falls to below the carrying amount of the asset. The excess of the net proceeds over the carrying amount of the repossessed assets is recognised as a gain upon the disposal of the assets.

Others

For details of the significant accounting policies relating to our Group's financial information, pleas refer to the Accountants' Report set out in Appendix I to this document.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following is a summary of the combined statements of comprehensive income of our Group for each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2011 and 2012, respectively, derived from the Accountants' Report set out in Appendix I to this document.

	Year ended 28 February 2010 *HK$*	Year ended 28 February 2011 *HK$*	Year ended 29 February 2012 *HK$*	Nine months ended 30 November 2011 *HK$* *(unaudited)*	Nine months ended 30 November 2012 *HK$*
Turnover	46,659,418	54,692,308	66,360,621	49,483,636	52,602,748
Other revenue	902,368	1,233,567	840,316	564,732	1,379,861
Other net income	325,420	73,802	123,012	123,910	234
Operating income	47,887,206	55,999,677	67,323,949	50,172,278	53,982,843
Operating expenses	(23,536,112)	(27,777,550)	(27,127,035)	(20,460,179)	(29,255,416)
(Charge for)/credit to impairment losses on loan receivables	(42,446)	91,390	(76,429)	(106,119)	937
Profit from operations	24,308,648	28,313,517	40,120,485	29,605,980	24,728,364
Finance costs	(27,091)	(49,682)	(141,874)	(84,954)	(304,466)
Profit before taxation	24,281,557	28,263,835	39,978,611	29,521,026	24,423,898
Income tax	(4,060,085)	(4,679,961)	(6,602,556)	(4,838,402)	(5,154,326)
Profit and total comprehensive income for the year/period	20,221,472	23,583,874	33,376,055	24,682,624	19,269,572

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF COMBINED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth the turnover, other revenue and other net income of our Group for each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2011 and 2012, respectively.

	Year ended 28 February 2010 *HK$*	Year ended 28 February 2011 *HK$*	Year ended 29 February 2012 *HK$*	Nine months ended 30 November 2011 *HK$* *(unaudited)*	Nine months ended 30 November 2012 *HK$*
Turnover					
Interest earned on loan receivables					
— Pawn loans	40,355,990	45,270,791	52,350,742	39,266,976	42,853,013
— Mortgages	156,956	823,353	3,192,311	2,048,163	4,802,665
	40,512,946	46,094,144	55,543,053	41,315,139	47,655,678
Gain on disposal of repossessed assets	6,146,472	8,598,164	10,817,568	8,168,497	4,947,070
	46,659,418	54,692,308	66,360,621	49,483,636	52,602,748
Other revenue					
Rental income	593,750	637,950	675,511	468,653	554,944
Dividend income from trading securities	25,823	24,334	160	125	133
Interest earned on unsecured loans	72,493	100,139	84,222	69,150	25,304
Credit related fee income	—	—	67,542	18,500	163,000
Bank interest income	1,164	570	380	304	331
Others	209,138	470,574	12,501	8,000	636,149
	902,368	1,233,567	840,316	564,732	1,379,861
Other net income					
Net realised and unrealised gain/(loss) on trading securities	389,420	73,802	(898)	—	234
Net (loss)/gain on disposal of fixed assets	(64,000)	—	123,910	123,910	—
	325,420	73,802	123,012	123,910	234
Operating income	47,887,206	55,999,677	67,323,949	50,172,278	53,982,843

FINANCIAL INFORMATION

Turnover

Our turnover comprises interest income on pawn loans and mortgage loans, and gain on disposal of repossessed assets. Our turnover amounted to approximately HK$46.7 million, HK$54.7 million, HK$66.4 million and HK$52.6 million representing approximately 97.5%, 97.7%, 98.7% and 97.4%, respectively, of our Group's operating income of approximately HK$47.9 million, HK$56.0 million, HK$67.3 million and HK$54.0 million, respectively, for each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012. Our interest income on pawn loans and mortgage loans, which is our key turnover driver, during the same periods amounted to approximately HK$40.5 million, HK$46.1 million, HK$55.5 million and HK$47.7 million, respectively, accounted for approximately 86.8%, 84.3%, 83.7% and 90.6% of our Group's turnover, respectively. For each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, our turnover attributable to the gain on disposal of repossessed assets amounted to approximately HK$6.1 million, HK$8.6 million, HK$10.8 million and HK$4.9 million, respectively, accounted for approximately 13.2%, 15.7%, 16.3% and 9.4% of our turnover, respectively.

Other revenue

Other revenue consists of rental income, dividend income from trading securities, interest earned on unsecured loans, credit related fee income, bank interest income, income from trading of luxury goods such as watches and jewellery and others. Other revenue amounted to approximately HK$0.9 million, HK$1.2 million, HK$0.8 million and HK$1.4 million, representing approximately 1.9%, 2.1%, 1.2% and 2.6% of our Group's operating income for each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, respectively. As at the Latest Practicable Date, our Group had disposed all of its trading securities and ceased investing in trading securities, and also ceased the procurement of luxury goods for trading from second-hand product dealers. For the nine months ended 30 November 2012, we have traded luxury goods for three walk-in customers who approached us directly and the income generated from such trading amounted to approximately HK$460,000. We will engage in such trading activities in the future only if initiated by our customers and as and when our Directors consider appropriate. Our interests earned on unsecured loans during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 were relating to the unsecured loans we separately advanced to two individuals and a second-hand product dealer, all being Independent Third Parties, which had prior business relationship with us and approached us on their own initiatives to meet their short-term liquidity needs. We granted the said unsecured loans pursuant to our Money Lenders Licence. As advised by Pang & Co., legal advisers to our Company as to Hong Kong law, the relevant loans will be governed by the Money Lenders Ordinance and the granting of such unsecured loans by us is legal. On the other hand, we could not provide loans to borrowers without collaterals under our Pawnbrokers Licences. As at the Latest Practicable Date, all such unsecured loans have been repaid and we do not intend to grant unsecured loans to any third parties in the future.

Other net income

Other net income includes net realised and unrealised gain or loss on trading securities and net gain or loss on disposal of fixed assets. Other net income amounted to approximately HK$0.3 million, HK$0.1 million, HK$0.1 million and HK$200 for each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, respectively, accounted for approximately 0.6%, 0.2%, 0.1% and 0.001% of our Group's operating income, respectively.

Operating expenses

Operating expenses include staff costs and other operating expenses.

Staff costs

Staff costs comprise salaries and other benefits, Directors' remuneration, contributions to defined contribution scheme, and (reversal of provision)/provision for long service payment. For each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, staff costs amounted to approximately HK$13.8 million, HK$14.7 million, HK$13.5 million and HK$11.4 million respectively.

Other operating expenses

Other operating expenses mainly consist of rental expenses, maintenance and repair expenses, [•] expenses, auditors' remuneration, depreciation and advertising expenses. For each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, other operating expenses amounted to approximately HK$9.7 million, HK$13.0 million, HK$13.6 million and HK$17.9 million, respectively.

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, we had incurred and recognised approximately HK$6.8 million [•] expenses in the profit and loss account. The total estimated expenses in relation to the [•] are approximately HK$22.5 million, of which approximately HK$7.4 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 [•]. The estimated expenses of approximately HK$10.9 million, including the amount of approximately HK$6.8 million recognised during the nine months ended 30 November 2012, are expected to be charged to the profit or loss of our Group for the year ending 28 February 2013, and approximately HK$4.2 million are expected to be charged to the profit or loss for the year ending 28 February 2014. The estimated [•] expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Company upon the completion of the [•].

(Charge for)/Credit to impairment losses on loan receivables

We incurred impairment losses on loan receivables based on the recoverability of our loan receivables. Our amount of impairment losses on loan receivables (charged for)/ credited to the profit or loss of our Group were approximately HK$(42,000), HK$91,000, HK$(76,000) and HK$900, for each of the FY2010, FY2011, FY2012 and the nine months ended 30 November 2012.

Finance costs

Finance costs consisted of finance charges of obligations under finance leases and interest on bank loans and overdrafts. For each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, finance costs amounted to approximately HK$27,000, HK$50,000, HK$142,000 and HK$304,000, respectively.

Income tax expenses

Since our operation is based in Hong Kong, our Group is liable to Hong Kong Profits Tax. For each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, the income tax expenses of our Group amounted to approximately HK$4.1 million, HK$4.7 million, HK$6.6 million and HK$5.2 million, respectively.

The normal tax rate in Hong Kong was 16.5%, except for that of sole proprietorship businesses of 15.0%, throughout the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, while our corresponding effective tax rate were 16.7%, 16.6% and 16.5% and 21.1% for each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, respectively. Our effective tax rate were slightly higher than normal tax rates in each of the FY2010 and FY2011 which was due to the insignificant amount of non-deductible expenses during the relevant periods. Our effective tax rate for the nine months ended 30 November 2012 of 21.1% was higher than the normal tax rate mainly attributable to the non tax-deductible [•] expenses of approximately HK$6.8 million for the period.

Net interest margin

The following table sets forth the net interest margin for each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2011 and 2012:

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2011	Nine months ended 30 November 2012
	%	%	%	%	%
Net interest margin for our pawn loan services	42.4	42.9	42.1	42.7	43.3
Net interest margin for our mortgage loan services	9.0	9.9	12.7	12.3	13.4
Overall net interest margin	**41.5**	**40.5**	**37.2**	**38.1**	**35.7**

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Nine months ended 30 November 2012 compared to nine months ended 30 November 2011

Turnover

Our Group's turnover increased from approximately HK$49.5 million in the nine months ended 30 November 2011 to approximately HK$52.6 million in the nine months ended 30 November 2012 representing an increase of approximately HK$3.1 million or 6.3%. The increase was attributable to the increase in our interest income earned on our loan receivables by approximately HK$6.4 million or 15.5% from approximately HK$41.3 million in the nine months ended 30 November 2011 to approximately HK$47.7 million in the nine months ended 30 November 2012, offset by a decrease in gain on disposal of repossessed assets by approximately HK$3.3 million or 40.2% from approximately HK$8.2 million in the nine months ended 30 November 2011 to approximately HK$4.9 million in the nine months ended 30 November 2012.

The increase in our interest income earned on our loan receivables in the nine months ended 30 November 2012 was attributable to the increase in our interest income earned in both of our pawn loan and mortgage loan business. Interest income earned on our pawn loan services increased from approximately HK$39.3 million in the nine months ended 30 November 2011 to approximately HK$42.9 million in the nine months ended 30 November 2012, representing an increase of approximately HK$3.6 million or 9.2%. The increase was primarily attributable to our increase in the (i) aggregated amount of pawn loans granted increased from approximately HK$386.0 million in the nine months ended 30 November 2011 to approximately HK$414.1 million in the nine months ended 30 November 2012; and (ii) average amount of pawn loans increased from approximately HK$3,400 per transaction in the nine months ended 30 November 2011 to approximately HK$3,900 per transaction in the nine months ended 30 November 2012.

Interest income earned on our mortgage loan services increased significantly from approximately HK$2.0 million in the nine months ended 30 November 2011 to approximately HK$4.8 million in the nine months ended 30 November 2012, representing an increase of approximately HK$2.8 million or 140.0%. The increase was mainly due to the continuous expansion of our mortgage loan portfolio in the nine months ended 30 November 2012. The number of new mortgage loans granted increased from 29 cases in the nine months ended 30 November 2011 to 54 cases in the nine months ended 30 November 2012 and the total amount of mortgage loans granted increased significantly from approximately HK$35.2 million in the nine months ended 30 November 2011 to approximately HK$67.0 million in the nine months ended 30 November 2012.

Gain on disposal of repossessed assets represents the gain we received as we sold the repossessed assets in the event of default in repayment of our pawn loans. The decrease in our gain on disposal of repossessed assets in the nine months ended 30 November 2012 was mainly due to the fact that (i) our disposal of repossessed assets would ordinarily take place at the end of a lunar month, and (ii) the gain on disposal of repossessed assets for the nine months ended 30 November 2011 represented the gain on disposal of repossessed assets for the ten lunar months falling within the period, while the gain on disposal of repossessed assets for the nine months ended 30 November 2012 represented the gain on disposal for the nine lunar months falling within the period.

Other revenue

Other revenue increased from approximately HK$0.6 million in the nine months ended 30 November 2011 to approximately HK$1.4 million in the nine months ended 30 November 2012 representing an increase of approximately HK$0.8 million or 133.3%, which was mainly due to (i) the increase in other income generated from the trading of luxury goods of approximately HK$0.5 million, during the nine months ended 30 November 2012; (ii) the increase in rental income by approximately HK$0.1 million charged on our subleased properties, and (iii) the increase in our credit-related fee income by approximately HK$0.1 million representing early repayment fees and administrative fee for loan not drawn within 45 days from our mortgage loan customers.

Other net income

Other net income in the nine months ended 30 November 2011 amounted to approximately HK$0.1 million as we recorded approximately HK$0.1 million in our net gain on disposal of a fixed asset, our motor vehicle, in the nine months ended 30 November 2011 which was one-off in nature. Other net income in the nine months ended 30 November 2012 amounted to approximately HK$200 resulted from the net realised gain on disposal of trading securities.

Operating expenses

Operating expenses increased by approximately HK$8.8 million or 42.9% from approximately HK$20.5 million in the nine months ended 30 November 2011 to approximately HK$29.3 million in the nine months ended 30 November 2012.

Staff costs increased by approximately HK$0.9 million or 8.6% from approximately HK$10.5 million in the nine months ended 30 November 2011 to approximately HK$11.4 million in the nine months ended 30 November 2012. The increase was mainly attributable to (i) the increase in salaries and other benefits of approximately HK$0.3 million mainly due to the increase in staff performance bonus, (ii) the increase in directors' remuneration of approximately HK$0.4 million, and (iii) the increase of our provision for long service payment of approximately HK$0.2 million in the nine months ended 30 November 2012.

Other operating expenses increased by approximately HK$7.9 million or 79.0% from approximately HK$10.0 million in the nine months ended 30 November 2011 to approximately HK$17.9 million in the nine months ended 30 November 2012, which was primarily attributable to our [•] expenses of approximately HK$6.8 million recognised in the nine months ended 30 November 2012.

(Charge for)/Credit to impairment losses on loan receivables

The impairment losses on loan receivables credited to profit or loss was approximately HK$1,000 in the nine months ended 30 November 2012 compared to impairment losses on loan receivables charged to profit or loss in the nine months ended 30 November 2011 which amounted to approximately HK$0.1 million. The impairment losses on loan receivables credited to profit or loss in the nine months ended 30 November 2012 of approximately HK$1,000 was attributable to the net effect of (i) the subsequent reassessment on the recoverability of previously impaired loan receivables that were individually assessed being credited to profit or loss of approximately HK$73,000; and (ii) the impairment losses on loan receivables that were collectively assessed being charged to profit or loss of approximately HK$72,000. In the nine months ended 30 November 2011, the impairment losses on loan receivables charged to profit or loss of approximately HK$0.1 million was attributable to the net effect of (i) the impairment losses for several loan receivable balances that were individually assessed which amounted to approximately HK$138,000 charged to profit or loss, and (ii) the subsequent reassessment on the recoverability of previously impaired loan receivables that were collectively assessed being credited to profit or loss of approximately HK$32,000.

Finance costs

Finance costs increased by approximately HK$0.2 million or 200.0% from approximately HK$0.1 million in the nine months ended 30 November 2011 to approximately HK$0.3 million in the nine months ended 30 November 2012. The increase was mostly due to an increase in amount of bank loans and overdrafts in the nine months ended 30 November 2012 as we obtained and utilised more bank loans and overdraft facilities as funding for our expansion of pawn loan and mortgage loan portfolios.

Income tax expenses

Our Group's income tax expenses increased by approximately HK$0.4 million, or approximately 8.3% from approximately HK$4.8 million in the nine months ended 30 November 2011 to approximately HK$5.2 million in the nine months ended 30 November 2012. The increase was mainly due to the tax effect of non-deductible [•] expenses expenses of approximately HK$6.8 million for the nine months ended 30 November 2012, as compared to the tax effect of our non-deductible expenses of approximately HK$0.1 million for the nine months ended 30 November 2011, partially offset by the lesser amount of notional tax by approximately HK$0.8 million due to decreased profit before taxation by approximately HK$5.1 million over the same period.

Profit and total comprehensive income for the period

As a result of the foregoings, our profit and total comprehensive income for the period decreased by approximately HK$5.4 million or 21.9%, from approximately HK$24.7 million in the nine months ended 30 November 2011 to approximately HK$19.3 million in the nine months ended 30 November 2012.

Net profit margin

Our net profit margin decreased from approximately 49.9% in the nine months ended 30 November 2011 to approximately 36.6% in the nine months ended 30 November 2012, which was mainly due to our [•] expenses of approximately HK$6.8 million incurred in the nine months ended 30 November 2012 and hence decreased our net profit recorded in the same period.

Net interest margin

The net interest margin decreased from approximately 38.1% in the nine months ended 30 November 2011 to approximately 35.7% in the nine months ended 30 November 2012 since higher proportion of our interest income was earned from mortgage loans in the nine months ended 30 November 2012, from which we generally charged comparatively lower interest rate than that charged on our pawn loans. For the nine months ended 30 November 2011 and 2012, interest earned on mortgage loans contributed approximately 5.0% and 10.1% to our total interest income, respectively, resulted from the further expansion of our mortgage loan business. We maintained relatively stable net interest margin for our pawn loan services in the nine months ended 30 November 2011 and the nine months ended 30 November 2012 which amounted to approximately 42.7% and 43.3%, respectively. The net interest margin for our mortgage loan services increased slightly from approximately 12.3% in the nine months ended 30 November 2011 to approximately 13.4% in the nine months ended 30 November 2012, respectively. Among the mortgage loans we granted during the nine months ended 30 November 2012, we charged our customers 24.0% for one mortgage loan with loan amount of HK$1.8 million, 21.6% per annum for one mortgage loan with loan amount of HK$2.5 million and 18.0% per annum for six mortgage loans with aggregated loan amount of HK$11.0 million.

FY2012 compared to FY2011

Turnover

Our Group's turnover increased from approximately HK$54.7 million in FY2011 to approximately HK$66.4 million in FY2012 representing an increase of approximately HK$11.7 million or 21.4%. The increase was attributable to the increase in our interest income earned on our loan receivables by approximately HK$9.4 million or 20.4% from approximately HK$46.1 million in FY2011 to approximately HK$55.5 million in FY2012 and the increase in our gain on disposal of repossessed assets from approximately HK$8.6 million in FY2011 to approximately HK$10.8 million representing an increase of approximately HK$2.2 million or 25.6%.

The increase in our interest income earned on our loan receivables in FY2012 was mainly attributable to the increase in our interest income earned in both of our pawn loan and mortgages loan business. Interest income earned in our pawn loan services increased from approximately HK$45.3 million in FY2011 to approximately HK$52.4 million in FY2012, representing an increase of approximately HK$7.1 million or 15.7%. The increase was primarily attributable to our increase in the (i) aggregated amount of pawn loans granted increased from approximately HK$413.8 million in FY2011 to approximately HK$513.1 million in FY2012; and (ii) average amount of pawn loans increased from approximately HK$2,800 per transaction in FY2011 to approximately HK$3,500 per transaction in FY2012.

Interest income earned in our mortgage loan services increased significantly from approximately HK$0.8 million in FY2011 to approximately HK$3.2 million in FY2012, representing an increase of approximately HK$2.4 million or 300.0%. The increase was mainly due to the continuous expansion of our mortgage loan services in FY2012. The number of new mortgage loans granted was substantially increased from 12 in FY2011 to 31 in FY2012 and the amount of mortgage loans granted was significantly increased from approximately HK$23.2 million in FY2011 to approximately HK$38.3 million in FY2012. In addition, we began to provide subordinated mortgage loan services in FY2012 which generally charge a higher interest rate than first mortgage loan. Please refer to the section headed "Business — Our principal business activities — Mortgage loan services" for more details in relation to the interest rate of our subordinated mortgage loan.

The increase in our gain on disposal of repossessed assets in FY2012 was as a result of the general increasing prices of our collaterals such as watches, gold, jewellery and diamond during the relevant period.

Other revenue

Other revenue decreased from approximately HK$1.2 million in FY2011 to approximately HK$0.8 million in FY2012 representing a decrease of approximately HK$0.4 million or 33.3%, which was mainly due to the net effect of (i) decrease in income generated from the trading of luxury goods such as watches and jewellery by approximately HK$0.5 million; and (ii) increase in credit related fee income, such as handling fees for early repayment, of approximately HK$0.1 million in respect of mortgage loan in FY2012.

Other net income

Other net income remained stable in both FY2011 and FY2012 and amounted to approximately HK$0.1 million.

Operating expenses

Operating expenses decreased by approximately HK$0.7 million or 2.5% from approximately HK$27.8 million in FY2011 to approximately HK$27.1 million in FY2012. The decrease was attributable to the net effect of a decrease in our staff costs of approximately HK$1.2 million and an increase in our other operating expenses of approximately HK$0.6 million.

Staff costs decreased by approximately HK$1.2 million or 8.2% from approximately HK$14.7 million in FY2011 to approximately HK$13.5 million in FY2012. The decrease was mainly attributable to a decrease of salaries and other benefits, and Directors' remuneration of approximately HK$0.5 million and HK$0.7 million, respectively, as a result of (i) the change of bonus scheme in August 2010 from one which (1) was based on annual profit of our Group and (2) all staff of our Group were entitled to receive such bonus, to one which (1) was based on monthly turnover and loan amount of each Pawnshop and (2) only staff of Pawnshops were entitled to receive such bonus and (ii) our management decided not to pay any discretionary bonus to our Directors in FY2012 so as to reserve more internal resources for the development of our mortgage business.

Other operating expenses increased by approximately HK$0.6 million or 4.6% from approximately HK$13.0 million in FY2011 to approximately HK$13.6 million in FY2012, which was primarily attributable to an increase of rental expenses of approximately HK$0.7 million and an increase of other miscellaneous expenses such as insurance, legal and professional fees and motor vehicles expenses of approximately HK$0.5 million partially offset by a slight decrease of advertising expenses of approximately HK$0.5 million.

(Charge for)/Credit to impairment losses on loan receivables

The impairment losses on receivables charged to profit or loss was approximately HK$76,000 in FY2012 compared to a credit to the impairment losses on loan receivables in FY2011 which amounted to approximately HK$91,000. It is due to impairment losses for several loan receivable balances that were individually assessed which amounted to approximately HK$139,000 was charged in FY2012.

Finance costs

Finance costs increased by approximately HK$92,000 or 184.0% from approximately HK$50,000 in FY2011 to approximately HK$142,000 in FY2012. The increase was mostly due to the increased amount of bank loans and overdrafts in FY2012.

Income tax expenses

Our Group's income tax expenses increased by approximately HK$1.9 million, or approximately 40.4% from approximately HK$4.7 million in FY2011 to approximately HK$6.6 million in FY2012. The increase was mainly due to the increase of our taxable profit in FY2012.

Profit and total comprehensive income for the year

As a result of the foregoings, our profit and total comprehensive income for the year increased by approximately HK$9.8 million or 41.5%, from approximately HK$23.6 million in FY2011 to approximately HK$33.4 million in FY2012.

Net profit margin

Our net profit margin increased from approximately 43.1% in FY2011 to approximately 50.3% in FY2012 as we achieved significant growth in our turnover from FY2011 to FY2012 by approximately 21.4%, whereas our operating expenses remained relatively steady regardless of our growth in turnover as a financing service provider.

Net interest margin

The net interest margin decreased from approximately 40.5% in FY2011 to approximately 37.2% in FY2012, which was mainly attributable to higher proportion of our interest income earned from mortgage loans in FY2012, from which we generally charged comparatively lower interest rate than that charged on our pawn loans. Resulted from the further expansion of our mortgage loan business, interest earned on mortgage loans contributed approximately 1.7% and 5.8% to our total interest income in FY2011 and FY2012, respectively. We maintained relatively stable net interest margin for our pawn loan services in FY2011 and FY2012 which amounted to approximately 42.9% and 42.1%, respectively. The net interest margin for our mortgage loan services increased slightly from approximately 9.9% in FY2011 to approximately 12.7% in FY2012, as we started granting subordinated mortgage loans to customers in FY2012 that we generally charge our customers a higher interest rate than our first mortgage loans.

FY2011 compared to FY2010

Turnover

Our Group's turnover increased from approximately HK$46.7 million in FY2010 to approximately HK$54.7 million in FY2011, representing an increase of approximately HK$8.0 million or 17.1%. The increase was attributable to the increase in our interest income earned on our loan receivables by approximately HK$5.6 million or 13.8% from approximately HK$40.5 million in FY2010 to approximately HK$46.1 million in FY2011 and the increase in our gain on disposal of repossessed assets from approximately HK$6.1 million FY2010 to approximately HK$8.6 million representing an increase of HK$2.5 million or 41.0%.

The increase in our interest income earned on our loan receivables in FY2011 was mainly attributable to the increase in our interest earned in both of our pawn loan and mortgage loan services. Interest income earned in our pawn loan services increased from approximately HK$40.4 million in FY2010 to approximately HK$45.3 million in FY2011, representing an increase of approximately HK$4.9 million or 12.1%. The increase was due to (i) aggregated amount of pawn loans granted from approximately HK$361.4 million in FY2010 to approximately HK$413.8 million in FY2011; and (ii) average amount of pawn loans increased from approximately HK$2,500 per transaction in FY2010 to approximately HK$2,800 per transaction in FY2011.

Interest income earned in our mortgage loan services increased from approximately HK$0.2 million in FY2010 to approximately HK$0.8 million in FY2011, representing an increase of approximately HK$0.6 million or 300.0%. The increase was attributable to the fact that our mortgage loan services entered into a growing stage in FY2011 after its launch in FY2010. The number of new mortgage loans granted soared from 2 cases in 2010 to 12 cases in FY2011 and the total amount of mortgage loan granted was significantly increased from approximately HK$3.9 million in FY2010 to approximately HK$23.2 million in FY2011.

The increase in our gain on disposal of repossessed assets in FY2011 was as a result of the general increasing prices of our collaterals such as watches, gold, jewelery and diamond during the relevant period.

Other revenue

Other revenue increased from approximately HK$0.9 million in FY2010 to approximately HK$1.2 million in FY2011, representing an increase of approximately HK$0.3 million or 33.3%, mainly due to the increased amount of income generated from the trading of luxury goods such as watches and jewellery by approximately HK$0.3 million.

Other net income

Other net income decreased from approximately HK$0.3 million in FY2010 to approximately HK$0.1 million in FY2011, representing a decrease of approximately HK$0.2 million or 66.7%, primarily attributable to a decreased amount of net realised and unrealised gain on trading securities from approximately HK$0.4 million in FY2010 to HK$0.1 million in FY2011.

Operating expenses

Operating expenses increased by approximately HK$4.3 million or 18.3% from approximately HK$23.5 million in FY2010 to approximately HK$27.8 million in FY2011. This increase was attributable to an increase in our staff costs of approximately HK$0.9 million and an increase in our other operating expenses of approximately HK$3.3 million.

Staff cost increased by approximately HK$0.9 million or 6.5% from approximately HK$13.8 million in FY2010 to approximately HK$14.7 million in FY2011. The increase was mainly attributable to an increase of salaries and other benefits of approximately HK$0.9 million as a result of increase in bonus to staff because our staff achieved the internal turnover target set by our Group during FY2011.

Other operating expenses increased by approximately HK$3.3 million or 34.0% from approximately HK$9.7 million in FY2010 to approximately HK$13.0 million in FY2011, which was primarily attributable to (i) the increase of advertising expenses of approximately HK$2.0 million as we deployed a variety of channels to advertise our business in FY2011; (ii) the increase of approximately HK$0.6 million in rental expenses; and (iii) the increase of other miscellaneous expenses such as insurance and legal and professional fees of approximately HK$0.5 million.

(Charge for)/Credit to impairment losses on loan receivables

The impairment losses charged to profit or loss was approximately HK$42,000 in FY2010 compared to the amount credited to profit or loss of approximately HK$91,000 in FY2011 due to a higher estimated recoverability rate of our loan receiveables.

Finance costs

Finance costs increased by approximately HK$23,000 or 85.2% from approximately HK$27,000 in FY2010 to approximately HK$50,000 in FY2011. This increase was mostly due to the increased amount of bank loans and overdrafts and the increase of finance charges on obligations under finance leases in relation to the acquisition of a motor vehicle in FY2011.

Income tax expenses

Our Group's income tax expenses increased slightly by approximately HK$0.6 million or 14.6% from approximately HK$4.1 million in FY2010 to approximately HK$4.7 million in FY2011. This increase was mainly due to the increase in our taxable profit in FY2011.

Profit and total comprehensive income for the year

As a result of the foregoings, our profit and total comprehensive income for the year increased by approximately HK$3.4 million or 16.8%, from approximately HK$20.2 million in FY2010 to approximately HK$23.6 million in FY2011.

Net profit margin

We recorded relatively stable net profit margin in FY2010 and FY2011 which amounted to approximately 43.3% and 43.1%, respectively.

Net interest margin

The net interest margin decreased slightly from approximately 41.5% in FY2010 to approximately 40.5% in FY2011 as a result of the higher proportion of our interest income earned from mortgage loans in FY2011, from which we generally charged comparatively lower interest rate than that charged on our pawn loans. In FY2010 and FY2011, interest earned on our mortgage loans contributed approximately 0.5% and 1.7% to our total interest income, respectively, due to the expansion of our mortgage loan business. We maintained relatively stable net interest margin for our pawn loan services in FY2010 and FY2011 which amounted to approximately 42.4% and 42.9%, respectively. The net interest margin for our mortgage loan services increased slightly from approximately 9.0% in FY2010 to approximately 9.9% in FY2011, as our mortgage loan services entered into a growing stage in FY2011 after its launch in FY2010, in particular, among the mortgage loans we granted in FY2011, we charged our customers 24.0% per annum for one mortgage loan with loan amount of HK$1.0 million and 13.2% per annum for one mortgage loan with loan amount of approximately HK$0.8 million, while we charged our customers 10.0% per annum and 12.3% per annum, respectively, for the two new mortgage loans we granted in FY2010.

LIQUIDITY AND CAPITAL RESOURCES

Our business operation depends on the sufficiency of funds to support our pawn loan and mortgage loan business. Our source of funds for our operations mainly comes from our internal generated funds, funds from our Shareholders and bank loans and overdrafts. Our primary uses of cash are to extend pawn loans and mortgage loans to our customers and to satisfy our working capital needs. Upon the [•], our source of funds will be a combination of internal generated funds, bank loans and overdrafts and [•]. The following table is a condensed summary of our combined statements of cash flows for the periods indicated:

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Net cash generated from/(used in) operating activities	15,523,204	(10,687,299)	7,969,869	(20,574,563)
Net cash (used in)/generated from investing activities	(90,921)	357,235	(241,071)	(577,937)
Net cash (used in)/generated financing activities	(13,720,287)	2,003,928	(522,967)	18,183,296
Net increase/(decrease) in cash and cash equivalents	1,711,996	(8,326,136)	7,205,831	(2,969,204)
Cash and cash equivalents at the beginning of year/period	8,979,668	10,691,664	2,365,528	9,571,359
Cash and cash equivalents at the end of year/period	10,691,664	2,365,528	9,571,359	6,602,155

Operating activities

We derive our cash inflow from operations principally from our interest income on our pawn loans and mortgage loans and gain on disposal of repossessed assets. Our cash outflow used in operations is principally for extending pawn loans and mortgage loans to our customers.

For the nine months ended 30 November 2012, our net cash used in operating activities was approximately HK$20.6 million although our profit before taxation was approximately HK$24.4 million. The difference of approximately HK$45.0 million was mainly attributable to the combined effect of (i) an increase in loan receivables in respect of pawn loans and mortgage loans of approximately HK$5.1 million and HK$38.8 million, respectively, mainly due to the increase of our loan portfolio for the same period that was in line with our increase in interest income on pawn loans and mortgage loans and, in particular, 54 new mortgage loans were granted during the nine months ended 30 November 2012 which used up a significant amount of bank balance; and (ii) an increase in repossessed assets of approximately HK$1.6 million.

For FY2012, our net cash generated from operating activities was approximately HK$8.0 million. The net cash from operating activities was mainly attributable to our profit before taxation of approximately HK$40.0 million, which was negatively adjusted primarily for (i) an increase in loan receivables in respect of pawn loans and mortgage loans of approximately HK$15.2 million and HK$10.5 million respectively mainly due to the increase of our loan portfolio for the same period that was in line with our increase in interest income on pawn loans and mortgage loans; (ii) payment of profit tax of approximately HK$4.4 million; and (iii) an increase in trade and other receivable of approximately HK$1.6 million that was in line with the increase in our revenue derived from the disposal of repossessed assets generally as a result of larger pawn loan portfolio.

For FY2011, our net cash used in operating activities was approximately HK$10.7 million although our profit before taxation was approximately HK$28.3 million. The difference of approximately HK$39.0 million was mainly attributable to the combined effect of (i) an increase in loan receivables in respect of pawn loans and mortgage loan of approximately HK$11.7 million and HK$19.3 million respectively mainly due to the increase of our loan portfolio for the same period that was in line with our increase in interest income on pawn loans and, in particular, the fact that four new mortgage loans were granted in late February 2011 which used up a significant amount of bank balance; (ii) payment of profit tax of approximately HK$5.1 million; and (iii) an increase in trade and other receivables of approximately HK$3.2 million that was in line with the increase in our revenue derived from the disposal of repossessed assets generally as a result of larger pawn loan portfolio.

FY2010, our net cash generated from operating activities was approximately HK$15.5 million. The net cash from operating activities was mainly attributable to our profit before taxation of approximately HK$24.3 million, which was negatively adjusted primarily for (i) an increase in loan receivable of HK$4.4 million mainly as a result of our commencement of mortgage loan business in 2009; (ii) an increase in repossessed assets of approximately HK$4.2 million; and (iii) payment of profit tax of approximately HK$3.1 million; and partially offset by an increase in accruals and other payable of approximately HK$2.5 million mainly due to the announcement of bonus for FY2010 that were not yet paid as at the year end date.

Investing activities

We derive our cash inflow from investing activities primarily from proceeds from disposal of fixed assets and trading securities. Our cash outflow used in investing activities is primarily for the purchase of fixed assets.

For the nine months ended 30 November 2012, our net cash used in investing activities was approximately HK$0.6 million, primarily due to payment for the purchase of fixed assets.

For FY2012, our net cash used in investing activities was approximately HK$0.2 million, primarily due to the purchase of a motor vehicle for approximately HK$0.4 million; and partially offset by proceeds from disposal of the old motor vehicle for approximately HK$0.2 million.

For FY2011, our net cash generated from investing activities was approximately HK$0.4 million, primarily due to proceeds from disposal of trading securities for approximately HK$1.1 million; and partially offset by the purchase of leasehold improvement and furniture and fixtures for approximately HK$0.8 million for our Pawnshops and office.

For FY2010, our net cash used in investing activities was approximately HK$0.1 million, primarily due to purchase of a motor vehicle and trading securities for approximately HK$0.2 million and HK$0.1 million respectively; and partially offset by proceeds from disposal of fixed assets for approximately HK$0.2 million.

Cash flows used in financing activities

Our cash outflow used in financing activities is principally due to the payment of dividends, finance lease rentals and amounts due to Shareholders. Our cash inflow generated from financing activity is principally from the fund from Shareholders.

For the nine months ended 30 November 2012, our net cash generated from financing activities was approximately HK$18.2 million, primarily due to (i) an increase in the amount due to Shareholders of approximately HK$3.0 million; and (ii) the proceed from bank loans of HK$18.5 million, partially offset by the payment of dividends of HK$2.9 million.

FINANCIAL INFORMATION

For FY2012, our net cash used in financing activities was approximately HK$0.5 million, primarily due to (i) a decrease in the amount due to Shareholders of approximately HK$1.7 million; (ii) payment of dividend of HK$1.0 million; and (iii) payment of finance lease rentals of approximately HK$0.1 million partially offset by the proceed from a bank loan of approximately HK$2.5 million.

For FY2011, our net cash generated from financing activities was approximately HK$2.0 million, primarily due to an increase in the amount due to Shareholders of approximately HK$3.2 million and partially offset by the payment of dividend of HK$1.0 million and payment of finance lease rentals of approximately HK$0.1 million.

For FY2010, our net cash used in financing activities was approximately HK$13.7 million, primarily due to (i) a decrease in the amount due to Shareholders of approximately HK$12.5 million; (ii) payment of dividend of HK$1.0 million; and (iii) payment of finance lease rentals of approximately HK$0.2 million.

FINANCIAL INFORMATION

INDEBTEDNESS

As at 31 January 2013, being the latest practicable date for the purpose of indebtedness statement in this document, our Group had outstanding indebtedness of approximately HK$93.9 million comprising bank loans and overdrafts, obligations under finance leases and amounts due to Shareholders.

As at 28 February 2010, 2011, 29 February 2012, 30 November 2012 and 31 January 2013, our borrowings were set out as follows:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012	As at 31 January 2013
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Secured bank overdrafts	645,395	2,290,266	851,737	693,480	598,572
Unsecured bank overdrafts	—	—	—	506,070	3,963,908
Bank loans, secured	—	—	—	16,000,000	39,000,000
Bank loans, unsecured	—	—	2,500,000	5,000,000	5,000,000
	645,395	2,290,266	3,351,737	22,199,550	48,562,480
Obligations under finance lease within 1 year	139,347	147,869	157,845	163,560	164,858
Obligations under finance lease after 1 year but within 5 years	427,148	279,279	353,895	230,500	202,478
Total obligations under finance lease	566,495	427,148	511,740	394,060	367,336
Amounts due to Shareholders	40,507,940	43,700,897	41,958,064	44,963,406	44,963,406
Total indebtedness	41,719,830	46,418,311	45,821,541	67,557,016	93,893,222

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the secured bank overdrafts were guaranteed by personal guarantee deposits provided by Mr. Chan Chart Man and Ms. Mui and the unsecured bank loans were jointly guaranteed by Mr. Chan Chart Man and Mr. Edward Chan.

As at 31 January 2013, secured bank overdraft facilities of HK$7.0 million was provided and utilised to the extent of approximately HK$0.6 million and an unsecured bank loan facility of HK$5.0 million was provided and fully utilised.

FINANCIAL INFORMATION

We intend to increase our debt financing for the purpose of providing our Group with working capital for our business. We had entered into an uncommitted revolving term loan facility with a bank for an amount up to HK$55,000,000 or 80% of the aggregate principal amount of loan receivables from customers in respect of our first mortgage loan services, whichever is lower. As at 31 January 2013, the available uncommitted banking facility after taking into consideration of the drawdown was approximately HK$0.1 million which was secured by loan receivables of the Group with a carrying value of approximately HK$48.9 million. The drawdown of the loan facility is subject to, amongst others, the bank being satisfied with the security to be provided and the execution of the security documentation between the bank and us. Mr. Chan Chart Man and Mr. Edward Chan act as guarantors to such facility. We had applied to the said bank for the termination of the personal guarantees provided by them and replace such guarantees with the corporate guarantee on similar terms to be provided by our Company upon the [•] and the said bank has provided their consent in this regard.

We have been granted by a bank an unsecured overdraft facility in the amount of HK$15.0 million in September 2012 which was utilised to the extent of approximately HK$4.0 million as at 31 January 2013, whereby Mr. Chan Chart Man and Mr. Edward Chan act as guarantors to such facility. We have informed the said bank that the guarantee provided by Mr. Chan Chart Man and Mr. Edward Chan shall be released and replaced by a corporate guarantee to be given by the Company upon [•] and the said bank has provided their consent in this regard.

We have also been granted by a bank a term loan facility in the amount of HK$8.76 million in February 2013 to finance our profit tax payment which was fully utilised as at the Latest Practicable Date, whereby Mr. Chan Chart Man and Mr. Edward Chan act as guarantors to such facility. We have informed the said bank that the guarantee provided by Mr. Chan Chart Man and Mr. Edward Chan shall be released and replaced by a corporate guarantee to be given by the Company upon [•] and the said bank has provided their consent in this regard.

We are in the course of negotiating with other banks for the provision of other financial resources which will be guaranteed by our Company upon [•]. Our Directors consider that the facilities mentioned above will further enhance our cash position and liquidity.

Our interest-bearing bank borrowings were on an increasing trend during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 as we had increased the usage of such to reduce our reliance on funds from our Shareholders.

For details of obligations under finance leases, please refer to the paragraph headed "Contractual commitments" in this section.

As at 31 January 2013, the amounts due to Shareholders were unsecured, interest free and had been fully capitalised as at the Latest Practicable Date.

Except as disclosed above, we did not have any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities outstanding as at 31 January 2013. Our Directors confirmed that there has not been any material change in our indebtedness since 31 January 2013.

Our Directors confirmed that we had not experienced difficulties in meeting obligations during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and none of our Group's bank overdrafts and bank loan facilities are subject to the fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

CAPITAL EXPENDITURES

During the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, our Group's capital expenditures have principally consisted of expenditures on leasehold improvements, furniture and fixtures and motor vehicles. For each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, we incurred capital expenditures in the amounts of approximately HK$0.4 million, HK$0.9 million, HK$0.6 million and HK$0.7 million, respectively.

CONTRACTUAL COMMITMENTS

Operating lease commitments

As at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	As at 28 February 2010	**As at 28 February 2011**	**As at 29 February 2012**	**As at 30 November 2012**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	4,556,108	5,715,065	5,479,110	7,309,505
After one year but within five years	10,298,789	10,443,802	5,023,499	6,639,125
	14,854,897	16,158,867	10,502,609	13,948,630

Our Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years. None of the leases includes contingent rentals.

Finance lease commitments

As at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, our Group had obligations under finance leases repayable as follows:

	As at 28 February 2010		As at 28 February 2011		As at 29 February 2012		As at 30 November 2012	
	Present value of the minimum lease payments *HK$*	Total minimum lease payments *HK$*	Present value of the minimum lease payments *HK$*	Total minimum lease payments *HK$*	Present value of the minimum lease payments *HK$*	Total minimum lease payments *HK$*	Present value of the minimum lease payments *HK$*	Total minimum lease payments *HK$*
Within 1 year	139,347	167,400	147,869	167,400	157,845	178,752	163,560	178,752
After 1 year but within 5 years	427,148	460,350	279,279	292,950	353,895	372,400	230,500	238,335
	566,495	627,750	427,148	460,350	511,740	551,152	394,060	417,087
Less: Total future interest expenses		(61,255)		(33,202)		(39,412)		(23,027)
Present value of lease obligations		566,495		427,148		511,740		394,060

The finance leases are for the purchases of motor vehicles under finance leases. As at the Latest Practicable Date, we have one motor vehicle held under finance lease with lease term expiring 2015 and carrying a fixed interest rate at 2.5% per annum.

FINANCIAL INFORMATION

NET CURRENT ASSETS AND LIABILITIES

The table below sets out selected information for our current assets and current liabilities as at 28 February 2010, 2011, 29 February 2012, 30 November 2012 and 31 January 2013:

	As at 28 February 2010 *HK$*	As at 28 February 2011 *HK$*	As at 29 February 2012 *HK$*	As at 30 November 2012 *HK$*	As at 31 January 2013 *HK$* *(unaudited)*
Current assets					
Repossessed assets	8,306,972	6,812,659	6,869,020	8,479,716	5,630,112
Loan receivables	92,747,678	124,314,886	144,350,102	170,880,511	189,707,156
Trade and other receivables	11,693,201	14,918,970	16,533,870	15,520,214	16,019,845
Trading securities	1,019,723	4,687	3,789	—	—
Cash and cash equivalents	11,337,059	4,655,794	10,423,096	7,801,705	11,990,270
	125,104,633	150,706,996	178,179,877	202,682,146	223,347,383
Current liabilities					
Accruals and other payables	4,592,642	3,206,552	2,427,606	7,835,238	2,987,641
Bank loans and overdrafts	645,395	2,290,266	3,351,737	22,199,550	48,562,480
Obligations under finance leases	139,347	147,869	157,845	163,560	164,858
Current taxation	1,620,449	1,083,538	3,208,033	7,241,558	4,786,762
	6,997,833	6,728,225	9,145,221	37,439,906	56,501,741
Net current assets	118,106,800	143,978,771	169,034,656	165,242,240	166,845,642

Net current assets increased from approximately HK$118.1 million as at 28 February 2010 to approximately HK$144.0 million as at 28 February 2011 and further increased to approximately HK$169.0 million as at 29 February 2012, primarily due to the increase in loan receivables from approximately HK$92.7 million as at 28 February 2010 to approximately HK$124.3 million as at 28 February 2011 and further increased to approximately HK$144.4 million as at 29 February 2012, mainly attributable to the substantial expansion of our mortgage loan business since its commencement in June 2009 and the continuous increase in our pawn loan portfolio. The relatively lower level of cash as at 28 February 2011 was due to the fact that four mortgage loans amounted to approximately HK$10.5 million in aggregate were granted in the late February 2011 which used up a significant amount of bank balance. Our net current assets remained relatively stable at approximately HK$169.0 million as at 29 February 2012 and approximately HK$165.2 million as at 30 November 2012, as our loan receivables increased by approximately HK$26.5 million from approximately HK$144.4 million to approximately HK$170.9 million, whereas our bank loans and overdrafts during the same

period also increased by approximately HK$18.8 million from approximately HK$3.4 million to approximately HK$22.2 million. Our net current assets remained relatively stable at approximately HK$166.8 million as at 31 January 2013. For further information on the current assets and current liabilities, please refer to the relevant paragraphs below in this section.

Our bank loans and overdrafts increased from approximately HK$0.6 million as at 28 February 2010 to approximately HK$2.3 million as at 28 February 2011 and further increased to approximately HK$3.4 million as at 29 February 2012 and approximately HK$22.2 million as at 30 November 2012 primarily due to our increasing utilisation of bank loans and overdrafts to finance the expansion of our pawn loan and mortgage loan businesses.

CERTAIN BALANCE SHEET ITEMS

Loan receivables

Our loan receivables were primarily related to our pawn loans and mortgage loans. A breakdown of our loan receivables are as follows:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Pawn loans	91,057,200	102,793,430	118,017,870	123,087,160
Mortgages	2,900,000	22,193,893	32,644,515	71,416,266
Unsecured loans	600,000	600,000	485,208	—
Gross loan receivables	94,557,200	125,587,323	151,147,593	194,503,426
Less: Impairment allowance				
— Individually assessed	—	—	(139,170)	(66,065)
— Collectively assessed	(209,522)	(118,132)	(55,391)	(127,559)
	94,347,678	125,469,191	150,953,032	194,309,802
Current portion included under current assets	92,747,678	124,314,886	144,350,102	170,880,511
Amounts due after one year included under non-current assets	1,600,000	1,154,305	6,602,930	23,429,291

Our net loan receivables balance increased by approximately 33.1% from approximately HK$94.3 million as at 28 February 2010 to approximately HK$125.5 million as at 28 February 2011 mainly due to our expansion of mortgage business in FY2011 since its commencement in June 2009. Our gross loan receivables balance relating to our mortgage business increased from approximately HK$2.9 million as at 28 February 2010 to approximately HK$22.2 million as at 28 February 2011, representing an increase of approximately HK$19.3 million or 665.5%. In FY2011, we granted a total number of 12 new mortgage loans with an aggregated loan amount of approximately HK$23.2 million, and the total outstanding receivable amounted to approximately HK$22.2 million as at 28 February 2011. All of our 2 new mortgage loans granted in FY2010 with a total outstanding gross loan receivable amount of HK$2.9 million as at 28 February 2010 were settled by our customers in FY2011. The increase in our loan receivables as at 28 February 2011 was also attributable to the increase in our gross loan receivables balance relating to our pawn loan business from approximately HK$91.1 million as at 28 February 2010 to approximately HK$102.8 million as at 28 February 2011, representing an increase of approximately HK$11.7 million or 12.8%, due to the expansion of our pawn loan portfolio. The aggregated amount of pawn loans granted by us increased from approximately HK$361.4 million in FY2010 to approximately HK$413.8 million in FY2011, representing an increase of approximately HK$52.4 million or 14.5%.

Our gross loan receivable related to unsecured loans remained unchanged as at 28 February 2011 as compared to that as at 28 February 2010 since the relevant loans were not settled during the same period.

As at 29 February 2012, our net loan receivables balance increased further to approximately HK$151.0 million compared with our net loan receivables balance of approximately HK$125.5 million as at 28 February 2011, representing an increase of approximately HK$25.5 million or 20.3%. Such increase was mainly attributable to the further expansion in our mortgage business and the continued increase in our pawn loan portfolio. In FY2012, we granted a total number of 31 new mortgage loans with an aggregated loan amount of approximately HK$38.3 million, and the total outstanding gross loan receivable amounted to approximately HK$31.1 million as at 29 February 2012. Most of the mortgage loans granted in FY2011 with a total outstanding gross loan receivable amount of approximately HK$22.2 million as at 28 February 2011 mentioned above were settled by our customers as at 29 February 2012. Similar to FY2011, the increase in our loan receivables as at 29 February 2012 was also attributable to the increase in our gross loan receivables balance relating to our pawn loan business from approximately HK$102.8 million as at 28 February 2011 to approximately HK$118.0 million as at 29 February 2012, representing an increase of approximately HK$15.2 million or 14.8%, due to the increase in our pawn loan portfolio. The aggregated amount of pawn loans granted by us increased from approximately HK$413.8 million in FY2011 to approximately HK$513.1 million in FY2012 representing an increase of approximately HK$99.3 million or 24.0%.

Our gross loan receivables related to our unsecured loans decreased to approximately HK$0.5 million as at 29 February 2012 from approximately HK$0.6 million as at 28 February 2011 due to the partial settlement of certain balances during the same period.

As at 30 November 2012, our net loan receivables balance increased further to approximately HK$194.3 million compared with our net loan receivables balance of approximately HK$151.0 million as at 29 February 2012, representing an increase of approximately HK$43.3 million or 28.7%. Such increase was mainly attributable to an increase in our gross loan receivables balance relating to our mortgage business from approximately HK$32.6 million as at 29 February 2012 to approximately HK$71.4 million as at 30 November 2012, representing an increase of approximately HK$38.8 million or 119.0%. In the nine months ended 30 November 2012, we granted a total number of 54 new mortgage loans with an aggregated loan amount of approximately HK$67.0 million, and the total outstanding gross loan receivables amounted to approximately HK$63.9 million as at 30 November 2012. Of the mortgage loans granted in previous years with a total outstanding gross loan receivables of approximately HK$32.6 million as at 29 February 2012 mentioned above, approximately HK$7.5 million remained outstanding as at 30 November 2012. The increase in our loan receivables as at 30 November 2012 was also attributable to the increase in our gross loan receivables balance relating to our pawn loan business from approximately HK$118.0 million as at 29 February 2012 to approximately HK$123.1 million as at 30 November 2012, representing an increase of approximately HK$5.1 million or 4.3%, resulted from the expansion of our pawn loan portfolio.

Our gross loan receivables related to our unsecured loans decreased from approximately HK$0.5 million as at 29 February 2012 to nil as at 30 November 2012 and as at the Latest Practicable Date.

The following table sets out the aging analysis of our gross loan receivables as at the end of each year/period during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012:

	28 February 2010			28 February 2011			29 February 2012			30 November 2012		
	Pawn loans	Mortgages	Unsecured loans	Pawn loans	Mortgages	Unsecured loans	Pawn loans	Mortgages	Unsecured loans	Pawn loans	Mortgages	Unsecured loans
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Neither past due nor impaired	88,260,550	2,900,000	600,000	99,466,000	22,193,893	600,000	114,782,170	32,644,515	485,208	119,675,860	71,416,266	—
Less than 1 month past due	2,398,250	—	—	2,538,580	—	—	2,632,000	—	—	2,746,450	—	—
1 to 3 months past due	398,400	—	—	788,850	—	—	603,700	—	—	664,850	—	—
	91,057,200	2,900,000	600,000	102,793,430	22,193,893	600,000	118,017,870	32,644,515	485,208	123,087,160	71,416,266	—

Our gross loan receivables that were past due as at the end of each year/period during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 were all related to our pawn loan business. At our sole discretion, a grace period of up to six weeks may be granted to our pawn loan customers after the end of the relevant loan period during which they may be allowed to renew the pawn loans and/or redeem the collaterals. Our Directors are of the opinion that we do not make provision for impairment losses in respect of these balances solely because they are past due as we are entitled to dispose the relevant collaterals to settle the outstanding balances. In assessing the need for impairment allowances, we consider historical trends of factors such as credit quality, portfolio size, concentration and other

economic factors. Please refer to the section headed "Critical Accounting Policies and Estimates — Impairment of Financial Assets" in this section for more details of the assessment of the impairment of loans receivables.

All renewed loans and the respective loan receivables amount were recorded as new loans under "neither past due nor impaired" in the ageing analysis as we issued new tickets or loan agreements to our customers when they renew their loans.

Out of the approximately HK$194.5 million of our gross loan receivables as at 30 November 2012, approximately HK$47.0 million, HK$37.0 million and HK$11.9 million had been subsequently renewed, collected or offset by the possession of collaterals, respectively, as at the Latest Practicable Date.

Trade and other receivables

Our trade and other receivables as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012 were approximately HK$11.7 million, HK$14.9 million, HK$16.5 million and HK$15.5 million respectively, of which a breakdown is set out below:

	As at 28 February 2010	**As at 28 February 2011**	**As at 29 February 2012**	**As at 30 November 2012**
	HK$	*HK$*	*HK$*	*HK$*
Trade receivables	346,000	1,523,430	2,243,050	672,400
Interest receivables	7,604,625	8,542,088	9,589,986	10,599,311
Deposits and payments in advance	1,594,760	1,654,622	1,709,334	1,943,570
Amounts due from related companies	100,000	2,992,452	2,890,000	—
Amount due from immediate holding company	—	—	—	6,083
[•] expenses	—	—	—	2,197,350
Other assets	2,047,816	206,378	101,500	101,500
	11,693,201	14,918,970	16,533,870	15,520,214

Our trade receivables include our receivables due from the second-hand product dealers when we dispose repossessed assets and customers who procured luxury goods from us. Trade receivables increased from approximately HK$0.3 million as at 28 February 2010 to approximately HK$1.5 million as at 28 February 2011 and further increased to HK$2.2 million as at 29 February 2012, which was in line with the increase in our revenue attributable to the gain on disposal of repossessed assets mainly due to our increased pawn loan portfolio. Trade receivables are due within 60 days from the date of billing. All of the trade and other receivables were not impaired as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012 and expected to be recovered within one year.

The ageing analysis of trade receivables is as follows:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Neither past due nor impaired	346,000	1,523,430	2,243,050	349,100
Less than 1 month due	—	—	—	—
1 to 3 months past due	—	—	—	323,300
	346,000	1,523,430	2,243,050	672,400

Trade receivables that were past due but not impaired relate to receivable from one second-hand product dealer and the amount had been subsequently settled as at the Latest Practicable Date. Of our trade receivables as at 30 November 2012, approximately HK$0.7 million had been subsequently settled as at the Latest Practicable Date.

Our interest receivables were approximately HK$7.6 million, HK$8.5 million, HK$9.6 million and HK$10.6 million as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, respectively, which mainly represented the interest income on the loan receivables related to pawn loans and mortgage loans. Our increase in interest receivables during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 was in line with our increase in loan receivables during the same period.

Out of our interest receivables which amounted to approximately HK$10.6 million as at 30 November 2012, approximately HK$8.6 million had been subsequently settled as at the Latest Practicable Date.

Our deposits and payments in advance primarily represents the rental deposit and deposit for our electricity and water usage, which increased slightly as at the respective year/period end.

Amounts due from related companies represent the receivables derived from our loans to our related parties. Such loans were fully settled as at 30 November 2012. Amounts due from immediate holding company had been subsequently settled prior to the [•]. Please also refer to the paragraph headed "Related party transactions" below.

Other assets comprise primarily luxury goods such as watches and jewellery for trading. We ceased the procurement of luxury goods for trading from second-hand product dealers as at the Latest Practicable Date.

Repossessed assets

Repossessed assets refers to the collateral which has become our property due to the default in repayment of the pawn loans granted by us and amounted to approximately HK$8.3 million, HK$6.8 million, HK$6.9 million and HK$8.5 million as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012. We usually dispose the underlying collaterals in the following month after our customers default in their repayment of the pawn loans. At our sole discretion, a grace period of up to six weeks may be granted to our pawn loan customers and we will dispose the underlying collaterals after such grace period.

Of the approximately HK$8.5 million of the repossessed assets as at 30 November 2012, approximately HK$1.3 million remained unsold as at the Latest Practicable Date. The majority of the unsold repossessed assets were being seized by the police for investigation.

Accruals and other payables

Our accruals and other payables primarily consist of accrued expenses, provision for long services payment, and other payable and deposit received. Our accruals and other payables decreased by approximately HK$1.4 million, from approximately HK$4.6 million as at 28 February 2010 to approximately HK$3.2 million as at 28 February 2011. The amount decreased further by approximately HK$0.8 million, from approximately HK$3.2 million as at 28 February 2011 to approximately HK$2.4 million as at 29 February 2012, which was mainly due to the decrease in accrued expenses netting off the increase in other payable and deposit received. The amount increased by approximately HK$5.4 million to approximately HK$7.8 million as at 30 November 2012, which was mainly due to the increase in accrued expenses by approximately HK$2.4 million and a dividend payable of HK$3.0 million.

The following table sets out the details of our accruals and other payables as at the end of each year/period during the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012:

	As at 28 February 2010	**As at 28 February 2011**	**As at 29 February 2012**	**As at 30 November 2012**
	HK$	*HK$*	*HK$*	*HK$*
Accrued expenses	3,368,326	1,699,954	576,212	2,926,880
Provision for long services payment	238,461	254,104	306,382	558,840
Dividend payable	—	—	—	3,000,000
Other payable and deposit received	985,855	1,252,494	1,545,012	1,349,518
	4,592,642	3,206,552	2,427,606	7,835,238

Accrued expenses, which included mainly accruals of bonus, directors' remuneration, staff salaries and audit and accounting fees, amounted to approximately HK$3.4 million, HK$1.7 million, HK$0.6 million and HK$2.9 million as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, respectively. The decrease in accrued expenses from 28 February 2010 to 29 February 2012 was mainly due to the decrease of accrued directors' emolument and bonus, which was in line with the decrease of relevant expenses during the respective years, while the increase from 29 February 2012 to 30 November 2012 was mainly due to (i) the increase in the unpaid audit and accounting fees by approximately HK$0.2 million; and (ii) the increase in the accruals for bonus by approximately HK$1.2 million.

Other payable and deposit received, which included mainly surplus on disposal of collaterals not having been redeemed relating to pawn loans granted under our Money Lenders Licence that is within the statutory limitation period, deposits received and provision for re-instatement cost, amounted to approximately HK$1.0 million, HK$1.3 million, HK$1.5 million and HK$1.3 million as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, respectively. Such increase from the amount as at 28 February 2010 to the amount as at 29 February 2012 was mainly resulted from the surplus on disposal of collaterals not having been redeemed relating to pawn loans granted under our Money Lenders Licence, which was in line with the increase in the amount of pawn loans granted under our Money Lenders Licence during the respective years, while the decrease by approximately HK$0.2 million as at 30 November 2012 was mainly due to the recognition of income relating to surplus mentioned above due to expiry of the statutory limitation period.

Amounts due to Shareholders

Amounts due to the Shareholders were approximately HK$40.5 million, HK$43.7 million, HK$42.0 million and HK$45.0 million as at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, respectively. Such balances were non-trade in nature, unsecured, interest-free and not repayable within one year. The balances of amounts due to shareholders have been subsequently settled by the issuance of ordinary shares of a subsidiary of our Company prior to the [•].

Contingent liabilities

As at the Latest Practicable Date, our Group had no material contingent liabilities and was not involved in any material legal proceedings. Our Directors are not aware of any pending or potential material legal proceedings involving our Group. If our Group is involved in such material legal proceedings, our Group will record contingency loss when, based on information then available, it is likely that a loss will incur and the amount of loss can be reasonable estimated.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

	As at			
	28 February 2010	**28 February 2011**	**29 February 2012**	**30 November 2012**
Current ratio[(1)]	18x	22x	19x	5x
Gearing ratio[(2)]	52.2%	45.3%	34.0%	46.5%

	For the year ended			For the nine months ended	
	28 February 2010	**28 February 2011**	**29 February 2012**	**30 November 2011** *(unaudited)*	**30 November 2012**
Return on total assets[(3)]	15.8%	15.4%	17.9%	13.2%	8.4%
Return on equity[(4)]	25.3%	23.0%	24.7%	19.4%	13.3%

Notes:

(1) Current ratio is calculated by dividing current assets by current liabilities as at the respective year/period end.

(2) Gearing ratio is calculated by dividing total borrowings (summation of bank loans, overdrafts, obligation under finance leases and amounts due to Shareholders) by total equity as at the respective year/period end.

(3) Return on total assets is calculated by dividing profit for the year/period by the total assets as at the respective year/period end. The return on total assets for the nine months ended 30 November 2011 and 30 November 2012 respectively are not calculated on an annual basis.

(4) Return on equity is calculated by dividing profit for the year/period by the total equity as at the respective year/period end. The return on equity for the nine months ended 30 November 2011 and 30 November 2012 respectively are not calculated on an annual basis.

Current ratio

Our Group's current ratio increased from approximately 18 times as at 28 February 2010 to approximately 22 times as at 28 February 2011, which was mainly due to an increase of our current loan receivables by approximately 34.0%, from approximately HK$92.7 million as at 28 February 2010 to approximately HK$124.3 million as at 28 February 2011 as a result of our increased loan portfolio that was mainly financed by funds from Shareholders which were classified as non-current liabilities. The funds from Shareholders increased by approximately HK$3.2 million, from approximately HK$40.5 million as at 28 February 2010 to approximately HK$43.7 million as at 28 February 2011.

Our Group's current ratio decreased from approximately 22 times as at 28 February 2011 to approximately 19 times as at 29 February 2012, which was mainly due to an increase in current taxation from approximately HK$1.1 million as at 28 February 2011 to approximately HK$3.2 million as at 29 February 2012 or approximately 190.9% as a result of our increased profit before taxation and current bank loans and overdrafts from approximately HK$2.3 million as at 28 February 2011 to approximately HK$3.4 million as at 29 February 2012 or approximately 47.8%.

Our Group's current ratio decreased from approximately 19 times as at 29 February 2012 to approximately 5 times as at 30 November 2012, which was mainly due to the increase in accruals and other payables from approximately HK$2.4 million as at 29 February 2012 to approximately HK$7.8 million as at 30 November 2012 or approximately 225.0% and the increase in bank loans and overdrafts from approximately HK$3.4 million as at 29 February 2012 to approximately HK$22.2 million as at 30 November 2012 or approximately 552.9%.

Gearing ratio

Our gearing ratio decreased from approximately 52.2% as at 28 February 2010 to approximately 45.3% as at 28 February 2011, due to an increase in total equity from approximately HK$80.0 million as at 28 February 2010 to approximately HK$102.6 million as at 28 February 2011, representing an increase of approximately HK$22.6 million or 28.3%, whereas the total borrowing increased from approximately HK$41.7 million as at 28 February 2010 to approximately HK$46.4 million as at 28 February 2011, representing an increase of approximately HK$4.7 million or 11.3%.

Our gearing ratio further decreased to approximately 34.0% as at 29 February 2012 due to an increase in total equity from approximately HK$102.6 million as at 28 February 2011 to approximately HK$134.9 million as at 29 February 2012, representing an increase of approximately HK$32.3 million or 31.5%, whereas the total borrowing decreased from approximately HK$46.4 million as at 28 February 2011 to approximately HK$45.8 million as at 29 February 2012, representing a decrease of approximately HK$0.6 million or 1.3%.

Our gearing ratio increased from approximately 34.0% as at 29 February 2012 to approximately 46.5% as at 30 November 2012 due to an increase in total borrowing increased from approximately HK$45.8 million as at 29 February 2012 to approximately HK$67.6 million as at 30 November 2012, representing an increase of approximately HK$21.8 million or 47.6%, whereas the total equity increased from approximately HK$134.9 million as at 29 February 2012 to approximately HK$145.4 million as at 30 November 2012, representing an increase of approximately HK$10.5 million or 7.8%.

Return on total assets

Our return on total assets decreased from approximately 15.8% in FY2010 to approximately 15.4% in FY2011, which was mainly due to the increase of our total assets by approximately 19.9% from approximately HK$127.9 million as at 28 February 2010 to approximately HK$153.3 million as at 28 February 2011 while our net profit was increased by a less-than-proportionate percentage of approximately 16.8% from approximately HK$20.2 million in FY2010 to approximately HK$23.6 million in FY2011. That was mainly because we only commenced the full operation of our mortgage loan business in July 2010, and in particular, only generated a small amount of interest income in FY2011 from the four mortgage loans amounted to approximately HK$10.5 million granted in late-February 2011 that were still within the loan period as at 28 February 2011.

Our return on total assets increased from approximately 15.4% in FY2011 to approximately 17.9% in FY2012, which was mainly due to the increase of our total assets by approximately 21.6% from approximately HK$153.3 million as at 28 February 2011 to approximately HK$186.4 million as at 29 February 2012 while our net profit was increased by a more-than-proportionate percentage of approximately 41.5% from approximately HK$23.6 million in FY2011 to approximately HK$33.4 million in FY2012. That was mainly because of our significant increase in the interest income earned in our mortgage loan services from approximately HK$0.8 million in FY2011 to approximately HK$3.2 million in FY2012, representing an increase of approximately 300.0%, as a result of the full year operation and continuous expansion of our mortgage loan business in FY2012.

Our return on total assets decreased from approximately 13.2% in the nine months ended 30 November 2011 to approximately 8.4% in the nine months ended 30 November 2012, which was mainly due to our [•] expenses of approximately HK$6.8 million incurred only in the nine months ended 30 November 2012 which decreased our net profit recorded in the same period.

Return on equity

Return on equity decreased from approximately 25.3% in FY2010 to approximately 23.0% in FY2011, which was mainly due to the increase of our total equity by approximately 28.3% from approximately HK$80.0 million as at 28 February 2010 to approximately HK$102.6 million as at 28 February 2011 while our net profit was increased by a less-than-proportionate percentage of approximately 16.8% as mentioned above. That was mainly due to same reason mentioned above that we only commenced the full operation of our mortgage business in July 2010, and in particular, only generated a small amount of interest income in FY2011 from the four mortgage loans granted in late-February 2011 that were still within the loan period as at 28 February 2011.

Return on equity increased from approximately 23.0% in FY2011 to approximately 24.7% in FY2012, which was mainly due to the increase of our total equity by approximately 31.5% from approximately HK$102.6 million as at 28 February 2011 to approximately HK$134.9 million as at 29 February 2012 while our net profit was increased by a more-than-proportionate percentage of approximately 41.5% from approximately HK$23.6 million in FY2011 to approximately HK$33.4 million in FY2012. That was mainly due to the same reason mentioned above that we had a significant increase in the interest income earned in our mortgage loan service as a result of the full year operation and continuous expansion of our mortgage loan business in FY2012.

Return on equity decreased from approximately 19.4% in the nine months ended 30 November 2011 to approximately 13.3% in the nine months ended 30 November 2012, which was mainly due to our [•] expenses of approximately HK$6.8 million incurred only in the nine months ended 30 November 2012 which decreased our net profit recorded in the same period.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration the financial resources presently available to our Group, including banking facilities and other internal resources, and the estimated [•] of the [•], our Group has sufficient working capital for our present requirements, that is, for at least the next 12 months commencing from the date of this document.

GUARANTEE PROVIDED TO OUR GROUP BY CONTROLLING SHAREHOLDERS

Banking facilities

As at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, Mr. Chan Chart Man and Ms. Mui provided personal guarantee deposits in an aggregated amount of approximately HK$7.5 million, HK$7.5 million, HK$8.0 million and HK$7.0 million, respectively, for the benefit of our Group in respect of our bank overdraft facilities of HK$7.5 million, HK$7.5 million, HK$8.0 million and HK$7.0 million respectively.

As at 29 February 2012 and 30 November 2012, Mr. Chan Chart Man and Mr. Edward Chan jointly provided personal guarantees amounting to HK$5.0 million and HK$75.0 million, respectively, for the benefit of our Group in respect of our bank loan facilities.

We have also been granted by a bank a term loan facility in the amount of HK$8.76 million in February 2013 to finance our profit tax payment, whereby Mr. Chan Chart Man and Mr. Edward Chan act as guarantors to such facility.

All of the above guarantees will be released upon the [•].

Rental expenses

As at 28 February 2010, 2011, 29 February 2012 and 30 November 2012, Mr. Chan Chart Man and Mr. Edward Chan provided personal guarantee for the benefit of our Group in respect of the rental expenses of three of our pawnshops. The aggregate amount of which during the Trade Record Period was approximately HK$8.6 million, HK$6.7 million, HK$3.4 million and HK$4.9 million respectively. Under the term of the rental agreements of relevant pawnshops, Mr. Chan Chart Man and Mr. Edward Chan will indemnify the landlord upon failure of our Group to pay the rental expenses.

Please refer to the section headed "Notifiable transactions and connected transactions" in this document for further details.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in the Accountants' Report in Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

DISTRIBUTABLE RESERVES

The aggregate amount of the distributable reserves for FY2010, FY2011, FY2012 and the nine months ended 30 November 2012 of our Group were HK$67.9 million, HK$90.5 million, HK$122.8 million and HK$133.3 million respectively.

DIVIDEND POLICY

For each of FY2010, FY2011, FY2012 and the nine months ended 30 November 2012, Oi Wah HK declared dividends of HK$1.0 million, HK$1.0 million, HK$1.0 million and HK$8.79 million, respectively, out of the distributable profit and all these dividends had been paid as at the Latest Practicable Date. Dividends declared and paid in the past should not be regarded as an indication of the dividend policy to be adopted by our Company following [•].

After completion of the [•], our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant.

Subject to the factors described above, we currently intend to recommend at the annual general meetings of our Company that dividends of no less than 30% of our net profit for each year after the [•] (that is, for the avoidance of doubt, commencing from the year ending 28 February 2014) would be available for distribution to shareholders after the [•].

Cash dividends on our shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our shareholders by any means which our Directors deem legal, fair and practicable. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Credit risk management

Our Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 28 February 2010, 2011, 29 February 2012 and 30 November 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Our Group's credit risk are primarily attributable to our loan receivables. In order to minimise the credit risk, our Group have established policies and systems for the monitoring and control of credit risk. Please refer to Appendix I to this document for further details.

Market risk management

Our Group's activities expose it primarily to the financial risks of changes in interest rate, foreign exchange currency rates and equity price risk.

Market risk exposures are unsecured using sensitively analysis there has been no change to our Group's exposure to market risks or the currencies in which it manages and measure the risk throughout for relevant period. Please refer to Appendix I to this document for further details.

Liquidity risk management

Our Group's policy is to regularly monitor our liquidity requirements and our compliance with loan/borrowing covenants, to ensure it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and long term. Please refer to Appendix I of the Document for further details.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 30 November 2012 and there is no event since 30 November 2012 which would materially affect the information shown in our combined financial statements included in the Accountants' Report set forth in Appendix I to this document, in each case except as otherwise disclosed herein.

FUTURE PLANS

FUTURE PLANS AND PROSPECTS

See the sections headed "Business — Our business strategies" in this document for a detailed description of our future plans.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

[•]

The Board of Directors
Oi Wah Pawnshop Credit Holdings Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Oi Wah Pawnshop Credit Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined statements of financial position of the Group as at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012 and the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 28 February 2010, 28 February 2011 and 29 February 2012 and the nine months ended 30 November 2012 (the "Relevant Period"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the document of the Company dated 27 February 2013 (the "Document").

The Company was incorporated in the Cayman Islands on 5 June 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. Pursuant to and upon the completion of a group reorganisation on 18 February 2013 (the "Reorganisation") as detailed in the section headed "Further information about our Company — Corporate reorganisation" in Appendix IV to the Document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Oi Wah Holding Limited, Hing Wah Pawnshop, Wai Wah Pawnshop, Hing Wah Pawnshop Credit Limited and Wai Wah Pawnshop Credit Limited, as they either have not carried on any business since their respective dates of incorporation, or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

All companies now comprising the Group have adopted 28 February (or 29 February in a leap year) as their financial year end date.

Oi Wah Pawnshop Credit Limited is subject to audit during the Relevant Period and the names of the auditors are set out in Note 26 of Section C. The statutory financial statements of Oi Wah Pawnshop Credit Limited were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Prior to the financial year ended 29 February 2012, Oi Wah Pawnshop Credit Limited adopted a financial year end date based on the Chinese lunar calendar. Oi Wah Pawnshop Credit Limited has changed its financial year end date to conform with that of the Company as part of the Reorganisation.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period (the "Underlying Financial Statements") in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below. The Underlying Financial Statements for each of the years ended 28 February 2010, 28 February 2011 and 29 February 2012 and the nine months ended 30 November 2012 were audited by us under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 November 2012.

The Financial Information has been prepared by the directors of the Company for inclusion in the Document in connection with the [•] of shares of the Company on the Main Board of The [•] of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the [•].

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the [•], and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 November 2012.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, on the basis of preparation set out in Section A below, a true and fair view of the state of affairs of the Group as at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012 and the Group's combined results and cash flows for the Relevant Period then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the nine months ended 30 November 2011, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, 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 of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 5 June 2012 and became the holding company of the companies now comprising the Group pursuant to the Reorganisation completed on 18 February 2013. The Group is principally engaged in the secured financing business, including pawn loans and mortgage loans, in Hong Kong through Oi Wah Pawnshop Credit Limited, Hing Wah Pawnshop Credit Limited and Wai Wah Pawnshop Credit Limited, the Company's indirect wholly-owned subsidiaries.

During the Relevant Period, certain of the Group's pawn broking and money lending operations were originally conducted by Hing Wah Pawnshop and Wai Wah Pawnshop (the "Sole Proprietorship Businesses"), which were established in Hong Kong in 1986 and 1975 respectively, as sole proprietorships. Pursuant to and as part of the Reorganisation, all the assets, liabilities and undertakings of the Sole Proprietorship Businesses were transferred to two new incorporated companies, namely, Hing Wah Pawnshop Credit Limited and Wai Wah Pawnshop Credit Limited, respectively, on 8 June 2012. Upon completion of the transfer, the entire operations of the Sole Proprietorship Businesses are conducted by Hing Wah Pawnshop Credit Limited and Wai Wah Pawnshop Credit Limited, the Company's indirect wholly-owned subsidiaries upon completion of the Reorganisation and as at the date of this report.

Pursuant to the concert party arrangement as detailed in the section headed "Relationship with Our Controlling Shareholders" in the Document, all the companies and businesses (including the Sole Proprietorship Businesses) that took part in the Reorganisation were controlled by the same group of equity owners, namely Mr. Chan Chart Man, Mr. Chan Kai Ho Edward, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui Hang Sin (collectively referred to as the "Controlling Equity Owners").

As the Controlling Equity Owners owned or controlled the Sole Proprietorship Businesses and the companies now comprising the Group before and after the Reorganisation, there was a continuation of the risks and benefits to the Controlling Equity Owners and, therefore, the Reorganisation is considered to be a restructuring of entities and businesses under common control. The Financial Information has been prepared using the principles of merger accounting and there was no change in the economic substance of the business of the Group. Accordingly, the Financial Information has been prepared as if the Reorganisation had been completed as at the beginning of the Relevant Period and remained unchanged throughout the entire Relevant Period. The assets and liabilities of the companies and businesses (including the Sole Proprietorship Businesses) comprising the Group during the Relevant Period are combined using the existing book values from the Controlling Equity Owners' perspective.

The combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group as set out in Section B include the combined results of operations of the companies and businesses comprising the Group (including the Sole Proprietorship Businesses) for the Relevant Period (or where the companies were incorporated at a date later than 1 March 2009, for the period from the

date of incorporation to 30 November 2012) as if the current group structure had been in existence throughout the Relevant period. The combined statements of financial position of the Group as at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012 as set out in Section B have been prepared to present the state of affairs of the companies and businesses comprising the Group (including the Sole Proprietorship Businesses) as at the respective dates as if the Reorganisation had occurred at the beginning of the Relevant Period.

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation	Issued and fully paid up capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Oi Wah Holding Limited	British Virgin Islands ("BVI") 31 May 2012	2,000 ordinary shares with no par value	100%	—	Investment holding
Oi Wah Pawnshop Credit Limited *(Note)*	Hong Kong 22 March 2000	10,000,000 ordinary shares of HK$1 each	—	100%	Pawn broking and money lending
Hing Wah Pawnshop Credit Limited	Hong Kong 12 April 2012	1 ordinary share of HK$1 each	—	100%	Pawn broking and money lending
Wai Wah Pawnshop Credit Limited	Hong Kong 12 April 2012	1 ordinary share of HK$1 each	—	100%	Pawn broking and money lending

Note: This company was first incorporated under the name of Oi Wah Estate and Investment Limited, and changed its name to Oi Wah Pawnshop Holding Limited on 26 August 2008, and was subsequently changed to its current name of Oi Wah Pawnshop Credit Limited on 8 September 2011.

B FINANCIAL INFORMATION

1 Combined statements of comprehensive income

	Section C Note	**Year ended 28 February 2010** *HK$*	**Year ended 28 February 2011** *HK$*	**Year ended 29 February 2012** *HK$*	**Nine months ended 30 November 2011** *HK$ (unaudited)*	**Nine months ended 30 November 2012** *HK$*
Turnover	2	46,659,418	54,692,308	66,360,621	49,483,636	52,602,748
Other revenue	4	902,368	1,233,567	840,316	564,732	1,379,861
Other net income	4	325,420	73,802	123,012	123,910	234
Operating income		47,887,206	55,999,677	67,323,949	50,172,278	53,982,843
Operating expenses	5	(23,536,112)	(27,777,550)	(27,127,035)	(20,460,179)	(29,255,416)
(Charge for)/ credit to impairment losses on loan receivables	6	(42,446)	91,390	(76,429)	(106,119)	937
Profit from operations		24,308,648	28,313,517	40,120,485	29,605,980	24,728,364
Finance costs	5(a)	(27,091)	(49,682)	(141,874)	(84,954)	(304,466)
Profit before taxation	5	24,281,557	28,263,835	39,978,611	29,521,026	24,423,898
Income tax	7	(4,060,085)	(4,679,961)	(6,602,556)	(4,838,402)	(5,154,326)
Profit and total comprehensive income for the year/period		20,221,472	23,583,874	33,376,055	24,682,624	19,269,572

The accompanying notes form part of the Financial Information.

2 Combined statements of financial position

	Section C Note	**As at 28 February 2010** *HK$*	**As at 28 February 2011** *HK$*	**As at 29 February 2012** *HK$*	**As at 30 November 2012** *HK$*
Non-current assets					
Fixed assets	11	861,038	1,132,323	1,395,973	1,748,758
Loan receivables	12	1,600,000	1,154,305	6,602,930	23,429,291
Deferred tax assets	20(b)	351,533	282,934	222,612	197,501
		2,812,571	2,569,562	8,221,515	25,375,550
Current assets					
Repossessed assets		8,306,972	6,812,659	6,869,020	8,479,716
Loan receivables	12	92,747,678	124,314,886	144,350,102	170,880,511
Trade and other receivables	14	11,693,201	14,918,970	16,533,870	15,520,214
Trading securities	13	1,019,723	4,687	3,789	—
Cash and cash equivalents	15	11,337,059	4,655,794	10,423,096	7,801,705
		125,104,633	150,706,996	178,179,877	202,682,146
Current liabilities					
Accruals and other payables	17	4,592,642	3,206,552	2,427,606	7,835,238
Bank loans and overdrafts	16	645,395	2,290,266	3,351,737	22,199,550
Obligations under finance leases	18	139,347	147,869	157,845	163,560
Current taxation	20(a)	1,620,449	1,083,538	3,208,033	7,241,558
		6,997,833	6,728,225	9,145,221	37,439,906
Net current assets		118,106,800	143,978,771	169,034,656	165,242,240
Total assets less current liabilities		120,919,371	146,548,333	177,256,171	190,617,790

	Section C Note	**As at 28 February 2010** *HK$*	**As at 28 February 2011** *HK$*	**As at 29 February 2012** *HK$*	**As at 30 November 2012** *HK$*
Non-current liabilities					
Obligations under finance leases	18	427,148	279,279	353,895	230,500
Amounts due to shareholders	21	40,507,940	43,700,897	41,958,064	44,963,406
		40,935,088	43,980,176	42,311,959	45,193,906
Net assets		79,984,283	102,568,157	134,944,212	145,423,884
Capital and reserves	22				
Capital		12,100,000	12,100,000	12,100,000	12,100,100
Retained profits		67,884,283	90,468,157	122,844,212	133,323,784
Total equity		79,984,283	102,568,157	134,944,212	145,423,884

3 Combined statements of changes in equity

	Section C Note	**Capital** *HK$*	**Retained profits** *HK$*	**Total** *HK$*
At 1 March 2009		12,100,000	48,662,811	60,762,811
Profit and total comprehensive income for the year		—	20,221,472	20,221,472
Dividend declared and paid to controlling equity owners in respect of current year	22(a)	—	(1,000,000)	(1,000,000)
At 28 February 2010 and 1 March 2010		12,100,000	67,884,283	79,984,283
Profit and total comprehensive income for the year		—	23,583,874	23,583,874
Dividend declared and paid to controlling equity owners in respect of current year	22(a)	—	(1,000,000)	(1,000,000)
At 28 February 2011 and 1 March 2011		12,100,000	90,468,157	102,568,157
Profit and total comprehensive income for the year		—	33,376,055	33,376,055
Dividend declared and paid to controlling equity owners in respect of current year	22(a)	—	(1,000,000)	(1,000,000)
At 29 February 2012 and 1 March 2012		12,100,000	122,844,212	134,944,212
At 1 March 2012		12,100,000	122,844,212	134,944,212
Profit and total comprehensive income for the period		—	19,269,572	19,269,572
Capital injection		100	—	100
Dividend declared and paid to controlling equity owners in respect of previous year	22(a)	—	(5,790,000)	(5,790,000)
Dividend declared and payable to controlling equity owners in respect of current year	22(a)	—	(3,000,000)	(3,000,000)
At 30 November 2012		12,100,100	133,323,784	145,423,884
Unaudited:				
At 1 March 2011		12,100,000	90,468,157	102,568,157
Profit and total comprehensive income for the period		—	24,682,624	24,682,624
At 30 November 2011		12,100,000	115,150,781	127,250,781

The accompanying notes form part of the Financial Information.

4 Combined cash flow statements

	Section C Note	**Year ended 28 February 2010** *HK$*	**Year ended 28 February 2011** *HK$*	**Year ended 29 February 2012** *HK$*	**Nine months ended 30 November 2011** *HK$ (unaudited)*	**Nine months ended 30 November 2012** *HK$*
Operating activities						
Profit before taxation		24,281,557	28,263,835	39,978,611	29,521,026	24,423,898
Adjustments for:						
Depreciation		335,340	485,222	324,723	251,618	299,651
Dividend income from trading securities		(25,823)	(24,334)	(160)	(125)	(133)
Bank interest income		(1,164)	(570)	(380)	(304)	(331)
Net realised and unrealised gain on trading securities		(389,420)	(73,802)	898	—	(234)
Finance costs		27,091	49,682	141,874	84,954	304,466
Impairment loss/ (recovery) on loan receivables		42,446	(91,390)	76,429	106,119	(937)
Loss/(gain) on disposal of fixed assets		64,000	—	(123,910)	(123,910)	—
Operating profit before changes in working capital		24,334,027	28,608,643	40,398,085	29,839,378	25,026,380
(Increase)/decrease in repossessed assets		(4,176,862)	1,494,313	(56,361)	789,847	(1,610,696)
Increase in loan receivables		(4,377,671)	(31,030,123)	(25,560,270)	(29,376,288)	(43,355,833)
Decrease/(increase) in trade and other receivables		322,993	(3,225,769)	(1,614,900)	(211,159)	(1,876,344)
Increase/(decrease) in accruals and other payables		2,502,648	(1,386,090)	(778,946)	121,021	2,337,620
Cash generated from operations		18,605,135	(5,539,026)	12,387,608	1,162,799	(19,478,873)
Hong Kong Profits Tax paid		(3,081,931)	(5,148,273)	(4,417,739)	(1,369,689)	(1,095,690)
Net cash generated from/ (used in) operating activities		15,523,204	(10,687,299)	7,969,869	(206,890)	(20,574,563)

	Section C Note	**Year ended 28 February 2010** *HK$*	**Year ended 28 February 2011** *HK$*	**Year ended 29 February 2012** *HK$*	**Nine months ended 30 November 2011** *HK$ (unaudited)*	**Nine months ended 30 November 2012** *HK$*
Investing activities						
Dividends received from trading securities		25,823	24,334	160	125	133
Bank interest received		1,164	570	380	304	331
Proceeds from disposal of fixed assets		176,000	—	192,850	192,850	—
Proceeds from disposal of trading securities		—	1,088,838	—	—	4,023
Payment for the purchase of fixed assets		(226,816)	(756,507)	(434,461)	(318,409)	(582,424)
Payment for the purchase of trading securities		(67,092)	—	—	—	—
Net cash (used in)/ generated from investing activities		(90,921)	357,235	(241,071)	(125,130)	(577,937)
Financing activities						
Proceeds from capital injection		—	—	—	—	100
Changes in amounts due to shareholders		(12,503,533)	3,192,957	(1,742,833)	1,751,198	3,005,342
Finance costs paid		(14,948)	(21,629)	(110,495)	(68,337)	(288,081)
Proceeds from bank loans		—	—	2,500,000	2,500,000	18,500,000
Dividends paid		(1,000,000)	(1,000,000)	(1,000,000)	—	(2,900,000)
Capital element of finance lease rentals paid		(189,663)	(139,347)	(138,260)	(108,334)	(117,680)
Interest element of finance lease rentals paid		(12,143)	(28,053)	(31,379)	(16,617)	(16,385)
Net cash (used in)/ generated from financing activities		(13,720,287)	2,003,928	(522,967)	4,057,910	18,183,296
Net increase/(decrease) in cash and cash equivalents		1,711,996	(8,326,136)	7,205,831	3,725,890	(2,969,204)
Cash and cash equivalents at the beginning of year/period		8,979,668	10,691,664	2,365,528	2,365,528	9,571,359
Cash and cash equivalents at the end of year/ period	15	10,691,664	2,365,528	9,571,359	6,091,418	6,602,155

Major non-cash transaction:

Pursuant to the written resolution of the directors on 21 June 2012, an amount due from related party amounting to HK$2,890,000 (note 14) was settled with the dividend declared during the nine months ended 30 November 2012.

The accompanying notes form part of the Financial Information.

C NOTES ON THE FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted by the Group are set out in the remainder of this Section C.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs for the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ending 28 February 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ending 28 February 2013 are set out in note 28.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the nine months ended 30 November 2011 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

(c) Basis of measurement

The Financial Information is presented in Hong Kong Dollars ("HKD"). It is prepared on the historical cost basis except that financial instruments classified as trading securities (see note 1(g)) are stated at their fair value.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in profit or loss on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired financial assets, the accrual of interest income based on the original terms of the financial assets is discontinued.

(ii) Fee income

Fee income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk are incurred or is accounted for as interest income.

(iii) Gain on disposal of repossessed assets

Disposal gain is recognised when the buyer of the repossessed assets has accepted the goods and the related risks and rewards of ownership.

(iv) Dividends

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payment receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(f) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The

financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(g) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Classification

Fair value through profit or loss

This category comprises financial assets held for trading which are financial assets acquired or incurred principally for the purpose of trading.

Financial assets under this category are carried at fair value. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal the difference between the net sale proceeds or net payment and the carrying value is included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the near term, which are classified as held for trading; (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (3) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise pawn loans, mortgages and unsecured loans. Pawn loans are loans provided whereby personal property such as gold, jewellery and diamonds, watches and consumer electronic products are used as collateral for the security of the loans. Mortgages are loans secured by real estates and unsecured loans are loans without collateral.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 1(j)).

Other financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

The Group uses the weighted average method to determine realised gains or losses to be recognised in profit or loss on derecognition.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(i) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment loss, if any (see note 1(j)). Depreciation is calculated on a straight-line basis to write off the cost of fixed assets over their estimated useful lives as follows:

— Leasehold improvements	Over the shorter of the unexpired term of lease or 5 years
— Furniture and fixtures	5 years
— Motor vehicles	5 years

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(j) Impairment of assets

(i) Financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

— significant financial difficulty of the issuer or borrower;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for impairment losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

The individual impairment allowance is based upon management's best estimate of the present value of cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management make judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits.

In assessing the need for collective impairment allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

Where there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

(ii) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that other assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of comprehensive income in the year in which the reversals are recognised.

(k) Repossessed assets

In the recovery of impaired loan receivables granted under the Pawnbrokers Ordinance, the Group takes possession of the collateral assets from the customers. This possession takes place once a loan becomes overdue, subject to a grace period granted at the discretion of the Group in certain cases.

Repossessed assets are initially recognised at the amortised cost of the related outstanding loans on the date of repossession, which is generally below the net realisable value of the repossessed assets. Upon repossession of the assets, the related loans and advances together with the related impairment allowances, if any, are derecognised from the statement of financial position. Subsequently, repossessed assets are carried at the lower of the amount initially recognised or net realisable value and are therefore written down if and when the net realisable value falls to below the carrying amount of the asset. The excess of the net proceeds over the carrying amount of the repossessed assets is recognised as a gain upon the disposal of the assets.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Accruals and other payables

Accruals and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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 events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary difference support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— In the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— The same taxable entity; or

— Different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Retirement benefits

Retirement benefits are provided by the Group under the Mandatory Provident Fund Scheme as defined contribution schemes. The employer's monthly contributions to the scheme are at a maximum of 5% of each employee's monthly salary, subject to a cap of monthly relevant income of HK$20,000, or HK$25,000 after 1 June 2012.

The cost of all these schemes is charged to profit or loss of the Group for the year concerned and the assets of all these schemes are held separately from those of the Group.

(iii) Long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments based on the best estimate of the probable future outflow of resources which have been earned by the employees from their service to the Group at the reporting date.

(r) 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 the key management personnel of the Group or the Group's parent.

(B) An entity is related to the Group if any of the following conditions applies:

(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 employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the 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.

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the Financial Information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 TURNOVER

The principal activities of the Group are the granting of pawn loans and mortgage loans in Hong Kong.

Turnover represents interest income earned on pawn loans and mortgages and gain on disposal of repossessed assets. The amount of each significant category of revenue recognised in turnover during the years are as follows:

	Year ended 28 February 2010	Year ended 28 February 2011	Year ended 29 February 2012	Nine months ended 30 November 2011	Nine months ended 30 November 2012
	HK$	*HK$*	*HK$*	*HK$* *(unaudited)*	*HK$*
Interest earned on loan receivables					
— Pawn loans	40,355,990	45,270,791	52,350,742	39,266,976	42,853,013
— Mortgages	156,956	823,353	3,192,311	2,048,163	4,802,665
	40,512,946	46,094,144	55,543,053	41,315,139	47,655,678
Gain on disposal of repossessed assets	6,146,472	8,598,164	10,817,568	8,168,497	4,947,070
	46,659,418	54,692,308	66,360,621	49,483,636	52,602,748

Cost of repossessed assets disposed for the years ended 28 February 2010, 28 February 2011, 29 February 2012 and the nine months ended 30 November 2011 and 30 November 2012 amounted to HK$48,302,168, HK$47,890,055, HK$55,627,423, HK$36,131,368 (unaudited) and HK$42,689,756 respectively.

The Group's customer base is diversified and does not have customer with whom transactions have exceeded 10% of the Group's revenue during the Relevant Period.

3 SEGMENT REPORTING

The Group has one reportable segment, which is the provision of pawn broking and money lending in Hong Kong. Therefore, no additional reportable segment and geographical information have been presented.

4 OTHER REVENUE AND NET INCOME

	Year ended 28 February 2010 *HK$*	Year ended 28 February 2011 *HK$*	Year ended 29 February 2012 *HK$*	Nine months ended 30 November 2011 *HK$* *(unaudited)*	Nine months ended 30 November 2012 *HK$*
Other revenue					
Rental income	593,750	637,950	675,511	468,653	554,944
Dividend income from trading securities	25,823	24,334	160	125	133
Interest earned on unsecured loans	72,493	100,139	84,222	69,150	25,304
Credit related fee income	—	—	67,542	18,500	163,000
Bank interest income	1,164	570	380	304	331
Others	209,138	470,574	12,501	8,000	636,149
	902,368	1,233,567	840,316	564,732	1,379,861
Other net income					
Net realised and unrealised gain/(loss) on trading securities	389,420	73,802	(898)	—	234
Net (loss)/gain on disposal of fixed assets	(64,000)	—	123,910	123,910	—
	325,420	73,802	123,012	123,910	234

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		Year ended 28 February 2010 *HK$*	Year ended 28 February 2011 *HK$*	Year ended 29 February 2012 *HK$*	Nine months ended 30 November 2011 *HK$* *(unaudited)*	Nine months ended 30 November 2012 *HK$*
(a)	***Finance costs***					
	Finance charges on obligations under finance leases	12,143	28,053	31,379	16,617	16,385
	Interest on bank loans and overdrafts wholly repayable within five years	14,948	21,629	110,495	68,337	288,081
		27,091	49,682	141,874	84,954	304,466
(b)	***Staff costs***					
	Salaries and other benefits	12,213,010	13,072,532	12,536,561	9,712,909	10,028,444
	Directors' remuneration *(note 8)*	1,333,577	1,284,079	545,278	414,958	792,926
	Contributions to defined contribution scheme	348,693	340,593	400,076	301,565	273,825
	(Reversal of provision)/ provision for long service payment	(87,519)	37,358	52,278	39,209	265,616
		13,807,761	14,734,562	13,534,193	10,468,641	11,360,811
(c)	***Other operating expenses***					
	Premises and equipment expenses excluding depreciation:					
	— Rental of premises	6,001,101	6,576,625	7,232,735	5,445,745	5,691,866
	— maintenance, repairs and others	455,983	595,834	641,859	456,304	552,078
		6,457,084	7,172,459	7,874,594	5,902,049	6,243,944
	[•]	—	—	—	—	6,817,048
	Auditors' remuneration	86,500	90,000	110,000	82,500	172,500
	Depreciation *(note 11)*	335,340	485,222	324,723	251,618	299,651
	Advertising expenses	619,332	2,576,499	2,102,228	1,455,529	1,981,150
	Others	2,230,095	2,718,808	3,181,297	2,299,842	2,380,312
		3,271,267	5,870,529	5,718,248	4,089,489	11,650,661
		23,536,112	27,777,550	27,127,035	20,460,179	29,255,416

6 IMPAIRMENT LOSSES ON LOAN RECEIVABLES

	Year ended 28 February 2010 *HK$*	Year ended 28 February 2011 *HK$*	Year ended 29 February 2012 *HK$*	Nine months ended 30 November 2011 *HK$* *(unaudited)*	Nine months ended 30 November 2012 *HK$*
Impairment losses on loan receivables					
— Individual impairment losses charged/(credited) to profit or loss *(note 12(a))*	—	—	139,170	138,000	(73,105)
— Collective impairment losses charged/(credited) to profit or loss *(note 12(a))*	42,446	(91,390)	(62,741)	(31,881)	72,168
	42,446	(91,390)	76,429	106,119	(937)

7 INCOME TAX IN THE COMBINED STATEMENTS OF COMPREHENSIVE INCOME

(a) Taxation in the combined statements of comprehensive income represents:

	Year ended 28 February 2010 *HK$*	Year ended 28 February 2011 *HK$*	Year ended 29 February 2012 *HK$*	Nine months ended 30 November 2011 *HK$* *(unaudited)*	Nine months ended 30 November 2012 *HK$*
Current tax — Hong Kong Profits Tax					
Provision for the year/period *(note 20(a))*	4,060,358	4,611,362	6,542,234	4,832,862	5,129,215
Deferred tax					
Origination and reversal of temporary differences *(note 20(b))*	(273)	68,599	60,322	5,540	25,111
Tax expense	4,060,085	4,679,961	6,602,556	4,838,402	5,154,326

The provision for Hong Kong Profits Tax is calculated at 16.5% to the estimated assessable profits for the Relevant Period, except for the Sole Proprietorship Businesses which is calculated at 15% of the estimated assessable profits.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 28 February 2010 *HK$*	Year ended 28 February 2011 *HK$*	Year ended 29 February 2012 *HK$*	Nine months ended 30 November 2011 *HK$* *(unaudited)*	Nine months ended 30 November 2012 *HK$*
Profit before taxation	24,281,557	28,263,835	39,978,611	29,521,026	24,423,898
Notional tax on profit before taxation, calculated at the rates applicable to profits in the entities concerned	3,947,749	4,591,378	6,520,049	4,805,835	4,006,330
Tax effect of non-taxable revenue	(4,453)	(4,109)	(89)	(71)	(115)
Tax effect of non-deductible expenses	116,789	92,692	118,596	59,638	1,148,111
Others	—	—	(36,000)	(27,000)	—
Actual tax expense	4,060,085	4,679,961	6,602,556	4,838,402	5,154,326

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Year ended 28 February 2010

	Directors' fees *HK$*	Salaries, allowances and benefits in kind *HK$*	Discretionary bonuses *HK$*	Contributions to Mandatory Provident Fund *HK$*	Total *HK$*
Executive directors					
Chan Kai Ho, Edward	—	7,600	808,927	—	816,527
Chan Ying Yu	—	42,000	—	2,100	44,100
Chan Chart Man	—	154,050	—	—	154,050
Chan Mei Fong	—	258,000	50,000	10,900	318,900
Non-executive directors					
Chan Kai Kow, Macksion	—	—	—	—	—
Independent non-executive directors					
Chan Wing Lee	—	—	—	—	—
Leung Shiu Ki	—	—	—	—	—
Yip Ngai	—	—	—	—	—
Total	—	461,650	858,927	13,000	1,333,577

Year ended 28 February 2011

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to Mandatory Provident Fund	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors					
Chan Kai Ho, Edward	—	7,600	737,903	—	745,503
Chan Ying Yu	—	42,000	—	2,100	44,100
Chan Chart Man	—	138,850	—	—	138,850
Chan Mei Fong	—	280,000	63,626	12,000	355,626
Non-executive directors					
Chan Kai Kow, Macksion	—	—	—	—	—
Independent non-executive directors					
Chan Wing Lee	—	—	—	—	—
Leung Shiu Ki	—	—	—	—	—
Yip Ngai	—	—	—	—	—
Total	—	468,450	801,529	14,100	1,284,079

Year ended 29 February 2012

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to Mandatory Provident Fund	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors					
Chan Kai Ho, Edward	—	7,600	—	—	7,600
Chan Ying Yu	—	96,000	—	4,825	100,825
Chan Chart Man	—	144,853	—	—	144,853
Chan Mei Fong	—	280,000	—	12,000	292,000
Non-executive directors					
Chan Kai Kow, Macksion	—	—	—	—	—
Independent non-executive directors					
Chan Wing Lee	—	—	—	—	—
Leung Shiu Ki	—	—	—	—	—
Yip Ngai	—	—	—	—	—
Total	—	528,453	—	16,825	545,278

Nine months ended 30 November 2011 (unaudited)

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to Mandatory Provident Fund	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors					
Chan Kai Ho, Edward	—	7,600	—	—	7,600
Chan Ying Yu	—	71,000	—	2,925	73,925
Chan Chart Man	—	111,100	—	—	111,100
Chan Mei Fong	—	213,333	—	9,000	222,333
Non-executive directors					
Chan Kai Kow, Macksion	—	—	—	—	—
Independent non-executive directors					
Chan Wing Lee	—	—	—	—	—
Leung Shiu Ki	—	—	—	—	—
Yip Ngai	—	—	—	—	—
Total	—	403,033	—	11,925	414,958

Nine months ended 30 November 2012

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to Mandatory Provident Fund	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors					
Chan Kai Ho, Edward	—	360,000	—	6,250	366,250
Chan Ying Yu	—	80,000	—	3,375	83,375
Chan Chart Man	—	120,968	—	—	120,968
Chan Mei Fong	—	213,333	—	9,000	222,333
Non-executive directors					
Chan Kai Kow, Macksion	—	—	—	—	—
Independent non-executive directors					
Chan Wing Lee	—	—	—	—	—
Leung Shiu Ki	—	—	—	—	—
Yip Ngai	—	—	—	—	—
Total	—	774,301	—	18,625	792,926

No directors waived or agreed to waive any remuneration during the Relevant Period. No remuneration was paid to the non-executive directors and independent non-executive directors during the Relevant Period as the non-executive directors and independent non-executive directors have not been appointed during the Relevant Period.

During the Relevant Period, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals as set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one, one, nil, nil and one, for the years ended 28 February 2010, 28 February 2011 and 29 February 2012 and the nine months ended 30 November 2011 and 30 November 2012 respectively, are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Year ended 28 February 2010 *HK$*	**Year ended 28 February 2011** *HK$*	**Year ended 29 February 2012** *HK$*	**Nine months ended 30 November 2011** *HK$* *(unaudited)*	**Nine months ended 30 November 2012** *HK$*
Salaries and other emoluments	1,623,601	1,326,717	1,564,815	1,077,579	836,248
Discretionary bonuses	605,000	787,131	521,529	507,245	463,393
Contributions to Mandatory Provident Fund	48,000	48,000	60,000	45,000	42,000
Others	3,800	11,400	15,200	—	—
	2,280,401	2,173,248	2,161,544	1,629,824	1,341,641

The above individuals with the highest emoluments are within the following bands:

	Year ended 28 February 2010 *Number of individuals*	**Year ended 28 February 2011** *Number of individuals*	**Year ended 29 February 2012** *Number of individuals*	**Nine months ended 30 November 2011** *Number of individuals* *(unaudited)*	**Nine months ended 30 November 2012** *Number of individuals*
HK$Nil–HK$1,000,000	4	4	5	5	4

10 EARNINGS PER SHARE

The financial information has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A. Therefore, no earnings per share information has been presented.

11 FIXED ASSETS

(a) Fixed assets

	Leasehold improvements	Furniture and fixtures	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*
Cost:				
At 1 March 2009	3,427,996	1,625,176	1,108,000	6,161,172
Additions	—	—	826,816	826,816
Disposals	—	—	(600,000)	(600,000)
At 28 February 2010	3,427,996	1,625,176	1,334,816	6,387,988
Accumulated depreciation:				
At 1 March 2009	3,312,395	1,574,415	664,800	5,551,610
Charge for the year	57,800	10,577	266,963	335,340
Write back on disposals	—	—	(360,000)	(360,000)
At 28 February 2010	3,370,195	1,584,992	571,763	5,526,950
Net book value:				
At 28 February 2010	57,801	40,184	763,053	861,038
Cost:				
At 1 March 2010	3,427,996	1,625,176	1,334,816	6,387,988
Additions	263,934	492,573	—	756,507
Disposals	—	(5,679)	—	(5,679)
At 28 February 2011	3,691,930	2,112,070	1,334,816	7,138,816
Accumulated depreciation:				
At 1 March 2010	3,370,195	1,584,992	571,763	5,526,950
Charge for the year	110,587	107,672	266,963	485,222
Write back on disposals	—	(5,679)	—	(5,679)
At 28 February 2011	3,480,782	1,686,985	838,726	6,006,493
Net book value:				
At 28 February 2011	211,148	425,085	496,090	1,132,323

	Leasehold improvements	Furniture and fixtures	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*HK$*
Cost:				
At 1 March 2011	3,691,930	2,112,070	1,334,816	7,138,816
Additions	14,394	240,068	830,000	1,084,462
Disposals	—	—	(826,816)	(826,816)
At 29 February 2012	3,706,324	2,352,138	1,338,000	7,396,462
Accumulated depreciation:				
At 1 March 2011	3,480,782	1,686,985	838,726	6,006,493
Charge for the year	55,507	117,050	152,166	324,723
Write back on disposals	—	—	(330,727)	(330,727)
At 29 February 2012	3,536,289	1,804,035	660,165	6,000,489
Net book value:				
At 29 February 2012	170,035	548,103	677,835	1,395,973
Cost:				
At 1 March 2012	3,706,324	2,352,138	1,338,000	7,396,462
Additions	381,855	270,581	—	652,436
Disposals	—	—	—	—
At 30 November 2012	4,088,179	2,622,719	1,338,000	8,048,898
Accumulated depreciation:				
At 1 March 2012	3,536,289	1,804,035	660,165	6,000,489
Charge for the period	52,390	122,761	124,500	299,651
Write back on disposals	—	—	—	—
At 30 November 2012	3,588,679	1,926,796	784,665	6,300,140
Net book value:				
At 30 November 2012	499,500	695,923	553,335	1,748,758

(b) Fixed assets held under finance leases

The Group leases motor vehicles under finance lease expiring until 2015. At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the lease includes contingent rentals.

12 LOAN RECEIVABLES

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Pawn loans	91,057,200	102,793,430	118,017,870	123,087,160
Mortgages	2,900,000	22,193,893	32,644,515	71,416,266
Unsecured loans	600,000	600,000	485,208	—
Gross loan receivables	94,557,200	125,587,323	151,147,593	194,503,426
Less: Impairment allowance				
— Individually assessed	—	—	(139,170)	(66,065)
— Collectively assessed	(209,522)	(118,132)	(55,391)	(127,559)
	94,347,678	125,469,191	150,953,032	194,309,802
Current portion included under current assets	92,747,678	124,314,886	144,350,102	170,880,511
Amounts due after one year included under non-current assets	1,600,000	1,154,305	6,602,930	23,429,291

(a) Movement in impairment losses

	As at 28 February 2010			As at 28 February 2011			As at 29 February 2012			As at 30 November 2012		
	Individual	Collective	Total	Individual	Collective	Total	Individual	Collective	Total	Individual	Collective	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 March	—	167,076	167,076	—	209,522	209,522	—	118,132	118,132	139,170	55,391	194,561
Impairment losses charged/ (credited) to profit or loss *(note 6)*	—	42,446	42,446	—	(91,390)	(91,390)	139,170	(62,741)	76,429	(73,105)	72,168	(937)
At 28/29 February	—	209,522	209,522	—	118,132	118,132	139,170	55,391	194,561			
At 30 November										66,065	127,559	193,624

(b) Ageing analysis

Aging analysis is prepared based on due date.

	As at 28 February 2010				As at 28 February 2011				As at 29 February 2012				As at 30 November 2012			
			Unsecured				Unsecured				Unsecured				Unsecured	
	Pawn loans	Mortgages	loans	Total	Pawn loans	Mortgages	loans	Total	Pawn loans	Mortgages	loans	Total	Pawn loans	Mortgages	loans	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Neither past due nor impaired	88,260,550	2,900,000	600,000	91,760,550	99,466,000	22,193,893	600,000	122,259,893	114,782,170	32,644,515	485,208	147,911,893	119,675,860	71,416,266	—	191,092,126
Less than 1 month past due	2,398,250	—	—	2,398,250	2,538,580	—	—	2,538,580	2,632,000	—	—	2,632,000	2,746,450	—	—	2,746,450
1 to 3 months past due	398,400	—	—	398,400	788,850	—	—	788,850	603,700	—	—	603,700	664,850	—	—	664,850
	91,057,200	2,900,000	600,000	94,557,200	102,793,430	22,193,893	600,000	125,587,323	118,017,870	32,644,515	485,208	151,147,593	123,087,160	71,416,266	—	194,503,426

Further details on the Group's credit policy are set out in note 23(a).

13 TRADING SECURITIES

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Equity securities listed in Hong Kong, at fair value	1,019,723	4,687	3,789	—

14 TRADE AND OTHER RECEIVABLES

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Trade receivables	346,000	1,523,430	2,243,050	672,400
Interest receivables	7,604,625	8,542,088	9,589,986	10,599,311
Deposits and payments in advance	1,594,760	1,654,622	1,709,334	1,943,570
Amounts due from related companies	100,000	2,992,452	2,890,000	—
Amount due from immediate holding company	—	—	—	6,083
[•] expenses	—	—	—	2,197,350
Other assets	2,047,816	206,378	101,500	101,500
	11,693,201	14,918,970	16,533,870	15,520,214

Trade receivables are due within 60 days from the date of billing. All of the trade and other receivables are not impaired and expected to be recovered within one year. Further details on the Group's credit policy are set out in note 23(a).

The amounts due from related companies are unsecured, interest free and expected to be settled within one year or repayable on demand.

(a) Ageing analysis of trade receivables

The ageing analysis of trade receivables that is neither individually nor collectively considered to be impaired is as follows:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Neither past due nor impaired	346,000	1,523,430	2,243,050	349,100
Less than 1 month due	—	—	—	—
1 to 3 months past due	—	—	—	323,300
	346,000	1,523,430	2,243,050	672,400

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to an independent customer that has a good track record with the Group. Based on past experience, management believes that no impairment allowance 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.

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Cash in hand	4,557,060	2,772,058	4,489,700	5,255,328
Cash at banks	6,779,999	1,883,736	5,933,396	2,546,377
Cash and cash equivalents in the combined statements of financial position	11,337,059	4,655,794	10,423,096	7,801,705
Bank overdrafts *(note 16)*	(645,395)	(2,290,266)	(851,737)	(1,199,550)
Cash and cash equivalents in the combined cash flow statements	10,691,664	2,365,528	9,571,359	6,602,155

16 BANK LOANS AND OVERDRAFTS

At 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012, the details of the bank loans and overdrafts were as follows:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Secured bank overdrafts	645,395	2,290,266	851,737	693,480
Unsecured bank overdrafts	—	—	—	506,070
	645,395	2,290,266	851,737	1,199,550
Bank loans, secured	—	—	—	16,000,000
Bank loans, unsecured	—	—	2,500,000	5,000,000
	—	—	2,500,000	21,000,000
Total bank loans and overdrafts — repayable within 1 year or on demand	645,395	2,290,266	3,351,737	22,199,550

At 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012, secured bank overdraft facilities of HK$7,500,000, HK$7,500,000, HK$8,000,000 and HK$7,000,000 were provided and utilised to the extent of HK$645,395, HK$2,290,266, HK$851,737 and HK$693,480, respectively. At 29 February 2012 and 30 November 2012, an unsecured bank loan facility of HK$5,000,000 was provided and utilised to the extent of HK$2,500,000 and HK$5,000,000, respectively.

During the nine months ended 30 November 2012, an uncommitted secured revolving bank loan facility of the lower of HK$55 million or a certain percentage of the aggregate principal amount of the mortgage loan receivables of the Group which are then sub-charged/sub-mortgaged to the bank was obtained. The tenor for the facility ranged from one month, two months, three months or six months as selected by the Group. As at 30 November 2012, the available uncommitted banking facility after taking into consideration of the drawdown was approximately HK$4 million which was secured by loan receivables of the Group with a carrying value of approximately HK$25 million.

As at 30 November 2012, an unsecured bank overdraft facility of HK$15,000,000 was provided and utilised to the extent of HK$506,070.

During the Relevant Period, the Group's banking facilities are not subject to the fulfilment of financial covenants.

17 ACCRUALS AND OTHER PAYABLES

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Accrued expenses	3,368,326	1,699,954	576,212	2,926,880
Provision for long services payment	238,461	254,104	306,382	558,840
Dividend payable	—	—	—	3,000,000
Other payable and deposit received	985,855	1,252,494	1,545,012	1,349,518
	4,592,642	3,206,552	2,427,606	7,835,238

All of the accruals and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

18 OBLIGATIONS UNDER FINANCE LEASES

At 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012, the Group had obligations under finance leases repayable as follows:

	As at 28 February 2010		As at 28 February 2011		As at 29 February 2012		As at 30 November 2012	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Within 1 year	139,347	167,400	147,869	167,400	157,845	178,752	163,560	178,752
After 1 year but within 5 years	427,148	460,350	279,279	292,950	353,895	372,400	230,500	238,335
	566,495	627,750	427,148	460,350	511,740	551,152	394,060	417,087
Less: Total future interest expenses		(61,255)		(33,202)		(39,412)		(23,027)
Present value of lease obligations		566,495		427,148		511,740		394,060

19 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

Retirement benefits are provided by the Group under the Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administrated by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000, or HK$25,000 after 1 June 2012. Contributions to the plan vest immediately.

20 INCOME TAX IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the combined statement of financial position represents:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Provision for Hong Kong Profits Tax for the year/ period *(note 7(a))*	4,060,358	4,611,362	6,542,234	5,129,215
Provisional Profits Tax paid	(2,439,909)	(3,252,077)	(3,287,063)	—
	1,620,449	1,359,285	3,255,171	5,129,215
Balance of Profits Tax provision relating to prior years	—	(275,747)	(47,138)	2,112,343
	1,620,449	1,083,538	3,208,033	7,241,558

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the statement of financial position and the movements during the Relevant Period are as follows:

	The related depreciation in excess of depreciation allowances *HK$*	**Impairment losses on loans and advances** *HK$*	**Total** *HK$*
Deferred tax arising from:			
At 1 March 2009	323,692	27,568	351,260
(Charged)/credited to profit or loss *(note 7(a))*	(6,735)	7,008	273
At 28 February 2010	316,957	34,576	351,533
At 1 March 2010	316,957	34,576	351,533
Charged to profit or loss *(note 7(a))*	(53,515)	(15,084)	(68,599)
At 28 February 2011	263,442	19,492	282,934
At 1 March 2011	263,442	19,492	282,934
Charged to profit or loss *(note 7(a))*	(49,970)	(10,352)	(60,322)
At 29 February 2012	213,472	9,140	222,612
At 1 March 2012	213,472	9,140	222,612
(Charged)/credited to profit or loss *(note 7(a))*	(37,018)	11,907	(25,111)
At 30 November 2012	176,454	21,047	197,501

21 AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders were unsecured, interest-free and not repayable within one year. The balances of amounts due to shareholders have been subsequently settled by the issuance of ordinary shares of a subsidiary of the Company prior to the [•] of the Company's shares on the [•].

22 CAPITAL, RESERVES AND DIVIDENDS

The Company was incorporated on 5 June 2012 with an authorised share capital of 38,000,000 ordinary shares of no par value. The Company issued a total of one share at nominal value of HK$0.01 each to shareholders as part of the Reorganisation as detailed in the section headed "History, Reorganisation and Group Structure". Since the Reorganisation was not completed as at 30 November 2012, the capital in the combined statements of financial position as at the respective reporting date represented the aggregate amount of capital of the companies comprising the Group.

(a) Dividends

Dividends declared and paid/payable during the years ended 28 February 2010, 28 February 2011, and 29 February 2012 and the nine months ended 30 November 2012 represent dividends declared by the Company's subsidiaries.

During the year ended 28 February 2010, Oi Wah Pawnshop Credit Limited (formerly known as "Oi Wah Pawnshop Holding Limited") declared and paid interim dividends of HK$0.10 per share (totalling HK$1,000,000) to its equity holders.

During the year ended 28 February 2011, Oi Wah Pawnshop Credit Limited (formerly known as "Oi Wah Pawnshop Holding Limited") declared and paid interim dividends of HK$0.10 per share (totalling HK$1,000,000) to its equity holders.

During the year ended 29 February 2012, Oi Wah Pawnshop Credit Limited (formerly known as "Oi Wah Pawnshop Holding Limited") declared and paid interim dividends of HK$0.10 per share (totalling HK$1,000,000) to its equity holders.

During the nine months ended 30 November 2012, Oi Wah Pawnshop Credit Limited (formerly known as "Oi Wah Pawnshop Holding Limited") declared final dividends of HK$0.579 per share (totalling HK$5,790,000) in respect of previous financial year and interim dividends of HK$0.30 per share (totalling HK$3,000,000) to its equity holders.

(b) Distributable reserves

On the basis set out in Section A above, the aggregate amount of the distributable reserves at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012 of the companies comprising the Group was HK$67,884,283, HK$90,468,157, HK$122,844,212 and HK$133,323,784 respectively.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

As the core business of the Group is pawnshop broking and granting of loans under a money lenders' licence to the general public, the main risks associated with its business are credit risk and the need to maintain a fairly liquid position.

(a) Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the

statement of financial position. The Group's credit risk are primarily attributable to its loan receivables. In order to minimise the credit risk, the Group have established policies and systems for the monitoring and control of credit risk.

The Group has developed and adopted a systematic approach in running its business in an efficient way, including the adoption of internal control procedures for risk management purposes.

The Group manages its credit risk on a conservative basis by evaluating its loan portfolio in relation of quantitative risk/return criteria.

In relation to the pawn and collateral loan business, the Group has adopted internal control procedures including the identification and evaluation of ownership and obtaining an accurate valuation of personal property. The Group usually grants loans with a loan-to-value ratio ranging from 50% — 80%, depending on the type of collateral and the valuation is made at the point of granting the loan. The maximum exposure of the credit risk arising from pawn loan business at the end of each reporting period is the carrying amount of the pawn loan receivables as stated in the statement of financial position.

Different valuations are used for different types of collaterals.

- Gold prices quoted from The Chinese Gold & Silver Exchange Society
- Diamond prices quoted from latest Rapaport Diamond Report
- Watches quoted from either retail listed prices or parallel import wholesale prices
- Consumer electronic products quoted from updated pricelists of second-hand consumer electronic products

If by the end of the term of the pawn loan, a customer is considered to have defaulted in repayment of the pawn loan if they have not redeemed the collateral or renewed the pawn loan. At the Group's sole discretion, a grace period of up to six weeks may be provided to customers after the end of the loan period during which the Group may allow the customers to renew the pawn loan and/or redeem the collateral. We will take possession of the collateral if the customer has not redeemed the collateral or renewed the pawn loan by the end of the loan period or the grace period provided. Repossessed assets are accounted for in accordance with the accounting policy as set out in note 1(k) and the carrying amount of repossessed assets as at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012 was HK$8,306,972, HK$6,812,659, HK$6,869,020 and HK$8,479,716 respectively. The Group will proceed to dispose the collateral within a reasonable time after possession.

In relation to the mortgage loan business, the Group has also adopted internal control procedures for the identification and evaluation of the legal ownership and accurate valuation of property. As a matter of risk management, the Group usually grants loans with a loan-to-value ratio of no more than 70% of the value in the valuation report of the property, which is generally lower than bank's loan-to-value ratio for mortgages which can be as high as 70%. For the valuation of the property, the Group will make reference to either a third party valuer or the internet valuation services provided by banks in Hong Kong. The Group holds collateral against loan receivables in the form of mortgages over property. The Group considers that the credit risk arising from the mortgage loan receivables is significantly mitigated by the property held as collateral, with reference to the estimated market value of the property at the grant date. The Group may take possession of assets held as collateral through court proceeding or voluntary delivery of possession by the borrowers. It disposes the property by auction once receiving the possession.

Management has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's loan portfolio. In addition, management reviews the recoverable amount of loans and receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from loans and advances are set out in note 12.

The Group's policy requires the reviews of individual financial assets that are above materiality thresholds on semi-annual basis. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account. During the years ended 28 February 2010, 28 February 2011 and 29 February 2012 and the nine months ended 30 November 2012, management assessed that no mortgage loan was determined to be impaired.

Collectively assessed impairment allowances are provided for (i) portfolios of homogenous assets that are not assessed individually; and (ii) losses incurred but no yet identified, by using the historical loss experience, experienced judgment and statistical techniques to provide.

(b) Market risk management

The Group's activities expose it primarily to the financial risks of changes in interest rate, foreign exchange currency rates and equity price risk.

Market risk exposures are unsecured using sensitively analysis there has been no change to the Group's exposure to market risks or the currencies in which it manages and measure the risk throughout for relevant period.

Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The Group's interest rate positions arise from lending activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from loans and liabilities.

The majority of the Group's Loan receivables and bank loans and overdrafts are fixed rate. Although subject to interest rate risk, they are not remeasured in the financial statements in response to changes in interest rates and therefore changes in interest rate risk variables would not affect reported profit or loss in the short term.

(ii) Sensitivity analysis

At 28 February 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately HK$75,439.

At 28 February 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately HK$98,424.

At 29 February 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately HK$294,319.

At 30 November 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately HK$319,873.

The sensitivity analysis above indicates the instantaneous change on the Group's profit after tax (and retained profits) and other components of combined equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period.

Currency risk

The Group does not hold any material net positions or net statement positions in foreign currencies as at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012.

Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 13). All of these investments are listed.

The Group's listed investments are listed on the Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs.

At 28 February 2010, it is estimated that an increase/(decrease) of 10% in the relevant stock market index (for listed investments), with all other variables held constant, would have increased/decreased the Group's retained profits by approximately HK$85,147. At 28 February 2011 and 29 February 2012, the impact on the increased/decreased the Group's profit after tax (and retained profits) is considered insignificant. At 30 November 2012, the Group has not held any equity investments.

The sensitivity analysis above indicates the instantaneous change on the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis throughout the Relevant Period.

(c) Liquidity risk management

The Group's policy is to regularly monitor its liquidity requirements and its compliance with loan/borrowing covenants, to ensure it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and/or from other holding Group to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at the reporting date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

	As at 28 February 2010					
	Carrying amount *HK$*	**Total contractual undiscounted cash flow** *HK$*	**Within 1 year or on demand** *HK$*	**More than 1 year but less than 2 years** *HK$*	**More than 2 years but less than 5 years** *HK$*	**More than 5 years** *HK$*
Accruals and other payables	4,592,642	4,592,642	4,592,642	—	—	—
Bank loans and overdrafts	645,395	645,395	645,395	—	—	—
Obligations under finance leases	566,495	627,750	167,400	167,400	292,950	—
Amounts due to shareholders	40,507,940	40,507,940	—	—	—	40,507,940
	46,312,472	46,373,727	5,405,437	167,400	292,950	40,507,940

	As at 28 February 2011					
	Carrying amount *HK$*	**Total contractual undiscounted cash flow** *HK$*	**Within 1 year or on demand** *HK$*	**More than 1 year but less than 2 years** *HK$*	**More than 2 years but less than 5 years** *HK$*	**More than 5 years** *HK$*
Accruals and other payables	3,206,552	3,206,552	3,206,552	—	—	—
Bank loans and overdrafts	2,290,266	2,290,266	2,290,266	—	—	—
Obligations under finance leases	427,148	460,350	167,400	167,400	125,550	—
Amounts due to shareholders	43,700,897	43,700,897	—	—	—	43,700,897
	49,624,863	49,658,065	5,664,218	167,400	125,550	43,700,897

	As at 29 February 2012					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Accruals and other payables	2,427,606	2,427,606	2,427,606	—	—	—
Bank loans and overdrafts	3,351,737	3,363,316	3,363,316	—	—	—
Obligations under finance leases	511,740	551,152	178,752	178,752	193,648	—
Amounts due to shareholders	41,958,064	41,958,064	—	—	—	41,958,064
	48,249,147	48,300,138	5,969,674	178,752	193,648	41,958,064

	As at 30 November 2012					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Accruals and other payables	7,835,238	7,835,238	7,835,238	—	—	—
Bank loans and overdrafts	22,199,550	22,471,625	22,471,625	—	—	—
Obligations under finance leases	394,060	417,087	178,752	178,752	59,583	—
Amounts due to shareholders	44,963,406	44,963,406	—	—	—	44,963,406
	75,392,254	75,687,356	30,485,615	178,752	59,583	44,963,406

(d) Fair value

Financial instruments carries at fair value

The Group's financial instruments carries at fair value presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRSs 7, *Financial instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

— Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

— Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

— Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

All the financial instruments carried at fair value are trading securities and categorised in Level 1. Throughout the Relevant Period, there were no significant transfers between instruments in Level 1 and Level 2.

Except for the above financial instruments, management consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the Group's financial statements approximate their fair value.

24 OPERATING LEASE COMMITMENTS

Operating lease commitments

At 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012, the total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Within one year	4,556,108	5,715,065	5,479,110	7,309,505
After one year but within five years	10,298,789	10,443,802	5,023,499	6,639,125
	14,854,897	16,158,867	10,502,609	13,948,630

The Group leases a number of properties under operating leases. The leases typically run for an initial period of 1 to 5 years. Lease payments are usually increased at the end of the lease term to reflect market rentals. None of the leases includes contingent rentals.

25 MATERIAL RELATED PARTY TRANSACTIONS

During the Relevant Period, transactions with the following parties are considered to be related party transactions:

Name of party	Relationship with the Group
Mr. Chan Chart Man	Director and one of the controlling equity owners of the Company
Mr. Chan Kai Ho Edward	Director, one of the controlling equity owners of the Company and son of Mr. Chan Chart Man
Ms. Chan Ying Yu	Director, one of the controlling equity owners of the Company and daughter of Mr. Chan Chart Man
Ms. Chan Mei Fong	Director, one of the controlling equity owners of the Company and daughter of Mr. Chan Chart Man
Ms. Chan Nga Yu	One of the controlling equity owners of the Company and daughter of Mr. Chan Chart Man
Ms. Chan Kit Yu	One of the controlling equity owners of the Company and daughter of Mr. Chan Chart Man
Ms. Mui Hang Sin	One of the controlling equity owners of the Company and spouse of Mr. Chan Chart Man
Mr. Chan Kai Kow Macksion	Non-executive Director and son of Mr. Chan Chart Man
Chart Keung Building Contractors Ltd. ("Chart Keung")	Jointly-controlled by Mr. Chan Chart Man and Mr. Chan Kai Ho Edward
Kwan Chart (Holding) Company Ltd. ("Kwan Chart Holding")	Controlled by Mr. Chan Chart Man
Kwan Chart Estate Company Ltd. ("Kwan Chart Estate")	Controlled by Mr. Chan Chart Man
Smart Hero Industries Ltd. ("Smart Hero")	Jointly controlled by Mr. Chan Chart Man, Mr. Chan Kai Ho Edward, Ms. Chan Ying Yu, Ms. Chan Mei Fong, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Ms. Mui Hang Sin
New Current Investment Ltd. ("New Current")	Jointly controlled by Mr. Chan Chart Man, Mr. Chan Kai Ho Edward, Ms. Chan Ying Yu, Ms. Chan Mei Fong, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Ms. Mui Hang Sin
Chow C.L. & Macksion Chan, Solicitors ("Chow C.L.")	Under significant influence of Mr. Chan Kai Kow Macksion
Kwan Lik Holding Limited	Immediate holding company and jointly controlled by Mr. Chan Chart Man, Mr. Chan Kai Ho Edward, Ms. Chan Ying Yu, Ms. Chan Mei Fong, Ms. Chan Nga Yu, Ms. Chan Kit Yu and Ms. Mui Hang Sin

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Group's directors is disclosed in note 8, and certain of the highest paid employees as disclosed in note 9.

(b) Transactions with other related parties

During the Relevant Period, the Group entered into transactions with related parties in the ordinary course of its business as follows:

	Year ended 28 February 2010 *HK$*	**Year ended 28 February 2011** *HK$*	**Year ended 29 February 2012** *HK$*	**Nine months ended 30 November 2011** *HK$* *(unaudited)*	**Nine months ended 30 November 2012** *HK$*
Maintenance fee paid to Chart Keung	102,000	102,000	102,000	68,000	42,500
Legal fee paid to Chow C.L.	—	35,450	157,310	138,010	46,865
Rental expense paid to					
— Kwan Chart Holding	480,000	480,000	480,000	360,000	360,000
— Kwan Chart Estate	480,000	480,000	480,000	360,000	354,000
— Mr. Chan Chart Man	390,000	360,000	460,000	348,000	360,000

Chart Keung provided maintenance service for all the pawnshops and office of the Group.

Chow C.L. provided legal services for mortgage business of the Group.

The directors consider that all related party transactions during the Relevant Period were conducted on normal commercial terms and in the ordinary and usual course of the Group's business. Save for the maintenance services provided by Chart Keung and legal services provided by Chow C.L., the directors have confirmed that above transactions will continue in the future after [•].

(c) Balances with other related parties

As at 28 February 2010, 28 February 2011, 29 February 2012 and 30 November 2012, the Group had the following balances with related parties:

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Amounts due from related companies				
— New Current	100,000	—	—	—
— Smart Hero	—	2,992,452	2,890,000	—
Amounts due from immediate holding company				
— Kwan Lik Holding Limited	—	—	—	6,083

The balances with the related companies and immediate holding company are unsecured, interest-free and repayable on demand, the balance is included in trade and other receivables. The directors of the Company have confirmed that the balance of the amounts due from immediate holding company has been subsequently settled prior to [•].

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Amounts due to Shareholders				
— Mr. Chan Chart Man	37,907,940	41,100,897	39,358,064	42,363,406
— Mr. Chan Kai Ho Edward	2,600,000	2,600,000	2,600,000	2,600,000

The amounts due to Shareholders represent cash advances to the Group to finance the Group's operations. The directors of the Company have confirmed that the balances of the amounts due to shareholders have been subsequently settled by the issuance of ordinary shares of a subsidiary of the Company prior to [•].

(d) Personal guarantee deposits provided to the bank in respect of the Group's banking facilities

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Mr. Chan Chart Man	4,500,000	4,500,000	5,030,000	4,530,000
Ms. Mui Hang Sin	3,000,000	3,000,000	3,000,000	2,500,000

The directors of the Company have confirmed that the personal guarantee deposits will be subsequently released and replaced by a corporate guarantee by the Company upon [•].

(e) Personal guarantees provided to the bank in respect of the Group's banking facilities

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Jointly guaranteed by Mr. Chan Chart Man and Mr. Chan Kai Ho Edward	—	—	5,000,000	75,000,000

The directors of the Company have confirmed that the personal guarantees will be subsequently released and replaced by a corporate guarantee by the Company upon [•].

(f) Personal guarantees provided to landlord in respect of the Group's rental of premises

	As at 28 February 2010	As at 28 February 2011	As at 29 February 2012	As at 30 November 2012
	HK$	*HK$*	*HK$*	*HK$*
Mr. Chan Chart Man	2,807,100	2,170,600	1,462,600	931,600
Mr. Chan Kai Ho Edward	5,779,641	4,555,174	1,914,866	3,958,428

The rental guarantees are provided to the landlords in respect of the Group's pawnshops lease contracts. The guarantees mature at the end of the related contracts.

26 SUBSIDIARIES

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ Establishment	Issued and fully paid up capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Oi Wah Holding Limited	British Virgin Islands ("BVI") 31 May 2012	100 ordinary shares with no par value	100%	—	Investment holding
Oi Wah Pawnshop Credit Limited	Hong Kong 22 March 2000	10,000,000 ordinary shares of HK$1 each	—	100%	Pawn broking and money lending
Hing Wah Pawnshop Credit Limited	Hong Kong 12 April 2012	1 ordinary share of HK$1 each	—	100%	Pawn broking and money lending
Wai Wah Pawnshop Credit Limited	Hong Kong 12 April 2012	1 ordinary share of HK$1 each	—	100%	Pawn broking and money lending

As at the date of this report, no audited financial statements have been prepared for the Company, Oi Wah Holding Limited, Hing Wah Pawnshop Credit Limited and Wai Wah Pawnshop Credit Limited, as they either have not carried on any business since their respective dates of incorporation, or are an investment holding company and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

The companies now comprising the Group have adopted 28 February (or 29 February in a leap year) as their financial year end date. Oi Wah Pawnshop Credit Limited is subject to audit during the Relevant Period and the names of the respective auditors are set out below. The statutory financial statements of Oi Wah Pawnshop Credit Limited were prepared in accordance with HKFRSs issued by the HKICPA.

Name of the company	Financial period	Statutory auditor
Oi Wah Pawnshop Credit Limited (formerly known as "Oi Wah Pawnshop Holding Limited")	For the period from 26 January 2009 to 13 February 2010	Tony Kwok Tung Ng & Co.
	For the period from 14 February 2010 to 2 February 2011	Tony Kwok Tung Ng & Co.
	For the period from 3 February 2011 to 29 February 2012	KPMG

Prior to the financial year ended 29 February 2012, the Company's subsidiary in Hong Kong adopted the lunar calendar year end date as its financial year end date. As part of the Reorganisation, these subsidiaries have changed their financial year end date to conform with that of the Group.

27 KEY SOURCES OF ESTIMATION AND UNCERTAINTY

(a) Impairment losses

Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired. Objective evidence for impairment is described in accounting policy 1(j). Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating impairment losses regularly to reduce any difference between loss estimates and actual loss experience.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the Financial information, the HKICPA has issued a number of amendments and Interpretations and one new standard which are not yet effective for the Relevant Period and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*	1 July 2012
HKFRSs 10, *Consolidated financial statements*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Amendments to HKFRSs 7, *Financial instruments: Disclosures — Disclosures — Offsetting financial assets and financial liabilities*	1 January 2013
HKFRSs 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's result of operations and financial position except for HKFRSs 9. The Group is presently studying the implications of applying HKFRSs 9 but it is impracticable to quantify its effect as at the date of publication of these combined financial statements.

HKFRSs 9 was issued in November 2009 and establishes new principles for the classification and measurement of financial assets. In December 2010, the HKICPA issued additions to HKFRSs 9 dealing with financial liabilities. The main changes to the requirements of HKAS 39 are summarised below.

All financial assets are classified into two measurement categories: amortised cost or fair value on the basis of both an entity's business model for managing groups of financial assets and the contractual cash flow characteristics of the individual assets. These two categories replace the four categories under the current HKAS 39, *Financial instruments: Recognition and Measurement*.

Financial assets are measured at fair value through profit or loss, if they do not meet the criteria specified for measurement at amortised cost or if doing so significantly reduces or eliminates an accounting mismatch. An entity has the option to designate all subsequent changes in fair value of an equity instrument not held for trading at fair value through other comprehensive income with no recycling of gains or losses to the income statement. Dividend income would continue to be recognised in the income statement.

Financial assets which contain embedded derivatives are to be classified in their entirety either at fair value or amortised cost depending on whether the contracts as a whole meet the relevant criteria under HKFRSs 9.

HKFRSs 9 retains all the existing requirements for derecognition of financial instruments and most of the requirements for financial liabilities, except that for financial liabilities designated under the fair value option other than loan commitments and financial guarantee contracts, fair value changes attributable to changes in own credit risk are to be presented in the statement of other comprehensive income, and are not subsequently reclassified to income statement but may be transferred within equity.

HKFRSs 9 is mandatory for annual periods beginning on or after 1 January 2015 with earlier adoption permitted. The HKICPA decided to consider making limited amendments to HKFRSs 9 to address practice and other issues. The proposal in respect of classification and measurement for assets and liabilities and impairment loss is out for consultation in November 2012 until end of March 2013. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have an impact on the Group's results of operation and state of affairs.

D SUBSEQUENT EVENTS

The following significant event took place subsequent to 30 November 2012:

(a) Group reorganisation

On 18 February 2013, the Group completed the Reorganisation to rationalise the Group's structure in preparation for [•]. Further details of the Reorganisation are set out in the section headed "Further information about our Company — Corporate reorganisation" in Appendix IV to the Document. As a result of the Reorganisation, the Company became the holding Company of the Group.

(b) Capitalisation of shareholders' loan

Pursuant to the written resolution of the shareholders of the Company passed on 5 February 2013, amounts due to shareholders of the Company totaling HK$44,963,406 were settled by the issuance of ordinary shares of a subsidiary of the Company. Further details of the capitalisation of the shareholders' loan are set out in the section headed "Further information about our Company — Corporate reorganisation" in Appendix IV to the Document.

E SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 November 2012.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 June 2012 under the Companies Law. Our Company's constitutional documents consist of our Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of our Company is limited and that the objects for which our Company is established are unrestricted (and therefore include acting as an investment company), and that our Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

(b) By special resolution, our Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 19 February 2013 and effective on the [•]. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of our Company consists of ordinary shares.

(ii) Share certificates

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of our Company shall be issued under the seal of our Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of our Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical

signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of our Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. Our Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice 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 our 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). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of our Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of our Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and our Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any [•] of the Relevant Territory (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 our 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 our 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 whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of our Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of our subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting, but if such power or act is regulated by our Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) Compensation or payments for loss of office

Payments to any present 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 our Director is contractually or statutorily entitled) must be approved by our 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 and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

Our Company shall not directly or indirectly make a loan to a Director or a director of any holding company of our Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of our Company or any of their respective associates, or if any one or more of our Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) Disclosure of interest in contracts with our Company or with any of our subsidiaries

With the exception of the office of auditor of our Company, a Director may hold any other office or place of profit with our Company in conjunction with his office of Director for such period and, 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 or member of any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with our Company, either as vendor, purchaser or otherwise, 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 our Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to our Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

(aa) the giving of any security or indemnity to our Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of our subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of our subsidiaries for which our Director or his associate(s) has/have 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 proposal concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where our Director or his associate(s) is/are or is/are to be interested as a participant in the [•] or [•] of the offer;

(dd) 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 associate(s) and employees of our Company or of any of our subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or

(ee) any contract or arrangement in which our Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

(vi) Remuneration

Our Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst our Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion 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 has held office. Our Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

Any Director who, at the request of our Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or 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 shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of our Company or with which our Company is associated in business), or may make contributions out of our Company's monies to, such 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 any Director or former Director who may hold or have held any executive office or any office of profit with our Company or any of our subsidiaries) and former employees of our Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of our Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

At each annual general meeting, one third of our Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. Our Directors who shall retire in each year will

be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to our Company may be given must be at least 7 days.

A Director is not required to hold any shares in our Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of our Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and our Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to our Company at the registered office or head office of our Company for the time being or tendered at a meeting of the Board;

(bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(cc) if, without special leave, he is absent from meetings of the Board 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 generally;

(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;

(gg) if he has been validly required by the [•] of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or

(hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of our Directors (including himself) then in office.

From time to time the Board may 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 our 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 also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also 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 so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of our Company.

(ix) Register of Directors and officers

Pursuant to the Companies Law, our Company is required to maintain at our registered office a register of directors, alternate 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 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(x) Proceedings of the Board

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks 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 a second or casting vote.

(c) Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of our Company may only be altered or amended, and the name of our Company may only be changed by our Company by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares 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 shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any 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) Alteration of capital

Our Company may, by an ordinary resolution of our members, (a) increase our share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of our share capital into shares of larger or smaller amount than our existing shares; (c) divide our unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide our shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by

any person and diminish the amount of our share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of our share capital; and (h) reduce our share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by our Articles of Association, by special resolution, reduce our share capital in any way.

(f) Special resolution — majority required

In accordance with the Articles, a special resolution of our 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 by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, 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 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 less than 21 clear days' notice has been given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of our Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully

paid or credited as fully paid registered in his name in the register of members of our Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a [•] (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the [•] of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in our Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a [•] or its nominee(s), be a member of our Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our 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 in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the [•] or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where our Company has knowledge that any member is, under the [•], required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

Our Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by [•] at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of our Company and of all other matters required by the Companies Law necessary to give a true and fair view of the state of our Company's affairs and to show and explain our transactions.

The books of accounts of our Company shall be kept at the head office of our Company 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 account or book or document of our Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or our Company in general meeting.

The Board shall from time to time cause to be prepared and laid before our Company at our annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of our Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the [•] our Company may send summarised financial statements to shareholders who has, in accordance with the [•] consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under [•] and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

Our Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by our Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of our Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by [•].

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by our Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in our Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify our Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Companies Law and the [•], a notice or document may be served or delivered by our Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of our Company may be called by shorter notice than as specified above, such meeting may 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 our 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 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it 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;

(ee) the fixing of the remuneration of our Directors and of the auditors;

(ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of our Company representing not more than 20% in nominal value of our existing issued share capital (or such other percentage as may from time to time be specified in the rules of the [•]) and the number of any securities repurchased by our Company since the granting of such mandate; and

(gg) the granting of any mandate or authority to the Board to repurchase securities in our Company.

(k) Transfer of shares

Subject to the Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the [•] and may be under hand or, if the transferor or transferee is a [•] or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be 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 transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit 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 of our Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on 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 removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline 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 option scheme 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 our Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as [•] may determine to be payable or such lesser sum as the Board may from time to time require is paid to our Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located 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 register of members may, subject to the [•] (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the [•]) and shall also be free from all liens.

(l) Power of our Company to purchase our own shares

Our Company is empowered by the Companies Law and the Articles to purchase our own shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the [•].

Where our Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

In the absence of any authorisation in its articles of association to hold repurchased shares as treasury shares, our Company has to cancel the shares being repurchased immediately, unless the Board pass a resolution to authorise our Company to hold the repurchased shares as treasury shares prior to the repurchase.

(m) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to the ownership of shares in our Company by a subsidiary.

(n) Dividends and other methods of distribution

Our 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.

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, although 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 in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Where the Board or our Company in general meeting has resolved that a dividend should be paid or declared on the share capital of our Company, the Board may resolve:

(aa) 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 members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members 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.

Upon the recommendation of the Board, our Company may by ordinary resolution in respect of any one particular dividend of our Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus 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, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of our Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our 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.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such foreiture, shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of our Company entitled to attend and vote at a meeting of our 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 our Company or at a class meeting. A proxy need not be a member of our 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. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit 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) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. 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 20% per annum as the Board shall fix 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 same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him

requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state 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, nevertheless, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our 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 payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of our Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. However, the members of our Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of our Company is [•] on the [•], any member may inspect any register of members of our Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if our Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) 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, and continues to be present until the conclusion of the meeting.

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.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that our 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 our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then 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 our 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, on the shares held by them respectively.

In the event that our Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction 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 our 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 and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, our Company is entitled to sell any of the shares of a member who is untraceable if:

(i) all cheques or warrants, 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 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), our Company has not during that time received any indication of the existence of the member; and

(iii) our Company has caused an advertisement to be published in accordance with [•] giving notice of our intention to sell such shares and a period of three months has elapsed since such advertisement and the [•] has been notified of such intention. The [•] of any such sale shall belong to our Company and upon receipt by our Company of such [•], it shall become indebted to the former member of our Company for an amount equal to such [•].

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

Our Company was incorporated in the Cayman Islands as an exempted company on 5 June 2012 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, our Company must conduct our operations mainly outside the Cayman Islands. Moreover, our 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 our authorised share capital.

(b) Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. 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 or 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 arrangements 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 such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that 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 of business.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include 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

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

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 member and, for the avoidance of doubt, 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. Nonetheless, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, 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. In addition, 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.

Under Section 37A(1) the Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

Section 37(3)(g) of the Companies Law provides that shares being repurchased shall be treated as cancelled on repurchase, and the amount of the company's issued share capital shall be diminished by the nominal value of those shares accordingly, unless they are held by the company as treasury shares.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able 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 sections 34 and 37A(7) of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be 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 sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Companies Law provides that for so long as a company holds treasury shares, 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.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is *ultra vires* the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that 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 interest 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

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to 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.

Section 59 of the Companies Law further states that 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. If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, 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, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Council:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to our Company or our operations; and

(ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our Company:

(aa) on or in respect of the shares, debentures or other obligations of our Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for our Company is for a period of twenty years from 26 June 2012.

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 our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company 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 of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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 members, including any branch register of member, 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.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; 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 where the event

occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and 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.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act 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.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are

unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member 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 members.

(r) 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, our Company's legal adviser on Cayman Islands law, has sent to our Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix V. 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 was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 June 2012. Our Company was registered as a non-Hong Kong Company under Part XI of the Companies Ordinance on 16 August 2012 and our principal place of business in Hong Kong is at Rooms 2302–2303, Kwan Chart Tower, 6 Tonnochy Road, Wanchai, Hong Kong. Mr. Edward Chan and Ms. Chan Ying Yu, our executive Directors, have been appointed as the authorised representatives of our Company for the purpose of the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws of the Cayman Islands and our constitution which comprises a memorandum and articles of association. A summary of certain relevant provisions of our constitution and certain relevant aspects of the Companies Law are set out in Appendix III to this document.

2. Changes in share capital of our Company

(a) The authorised share capital of our Company on the date of its incorporation was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. On 5 June 2012, one Share of HK$0.01 was allotted and issued to the first subscriber, Reid Services Limited, as fully-paid Share, which was later transferred to Kwan Lik.

(b) On 18 February 2013, pursuant to a sale and purchase agreement entered into between our Company and the then shareholders of Oi Wah Holding, our Company acquired all the issued shares of Oi Wah Holding from them, in consideration of which our Company, at the direction of the then shareholders of Oi Wah Holding, allotted and issued 9,999,999 Shares, as fully-paid Shares, to Kwan Lik.

(c) On 19 February 2013, the authorised share capital of our Company was increased from HK$380,000 to HK$1,000,000,000 by the creation of additional 99,962,000,000 Shares of HK$0.01 each.

Save for the aforesaid and those mentioned in the sections headed "A. Further information about our Company — 3. Written resolutions of the sole Shareholder passed on 19 February 2013" and "A. Further information about our Company — 4. Corporate reorganisation" below, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Written resolutions of the sole Shareholder passed on 19 February 2013

Pursuant to the written resolutions passed by the sole Shareholder on 19 February 2013:

(a) our Company approved and adopted the Memorandum of Association and the Articles of Association;

(b) the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares of HK$0.01 each to HK$1,000,000,000 by the creation of additional 99,962,000,000 Shares of HK$0.01 each, such additional Shares to rank pari passu in all respects with the existing Shares;

(c) conditional on (i) the [•] granting the [•] of, and permission to deal in, our Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the exercise of the options granted under the [•]); (ii) the entering into of the agreement on the [•] between [•] and our Company; and (iii) the obligations of the [•] under the [•] Agreements becoming unconditional and not being terminated in accordance with the terms of the [•] Agreements or otherwise, in each case on or before the date falling 30 days after the date of this document:

(i) the [•] was approved and our Directors were authorised to effect the same and to allot and issue the [•] pursuant to the [•] to rank pari passu in all respects with the then existing Shares;

(ii) conditional on the share premium account of our Company being credited as a result of the issue of the [•] pursuant to the [•], our Directors were authorised to capitalise HK$2,900,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 290,000,000 Shares for allotment and issue to the shareholders of our Company whose names appeared on the register of members of our Company at 4:00 p.m. on 19 February 2013 (or such other time as they might direct) in the same proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company;

(iii) the rules of the [•] were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares under the [•] and to allot, issue and deal with Shares issued pursuant thereunder and to take all such steps as they consider necessary or desirable to implement the [•] and to vote on any matter connected therewith notwithstanding that they or any of them might be interested in the same;

(d) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (otherwise than pursuant to, or in consequence of, the [•], the exercise of any options which may be granted under the Share Option Scheme, or by way of rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by the Shareholders in general meeting) Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [•] and the [•] until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company as required by the Articles or any applicable laws of the Cayman Islands to be held, or the revocation, variation or renewal of such general mandate by an ordinary resolution of the Shareholders in general meeting;

(e) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to repurchase, on the [•] in accordance with all applicable laws and requirements of the [•] Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [•] (excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company as required by the Articles or any applicable laws of the Cayman Islands to be held, or the revocation, variation or renewal of such general mandate by an ordinary resolution of the Shareholders in general meeting;

(f) the general mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal amount of shares in the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the number of shares in the share capital of our Company that are repurchased by our Company under the general mandate mentioned in paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the [•].

4. Corporate Reorganisation

In preparation for the [•], our Group has undergone the Reorganisation and the steps are as follows:

(i) Incorporation of Hing Wah HK and Wai Wah HK

On 12 April 2012, Hing Wah HK and Wai Wah HK were incorporated in Hong Kong. Each of Hing Wah HK and Wai Wah HK has an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. One fully-paid share of each of Hing Wah HK and Wai Wah HK was allotted and issued to Mr. Chan Chart Man at par.

(ii) Incorporation of the Oi Wah Holding

On 31 May 2012, Oi Wah Holding was incorporated in the BVI and was authorised to issue 50,000 shares with no par value. Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui were issued and allotted with 20 shares, 15 shares, 25 shares, 10 shares, 10 shares, 10 shares and 10 shares, respectively.

Oi Wah Holding is an investment holding company and has not carried out any business since its incorporation.

(iii) Incorporation of our Company and Kwan Lik

On 31 May 2012, Kwan Lik was incorporated in the BVI which is authorised to issue 50,000 shares with no par value. Initially, 40 shares, 20 shares, 20 shares, 5 shares, 5 shares, 5 shares and 5 shares, representing 40%, 20%, 20%, 5%, 5%, 5% and 5% of the issued shares of Kwan Lik, were allotted and issued as fully-paid shares to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively.

On 5 June 2012, our Company was incorporated as an exempted company in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 Shares of HK$0.01 each, of which one Share was allotted and issued to the first subscriber, Reid Services Limited, as fully-paid Share, which was transferred to Kwan Lik on the same day.

(iv) Transfers of businesses

Pursuant to two agreements for sale and purchase of business both dated 19 April 2012 as supplemented by two supplemental agreements both dated 8 June 2012, Mr. Chan Chart Man transferred all the assets, liabilities, undertakings and licence of each of Hing Wah Pawnshop and Wai Wah Pawnshop to Hing Wah HK and Wai Wah HK, respectively, each at a consideration of HK$1.00.

(v) Acquisition of Hing Wah HK and Wai Wah HK

Pursuant to two sale and purchase agreements, dated 31 January 2013 and 4 February 2013, Oi Wah Holding acquired from Mr. Chan Chart Man the entire issued share capital of each of Hing Wah HK and Wai Wah HK, respectively, in consideration of which Oi Wah Holding issued and allotted, at the direction of the Chan Family, which they have all consented pursuant to the two sale and purchase agreements, an aggregate of 80 shares, 60 shares, 100 shares, 40 shares, 40 shares, 40 shares and 40 shares, as fully-paid shares, to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively.

(vi) Acquisition of Oi Wah HK and shareholder's loans

Pursuant to a sale and purchase agreement dated 5 February 2013, Oi Wah Holding acquired the entire issued share capital of Oi Wah HK from its shareholders, in consideration of which Oi Wah Holding issued and allotted 100 shares, 75 shares, 125 shares, 50 shares, 50 shares, 50 shares and 50 shares, as fully paid shares, to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively, in proportion to their then existing shareholdings of Oi Wah HK.

Pursuant to the same agreement, Oi Wah Holding also acquired the shareholder's loans in the sums of HK$42,363,406 and HK$2,600,000 from Mr. Chan Chart Man and Mr. Edward Chan, respectively, in consideration of which 600 shares, 250 shares and 150 shares were issued and allotted to Mr. Chan Chart Man, Mr. Edward Chan and Ms. Chan Ying Yu, respectively, as fully-paid shares at the direction of Mr. Chan Chart Man and Mr. Edward Chan as a family arrangement (such 1,000 shares would have been issued and allotted to Mr. Chan Chart Man and Mr. Edward Chan as to 942 shares and 58 shares if based on the ratio of the shareholder's loans).

Upon completion of the acquisition, Oi Wah HK has become a wholly-owned subsidiary of Oi Wah Holding.

The following table shows the shareholdings of Oi Wah Holding immediately after the completion of the transfers:

Name of shareholder	**Number of shares**	**Percentage of Shareholdings** *(%)*
Mr. Chan Chart Man	800	40
Mr. Edward Chan	400	20
Ms. Chan Ying Yu	400	20
Ms. Chan Nga Yu	100	5
Ms. Chan Kit Yu	100	5
Ms. Chan Mei Fong	100	5
Ms. Mui	100	5
Total:	**2,000**	**100**

Our Company is the ultimate holding company of our Group.

(vii) Acquisition of Oi Wah Holding

Pursuant to the sale and purchase agreement dated 18 February 2013, our Company acquired all issued shares of Oi Wah Holding from its then shareholders, in consideration of which our Company, at the direction of the then shareholders of Oi Wah Holding, allotted and issued 9,999,999 Shares, as fully-paid Shares, to Kwan Lik.

The following table shows the shareholdings of our Company immediately following completion of the acquisition.

Name of shareholder	**Number of Shares**	**Percentage of shareholdings** *(%)*
Kwan Lik	10,000,000	100
Total:	**10,000,000**	**100**

The consideration for each of the Reorganisation steps mentioned above was determined by the Chan's Family as a family arrangement in achieving the relevant shareholdings within the Chan's Family. Each of the transfers contemplated under the Reorganisation was properly and legally completed and settled.

5. Repurchase by our Company of our own securities

This section includes information required by the [•] to be included in this document concerning the repurchase by our Company of our own securities.

(a) Relevant legal and regulatory requirements

The [•] permit companies whose primary [•] are on the [•] to repurchase their own shares on the [•] subject to certain restrictions, among which it is provided that:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully-paid up in the case of shares) on the [•] by a company with its primary [•] on the [•] must be approved in advance by an ordinary resolution of its shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions of the sole Shareholder passed on 19 February 2013, conditional upon the conditions as stated in this document being fulfilled (or, if applicable, waived), [•] was given to our Directors to exercise all the powers of our Company to repurchase, on the [•] and which is recognised by the [•] for this purpose in accordance with all applicable laws and requirements of the [•], Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [•] and the [•] (but excluding any Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme). The Repurchase Mandate will remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by any applicable laws or the Articles of Association to be held or when it is revoked, varied or renewed by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest. The Articles do not authorise our Company to hold repurchased shares as treasury shares, therefore, the Shares being repurchased under the [•] will be cancelled in compliance with [•].

(ii) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the [•] for a consideration other than cash or for settlement otherwise than in accordance with the trading [•] from time to time.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when and to the extent that our Directors believe that such repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or the earnings per Share.

(c) Funding of repurchases

In repurchasing the Shares, our Company may only apply funds of our Company legally available for such purpose in accordance with our Memorandum and Articles of Association, the [•] and the applicable laws and regulations of the Cayman Islands.

Any payment for repurchases by our Company may be made out of profits of our Company, the share premium account of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of either or both of the profits or from the share premium account of our Company, before or at the time the Shares are redeemed or purchased, or, if authorised by the Articles of Association and subject to the Companies Law, out of capital.

On the basis of the current financial position of our Company as disclosed in this document, 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 impact on the working capital and/or the gearing position of our Company as compared with the position disclosed in this document. 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 position of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) Number of Shares which may be repurchased

On the basis of [•] in issue immediately following the completion of the [•] (without taking into account the exercise of any options granted under the Share Option Scheme), our Directors would be authorised under the Repurchase Mandate to repurchase up to [•] Shares during the period in which the Repurchase Mandate remains in force.

(e) General

None of our Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their respective associates, have 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 [•] that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the [•], the Articles of Association of our Company and the applicable laws and regulations of the Cayman Islands.

If as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the [•]. Accordingly, a shareholder, or a group of shareholders acting in concert (as defined in the [•]), depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with [•]. Our Directors are not aware of any consequences which would arise under the [•] as a consequence of any repurchases of Shares pursuant to the Repurchase Mandate.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the [•] to waive the [•] requirements regarding public shareholding. However, our Directors do not propose to exercise the [•] to such an extent that in the circumstances, there is insufficient public float as prescribed under the [•].

No connected person (as defined in the [•]) of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the [•] is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or the subsidiaries within the two years preceding the date of this document and are or may be material:

(a) the agreement for sale and purchase of business of Hing Wah Pawnshop dated 19 April 2012 and entered into between Mr. Chan Chart Man as vendor, Hing Wah HK as purchaser and Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui as covenantors, pursuant to which Hing Wah HK agreed to acquire from Mr. Chan Chart Man all the assets, liabilities, undertakings and licence of Hing Wah Pawnshop at a consideration of HK$1.00;

(b) the agreement for sale and purchase of business of Wai Wah Pawnshop dated 19 April 2012 and entered into between Mr. Chan Chart Man as vendor, Wai Wah HK as purchaser and Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui as covenantors, pursuant to which Wai Wah HK agreed to acquire from Mr. Chan Chart Man all the assets, liabilities, undertakings and licence of Wai Wah Pawnshop at a consideration of HK$1.00;

(c) the supplemental agreement dated 8 June 2012 and entered into between Mr. Chan Chart Man as vendor, Hing Wah HK as purchaser and Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui as covenantors to the agreement for sale and purchase of business as mentioned in paragraph (a) above;

(d) the supplemental agreement dated 8 June 2012 and entered into between Mr. Chan Chart Man as vendor, Wai Wah HK as purchaser and Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui as covenantors to the agreement for sale and purchase of business as mentioned in paragraph (b) above;

(e) the sale and purchase agreement dated 31 January 2013 and entered into between Mr. Chan Chart Man and Oi Wah Holding, pursuant to which Oi Wah Holding agreed to acquire from Mr. Chan Chart Man the entire issued share capital of Hing Wah HK at a consideration to be satisfied by the issue of, at the direction of the Chan Family, 40 shares, 30 shares, 50 shares, 20 shares, 20 shares, 20 shares and 20 shares, as fully-paid shares, to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively;

(f) the sale and purchase agreement dated 4 February 2013 and entered into between Mr. Chan Chart Man and Oi Wah Holding, pursuant to which Oi Wah Holding agreed to acquire from Mr. Chan Chart Man the entire issued share capital of Wai Wah HK at a consideration to be satisfied by the issue of, at the direction of the Chan Family, 40 shares, 30 shares, 50 shares, 20 shares, 20 shares, 20 shares and 20 shares, as fully-paid shares, to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively;

(g) the sale and purchase agreement dated 5 February 2013 and entered into between Oi Wah Holding and Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, pursuant to which (i) Oi Wah Holding agreed to acquire the entire issued share capital of Oi Wah HK from its shareholders at a consideration to be satisfied by the issue of 100 shares, 75 shares, 125 shares, 50 shares, 50 shares, 50 shares and 50 shares, as fully paid shares, to Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, respectively, in proportion to their then existing shareholdings of Oi Wah HK; (ii) Oi Wah Holding agreed to acquire the shareholder's loans in the sums of HK$42,363,406 and HK$2,600,000 from Mr. Chan Chart Man and Mr. Edward Chan, respectively, at a consideration to be satisfied by the issue of 600 shares, 250 shares and 150 shares to Mr. Chan Chart Man, Mr. Edward Chan and Ms. Chan Ying Yu, respectively, as fully-paid shares at the direction of Mr. Chan Chart Man and Mr. Edward Chan as family arrangement;

(h) the deed of assignment of loan dated 5 February 2013 and entered into between Mr. Chan Chart Man, Hing Wah HK, Wai Wah HK, Oi Wah Holding and Oi Wah HK, pursuant to which the shareholder's loans as owing by Mr. Chan Chart Man to Hing Wah HK and Wai Wah HK be novated to Oi Wah HK and partially set off against the shareholder's loan as owing by Oi Wah HK to Mr. Chan Chart Man with the residue amount be assigned by Mr. Chan Chart Man to Oi Wah Holding;

(i) the deed of assignment of loan dated 5 February 2013 and entered into between Mr. Edward Chan, Oi Wah Holding and Oi Wah HK, pursuant to which Mr. Edward Chan assigned the shareholder's loan owed by Oi Wah HK to Oi Wah Holding;

(j) the sale and purchase agreement dated 18 February 2013 and entered into between our Company and Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, pursuant to which our Company agreed to acquire all the issued shares of Oi Wah Holding from Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui at a consideration to be satisfied by the issue of, at

the direction of Mr. Chan Chart Man, Mr. Edward Chan, Ms. Chan Ying Yu, Ms. Chan Nga Yu, Ms. Chan Kit Yu, Ms. Chan Mei Fong and Ms. Mui, 9,999,999 Shares, as fully-paid Shares, to Kwan Lik;

(k) the Deed of Non-competition;

(l) the Deed of Indemnity; and

(m) [•]

2. Intellectual property rights of our Group

(a) Trademark

As at the Latest Practicable Date, we were the owner of the following trademark in Hong Kong:

Trademark	Owner	Class	Specification	Trade mark number	Registration date	Expiry date
靄華押業 Oiwahpawn	Oi Wah HK	36	Pawn brokerage services; pawn broking; financial lending, money lending services	302208979	30 March 2012	29 March 2022

(b) Domain name

As at the Latest Practicable Date, our Group has registered the following domain name:

Domain name	Registrant	Expiry date
pawnshop.com.hk	Oi Wah HK	18 August 2017

3. Related party transactions

Save as disclosed in Note 25 to the Accountants' Report set out in Appendix I to this document and the section headed "Notifiable transactions and connected transactions" in this document, our Group has not entered into any related party transactions within the two years immediately preceding the date of this document.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Particulars of Directors' services contracts

Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which he or she has agreed to act as an executive Director for a fixed term of three years with effect from the [•] subject to a right of early termination by serving a three-month written notice by either party to the other party.

Each of our executive Directors is entitled to a basic salary as set out below (subject to an annual review in accordance with the amount fixed in each financial year by the Remuneration Committee and approved by majority of the Board), which is payable on the last day of every calendar month on a pro-rata basis. Each of our executive Directors is also entitled to a discretionary bonus in respect of each financial year during the term of his employment (the amount of which is subject to the decision by the Remuneration Committee and at the discretion and approval by majority of the Board) taking into account of the performance of our Group and such executive Director, provided that the aggregate amount of the discretionary bonuses payable to all the executive Directors for any financial year of our Company may not exceed 5% of the consolidated net profit of our Group (after minority interests and taxation arises there but before taxation and extraordinary items of the relevant financial year). An executive Director may not vote on any resolution of our Directors nor shall that executive Director be counted as quorum should a meeting be held for considering the amount of the annual salary or discretionary bonus payable to him.

Name	**Annual salary** *(HK$)*
Mr. Chan Chart Man	280,000
Mr. Edward Chan	1,050,000
Ms. Chan Ying Yu	280,000
Ms. Chan Mei Fong	560,000

Non-executive Director and Independent non-executive Directors

Each of our non-executive Director and our independent non-executive Directors has been appointed for an initial term of three years commencing from the [•] subject to a right of early termination by serving a three-month written notice by either party to the other party, and is entitled to a basic salary as set out below, which is payable on the last day of every calendar

month on a pro-rata basis. None of our non-executive Director's or our independent non-executive Directors' appointment will be pensionable, nor will such Director be entitled to participate or otherwise be included in any of our Company's retirement schemes or other schemes (other than share option scheme) for the benefit of the employees of our Group.

Name	**Annual salary** *(HK$)*
Mr. Macksion Chan	150,000
Mr. Chan Wing Lee	150,000
Dr. Leung Shui Ki Albert	150,000
Dr. Yip Ngai	150,000

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(b) Directors' remuneration

(a) The aggregate sums of approximately HK$1.3 million, HK$1.3 million, HK$0.5 million and HK$0.8 million were paid to our Directors as remuneration (including benefits in kind) by our Group for each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, respectively. Further information in respect of our Directors' remuneration is set out in the Accountants' Report in Appendix I to this document.

(b) Under the arrangements currently in force, it is estimated that an aggregate of approximately HK$1.1 million will be paid to our Directors as remuneration (including benefits in kind but excluding any discretionary bonus which may be paid to any executive Director) by our Group for the financial year ending 28 February 2013.

(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 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, respectively for (a) the loss of office as director of any member of our Group or of any other office in connection with the management affairs of any member of our Group or (b) as an inducement to join or upon joining any member of our Group.

(d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments in each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, respectively.

2. [•]

3. Disclaimers

Save as disclosed in this document:

(a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the [•] and the [•], have an interest or a short position in Shares or 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 will, directly or indirectly, be 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 member of our Group;

(b) none of our Directors has any interest or short position in any of the 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 [•] pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she 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 [•] pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed under the section headed "E. Other information — 8. Consents of experts" in this Appendix IV is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

(d) [•]

(e) [•]

(f) none of our Directors or their associates or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our Company's issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

D. SHARE OPTION SCHEME

(a) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date"	19 February 2013, the date on which the Share Option Scheme is conditionally adopted by the Shareholders by way of written resolution
"Board"	the board of Directors or a duly authorised committee of the board of Directors
"Grantee"	any Participant who accept an Offer in accordance with the terms of the Share Option Scheme
"Group"	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
"Offer"	an offer of the grant of Options made in accordance with the terms of the Share Option Scheme
"Option(s)"	option(s) to subscribe for Shares granted and accepted pursuant to the Share Option Scheme
"Option Period"	the period for the exercise of an Option to be notified by the Board to the Grantee, but in any event shall not exceed ten years from the Offer Date
"Participant"	any person who satisfied the eligibility requirements set out in paragraph (b)(2) below
"Subscription Price"	the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of the sole Shareholder passed on 19 February 2013:

(1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Company and to promote the success of the business of our Company.

(2) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or advisor of our Group, or any substantial shareholder of our Company, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Company, options to subscribe at a price calculated in accordance with paragraph (3) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(3) Price of Shares and Grant of options and Consideration for the Option

(i) the Subscription Price shall be determined solely by the Board and notified to a Participant and shall be at least the higher of: (a) the closing price of the Shares as stated in the [•] daily quotations sheet on the Offer Date, which must be a Business Day; (b) the average of the closing prices of the Shares as stated in the [•] daily quotations sheets for the five Business Days immediately preceding the Offer Date; and (c) the nominal value of a Share on the Offer Date.

(ii) A nominal consideration of HK$1.00 is payable on acceptance of the grant of Options.

(4) Maximum number of Shares

(i) The aggregate number of Shares which may be issued upon 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 exceed 30% of the Shares in issue from time to time. No

Options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in the limit being exceeded.

(ii) Subject to sub-paragraphs (iii) and (iv) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all the Shares in issue upon the [•].

(iii) The 10% limit as mentioned under above sub-paragraph (ii) may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and other share option schemes of our Company) will not be counted for the purpose of calculating the limit as "refreshed". A circular must be sent to the Shareholders containing the information as required under the [•] in this regard.

(iv) Subject to the above sub-paragraph (i), our Company may seek separate approval by the Shareholders in general meeting for granting Options beyond the 10% limit under sub-paragraphs (ii) and (iii) provided the Options in excess of the limit are granted only to Participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified persons who may be granted such Options, the number and terms of such Options to be granted and the purpose of granting such Options to the specified persons with an explanation of how the terms of the Options will serve the purpose and all other information required under the [•].

(5) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to date of grant must not exceed 1% of the Shares in issue. Any further grant must be separately approved by the Shareholders in general meeting with such Participant and his associates

abstaining from voting, and the number and terms (including the Subscription Price) of Options to be granted to such Participant must be fixed before the Shareholders' approval. In such event, our Company must send a circular to the Shareholders containing the identity of the Participant, the number and terms of Options to be granted (and Options previously granted to such person) and all other information required under the [•].

(6) Grant of options to certain connected persons

(i) Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(ii) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share Option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:

(a) representing in aggregate over 0.1% of the Shares in issue; and

(b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to the Shareholders containing all information as required under the [•] in this regard. All connected persons of our Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

(7) Restrictions on the timing of grant of options

An offer for the grant of options may not be made after a price sensitive event of our Group has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the [•].

(8) Timing of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(9) Administration of exercise of Option

(i) An Option may be exercised in whole or in part in the manner by the Grantee giving notice in writing to our Company in such form as the Board may from time to time determine stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate Subscription Price of the Shares in respect of which the notice is given together with the reasonable administration fee specified by our Company from time to time. Within 28 days after receipt of the notice and the remittance, our Company shall issue and allot the relevant Shares, credited as fully paid, and a share certificate for the relevant Shares so allotted to the Grantee.

(ii) A Grantee shall ensure that any exercise of his Option under paragraph (9) is valid and complies with all laws, legislations and regulations to which he is subject. Our Directors may, as a condition precedent to allotting Shares upon an exercise of an Option, require the relevant Grantee to produce such evidence as they may reasonable require for such purpose.

(10) Rights are personal to grantee

An Option shall be personal to the Grantee. Except for the transmission of an Option on the death of a Grantee to his/her legal personal representative(s), the Option shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose or create any interest in favor of any third party over or in relation to any Option (where the Grantee is a company, any change of its major shareholder or any substantial change in its management will be deemed to be a sale or transfer of interest as aforesaid, if so determined by our Directors at their sole discretions). Any breach of the foregoing by a Grantee shall entitle our Company to cancel, revoke or terminate any Option granted to such Grantee to the extent not already exercised.

(11) Performance targets

The Board may at its absolute discretion to determine and state in the Offer for the grant of Options to a Grantee that a performance target must be achieved before any Options granted under the Share Options Scheme can be exercised.

(12) Rights on death

In the event that the Grantee (being an individual) dies before exercising the Option in full, his legal personal representative(s) may exercise the Option up to the Grantee's entitlement (to the extent which has become exercisable and not already exercised) within the period of 12 months following his death PROVIDED THAT where any of the events set out in paragraphs (15) and (16) occurs prior to his death or within such 12-month period following his death, then his legal personal representative(s) may so exercise the Option within such of the various periods respectively set out in such paragraphs instead of the period referred to in this paragraph (12) and provided further that if within a period of three years prior to the Grantee's death, the Grantee had committed any of the acts as specified in sub-paragraph (23)(iv) below which would have entitled our Company to terminate his employment prior to his death, the Board may at any time forthwith terminate the Option of the Grantee (to the extent not already exercised) by written notice to his legal personal representatives and the Option (to the extent not already exercised) shall lapse on the date of the relevant Board resolution..

(13) Rights on ceasing employment

In the event that the Grantee is an employee of our Group when an Offer is made to him and he subsequently ceases to be an employee of our Group for any reason other than (i) his death or (ii) the termination of his employment on one or more of the grounds specified in sub-paragraph (23)(iv) below, the Option (to the extent not already exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day on which the Grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(14) Rights on dismissal

In the event that the Grantee is an employee of our Group when an Offer is made to him and he subsequently ceases to be an employee by reason of a termination of his employment on one or more of the grounds specified in sub-paragraph (23)(iv) and the Grantee has exercised the Option in whole or in part pursuant to paragraph (9), but Shares have not been allotted to him, the Grantee shall, unless the Board determines otherwise, be deemed not to have so exercised such Option and our Company shall return to the Grantee the amount of the Subscription Price for the Shares in respect of the purported exercise of such Option.

(15) Rights on winding-up

In the event a general meeting is convened for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, each Grantee shall be entitled to exercise all or any of his Options (to the extent not already exercised) at any time not later than two Business Days prior to the

proposed general meeting of our Company by giving notice in writing to our Company in accordance with the terms of the Share Option Scheme, accompanied by a remittance for the full amount of the aggregate Subscription Price of 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.

(16) Rights on a general offer, a compromise or arrangement

In the event of a general or partial offer (whether by way of takeover offer or share repurchase offer scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) our Company shall use our best endeavors to procure that an appropriate offer is extended to all Grantees (on comparable terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, as Shareholders). If such offer becoming or being declared unconditional, a Grantee shall, notwithstanding any terms on which his Options were granted, be entitled to exercise the Option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

In the event of a compromise or arrangement between our Company and our Shareholders or its creditors being proposed in connection with a scheme for the reconstruction of our Company or our merger or consolidation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the Grantees on the same day as it gives notice of the meeting to the Shareholders or its creditors to consider such a compromise or arrangement and the Options (to the extent not already exercised) shall become exercisable in whole or in part on such date until the earlier of (i) two months after that date or (ii) at any time not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (the "**Suspension Date**"), by giving notice in writing to our Company in accordance with paragraph (9) above, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the Grantee credited as fully paid. With effect from the Suspension Date, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Shares issued as a result of the exercise of Options under this paragraph (16) shall for the purposes of such compromise or arrangement form part of the issued shares of our Company on the effective date thereof and that such Shares shall in all respects be

subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of Grantees to exercise their respective Options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of this Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of our officers for any loss or damage sustained by any Grantee as a result of such proposal.

(17) Adjustments to the Subscription Price

(i) In the event of any alteration in the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation or subdivision of shares of our Company, such corresponding adjustments (if any) shall be made in:

(a) the number of Shares subject to the Option so far as unexercised; and/or

(b) the Subscription Prices of any unexercised Option,

as the auditors shall certify in writing or the financial adviser shall confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable and in compliance with the relevant provisions of the [•] (or any guideline or supplementary guidance as may be issued by the [•] from time to time) (no such certification or confirmation is required in case of adjustment made on a [•]), provided that the overriding principle is that no adjustments should be made to the advantage of the Grantee or that would increase the intrinsic value of any Option.

For avoidance of doubt, (aa) an issue of any securities of our Company for cash or as consideration in respect of a transaction; and (bb) an issue of any securities of our Company under the authority of a general mandate or specific mandate granted to the Board by the shareholders of our Company, will not be regarded as circumstances requiring adjustment under this paragraph (17)(i).

(ii) Any adjustment under paragraph (17)(i) will be made, to the extent practicable, in accordance with the following:

(a) any such adjustment shall be made on the basis that the proportion of the issued shares of our Company to which a Grantee is entitled after such adjustment shall remain the same as that to which he was entitled before such adjustment;

(b) no such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value;

(c) the auditors or financial advisers selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment is in their opinion fair and reasonable and in compliance with the relevant provisions of the [•] (or any guideline or supplementary guidance as may be issued by the [•] from time to time) (no such confirmation is required in case of adjustment made on a [•]).

(18) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the Memorandum and the Articles of Association for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted and issued upon the exercise of any Option shall not carry any voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

(19) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Share Option Scheme is adopted.

(20) Restrictions on the time of the Offer

No Offer may be made after a price sensitive event of our Group has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the [•]. No Option may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the meeting of the Board (as such date is first notified to the [•] in accordance with the [•]) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the [•]); and

(ii) the last day on which our Company shall publish an announcement of our results for any year or half-year under the [•], or quarterly or any other interim period (whether or not required under the [•]), and ending on the date of the results announcement.

(21) Cancellation of Options

Any cancellation of Options granted but not exercised may be effected on such terms as may be agreed with the relevant Grantee, as the Board may in its absolute discretion sees fit and in a manner that complies with all applicable legal requirements for such cancellation. Where our Company cancels Options and issues new ones to the same Grantee, the issue of such new Options may only be made under the Share Option Scheme with available unissued Options (excluding the cancelled Options) and in compliance with the terms of the Share Option Scheme, in particular within the limit approved by the Shareholders and, subject to the maximum number of Shares available for subscription stipulated under the [•].

(22) Termination of the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but Options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

(23) Lapse of Option

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the expiry of the Option Period;

(ii) the expiry of any of the periods referred to in paragraphs (12), (13) and (16);

(iii) subject to paragraph (15), the date of the commencement of the winding-up of our Company;

(iv) in the event that the Grantee is an employee of our Group when an Offer is made to him and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the Grantee's service contract with our Group, the date of cessation of his employment with our Group;

(v) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the Grantee, or conviction of the Grantee of any criminal offence involving his integrity or honesty;

(vi) the date on which the Board exercises our Company's right to cancel, revoke or terminate the Option on the ground that the Grantee commits a breach of paragraph (10) in respect of that or any other Option; or

(vii) subject to the compromise or arrangement as referred to in paragraph (16) becoming effective, the date on which such compromise or arrangement becomes effective.

(24) Disclosure in annual and interim reports

Our Company will disclose details of the Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of options granted during the financial year/period in the annual/interim reports in accordance with the [•] in force from time to time.

(25) Present status of the Share Option Scheme

As of the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme. Application has been made to the [•] of the [•] for the [•] and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

(26) Others

(i) The provisions of the Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme as to:

(a) the definitions of "Grantee", "Option Period" and "Participant";

(b) the provisions of the above paragraphs on any change to the authority of the directors and scheme administrators in relation to the terms of the Share Option Scheme; and

(c) all such other matters set out in [•],

shall not be altered to the advantage of the Participants except with the prior approval of the shareholders of our Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Share Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority

of the affected Grantees as would be required of the shareholders of our Company under the Articles for the time being for a variation of the rights attached to the Shares.

(ii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(iii) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

E. OTHER INFORMATION

1. Estate duty, tax and other indemnities

Each of the Controlling Shareholders ("**Indemnifiers**") has entered into the Deed of Indemnity with and in favor of our Company (for ourselves and as trustee for each of our present subsidiaries) (being one of the material contracts referred to in the section headed "B. Further information about our business — 1. Summary of material contracts" in this Appendix IV) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for tax which might be incurred by any member of our Group on or before the [•].

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands, the BVI, Hong Kong and other jurisdictions in which the companies comprising our Group are incorporated.

Under the Deed of Indemnity, the Indemnifiers have given indemnities to our Group on a joint and several basis in relation to the amount of any and all taxation which might be payable by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the [•] or any event or transaction entered into or occurring on or before the [•].

The Deed of Indemnity does not cover any taxation claim and the Indemnifiers shall be under no liability under the Deed of Indemnity in respect of any taxation:

(a) to the extent that provision or reserve has been made for such taxation in the combined audited accounts of our Group or the audited accounts of the relevant member of our Group up to 30 November 2012; or

(b) to the extent that such taxation or liability would not have arisen but for some act or omission of, or transaction entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the course of normal day

to day operations of that company or carried out, made or entered into pursuant to a legally binding commitment created on or before the date ("**Fulfilment Date**") [•];

(c) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 November 2012 which is finally established to be an over-provision or an excessive reserve;

(d) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the laws rules or negotiations or the interpretation or practice thereof by the Inland Revenue Department in Hong Kong or any other relevant authority coming into force after the Fulfilment Date or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the Fulfilment Date with retrospective effect; or

(e) for any penalty imposed on any member of our Group under section 42 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong by reason of any member of our Group defaulting in any obligation to give information to the Commissioner under section 42(1) of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent authority thereof under the laws of any jurisdiction outside Hong Kong, provided that such obligation arises on or before the Fulfilment Date.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities to our Group on a joint and several basis against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Company and/or other relevant members of our Group (i) as a result of directly or indirectly or in connection with the gains on any sale of collaterals pursuant to the loans made by our Group under the Money Lenders Ordinance on or before the Fulfilment Date; (ii) as a result of directly or indirectly or in connection with, or in consequence of any non-compliance with or breach of any applicable laws, rules or regulations in any jurisdiction by any member of our Group on or before the Fulfilment Date; (iii) as a result of directly or indirectly or in connection with any litigation, proceeding, claim, investigation, inquiry, enforcement proceeding or process by any governmental, administrative or regulatory body which (a) the members of our Group, their respective directors and/or licensed representatives or any of them is/are involved; and/or (b) arises due to some act or omission of, or transaction voluntarily effected by, the members of our Group or any of them (whether alone or in conjunction with some other act, omission or transaction) on or before the Fulfilment Date.

The Deed of Indemnity does not cover any claim and the Indemnifiers shall be under no liability under the Deed of Indemnity in respect of any claim to the extent that provision has been made for such claim in the combined audited accounts of our Group or the audited accounts of the relevant member of our Group up to 30 November 2012.

Under the Deed of Indemnity, the Indemnifiers have further given indemnities to our Group on a joint and several basis against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Company and/or other relevant members of our Group (i) as a result of directly or indirectly or in connection with the cockloft with an internal staircase built in the premises of Wai Wah Pawnshop leased by Mr. Chan Chart Man to us; (ii) as a result of directly or indirectly or in connection with the suspension of business or operation of Ho Wah Pawnshop in the event that the landlord is required to remove the illegal structure and the removal of which has impact on the daily operation of Ho Wah Pawnshop; and (iii) as a result of directly or indirectly or in connection with the subletting of part of the premises of Heng Wah Pawnshop in the event that the landlord terminates the tenancy agreement on such basis and our Group is required to relocate our operation to another premises.

2. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries is 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 our results of operations or financial condition.

3. Preliminary Expenses

Our Company's estimated preliminary expenses are approximately HK$37,000 and are payable by our Company.

4. Promoters

Our Company has no promoters for the purposes of the [•]. Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the [•] and the related transactions described in this document.

5. [•]

6. [•]

7. [•]

8. Taxation of Holders of Shares

(a) The Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(b) Hong Kong

(i) Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a rate of 15% on unincorporated businesses. Gains from sales of the Shares effected on the [•] will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

(ii) Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares.

(iii) Estate duty

Estate duty has been abolished in Hong Kong by the Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006. The estate of a person who died before 11 February 2006 is subject to the provisions of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong), and the Shares are regarded as Hong Kong property for this purpose. The estate duty chargeable in respect of estates of persons dying between the transitional period from and including 15 July 2005 to 11

February 2006 with the principal value exceeding HK$7.5 million shall be a nominal amount of HK$100. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of shares whose death occurs on or after 11 February 2006.

(c) Consultation with professional advisers

Intended holders of the 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 the 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 [•] accepts responsibility for any tax effect on, or liabilities of, holders of the Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercising any rights attaching to them.

11. Miscellaneous

(a) Save as disclosed in this document, within the two years immediately preceding the date of this document:

(i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries and no commission has been paid or is payable except for the commission payable to the [•], for submission of, agreeing to subscribe or procuring subscription of any shares of our Company or any of our subsidiaries; and

(iii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(b) Our Directors confirm that:

(i) there has been no material development occurring after the period consisting of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012 and no material adverse change in the financial or trading position or prospects of our Group since 30 November 2012 (being the date to which the latest audited combined financial statements of our Group were made up);

(ii) there has not been any interruption in the business of our Group which may have or have had a material adverse effect on the financial position of our Group in the 12 months immediately preceding the date of this document;

(iii) there is no arrangement under which future dividends are waived or agreed to be waived; and

(iv) our Group has no outstanding convertible debt securities.

(c) Save as disclosed in this document, neither our Company nor any of the subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares.

(d) Save as disclosed in this document, none of the persons named in the section headed "E. Other information — 8. Qualifications of experts" in Appendix IV to this document is interested beneficially or non-beneficially in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any share of any member of our Group.

(e) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(f) None of our Directors or the experts named in the section headed "E. Other information — 8. Qualifications of experts" in this Appendix IV has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

12. [•]