

OVERVIEW

We are a leading short-term financing service provider in China in terms of approved registered capital, according to the Euromonitor Report. We specialize in providing short-term loans secured by collateral to SMEs and individuals. As of the Latest Practicable Date, our PRC Operating Entity had an approved registered capital of RMB500 million. We operate in Jiangsu Province which is one of the most economically developed provinces in China, as Jiangsu Province's nominal GDP ranked second among China's provinces and accounted for 10.4% of the national GDP in 2012. Our leading position in terms of approved registered capital gives us a competitive advantage in both operational scale and flexibility to cater to customers' individual needs, as the approved registered capital is directly related to the total capital available to a pawn loan provider for granting loans and the maximum sizes of individual loans pursuant to the Pawning Measures.

We are also the largest short-term secured financing provider specialising in pawn loan services in the Greater Suzhou Area in terms of number of branches we operated in 2012, according to the Euromonitor Report. We were established in 1999 as one of the first pawn loan service providers in Suzhou City, and we were among the first financing service providers to offer short-term loans secured by real estate or equity interest collateral in Suzhou pursuant to the Pawning Measures, which became effective in April 2005. We have experienced significant growth and have built and maintained a strong presence in Jiangsu Province in our 14 years of operation. Since 2005, we have obtained from MOFCOM and relevant local authorities approvals to increase the registered capital of the PRC Operating Entity five times and to open 10 new branches. Our long local presence and leading market position helped to enhance our brand recognition among our local customers.

Our primary business activity involves providing customers short-term loans secured by collateral, such as real estate, equity interests and personal property, through our branch offices. The great majority of our customers during the Track Record Period were SMEs and individual business owners in the Greater Suzhou Area. The economic growth and increase in number of SMEs in China has resulted in an increase in demand from SMEs for financing channels that are alternative to traditional bank loans. Many SMEs and individuals with unencumbered assets turn to us for short-term secured loans, as our loan approval and collateral appraisal processes are designed to be efficient and transparent to suit their immediate liquidity needs. Under our internal policy, our loan approval processes typically only take two days after applicants submit all the requisite information. Jiangsu Province has a very active and prosperous SME sector and the number of newly-registered private enterprises in the Greater Suzhou Area ranked first in Jiangsu Province in 2012 according to the Euromonitor Report. By leveraging our leading market position to address the increasing market demand, we believe we are in a position to continue to improve our loan portfolio by giving priority to loan applicants with high quality collateral, strong financial strength and good credit histories.

We have implemented a risk management system which we believe to be both rigorous and effective in reducing various risks involved in our operations, such as credit risks and liquidity risks. We had an impaired loan ratio of 0.3%, 0.2%, 0.6% and 0.1% as of 31 December 2010, 2011 and 2012, and 30 June 2013, respectively. Our multi-level loan approval process and collateral appraisal process are designed to ensure that our loan portfolio has a low impaired loan ratio and a weighted average appraised loan-to-value ratio sufficiently low to cover potential losses in the event of default during the Track Record Period. We generate substantially all our interest income from short-term secured loans that we grant to our customers. Interest income generated from loans secured by real estate and equity interest collateral accounted for 92.8%, 95.6% and 95.8%

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of our total interest income in the years ended 31 December 2010, 2011 and 2012, and 96.7% and 94.8% of our total interest income in the six months ended 30 June 2012 and 2013, respectively. Our weighted average appraised loan-to-value ratio for loans secured by real estate collateral was 58%, 57%, 52% and 54% as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. Our weighted average appraised loan-to-value ratio for loans secured by equity interest collateral was 41%, 42%, 29% and 30% as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively.

We generate substantially all our interest income by charging loan interests and composite administrative fees for the loans we grant. The monthly interest we charge on a loan is set based on the PBOC Benchmark Interest Rate for 6-month loans. The monthly composite administrative fee we charge on a loan is individually negotiated with customers and typically calculated as a percentage of the loan principal amount. The increase in demand for short-term loans and the increase in the approved registered capital of the PRC Operating Entity have enhanced our pricing power in recent years. Our net interest income was RMB57.1 million, RMB120.1 million and RMB186.4 million in the years ended 31 December 2010, 2011 and 2012, and RMB106.5 million and RMB111.0 million in the six months ended 30 June 2012 and 2013, respectively. Our net profit was RMB29.0 million, RMB66.0 million and RMB96.0 million in the years ended 31 December 2010, 2011 and 2012, and RMB52.9 million and RMB64.0 million in the six months ended 30 June 2012 and 2013, respectively. Our return on average equity was 13.9%, 20.6%, 20.1% and 20.2% in the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. Our return on average assets was 7.0%, 10.2%, 12.0% and 13.9% in the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively.

OUR COMPETITIVE STRENGTHS

Market Leader with Largest Approved Registered Capital in Jiangsu Province

We were the leading short-term secured financing service provider in Jiangsu Province in terms of approved registered capital as of 30 June 2013, according to the Euromonitor Report. The amount of approved registered capital is directly related to the total capital available to a pawn loan provider for granting loans, over which the MOFCOM maintains tight control. Our leading position in Jiangsu Province in terms of approved registered capital gives us a competitive advantage in both operational scale and flexibility to cater to customers' individual needs.

In addition, pursuant to the Pawning Measures, the outstanding balance of loans extended to a single borrower by a pawn loan provider may not exceed 25% of such pawn loan provider's approved registered capital, and the maximum principal amount of any single loan secured by real estate collateral may not exceed 10% of such pawn loan provider's approved registered capital, if the approved registered capital is over RMB10 million. Accordingly, since the second largest pawn loan provider in the Greater Suzhou Area has an approved registered capital of RMB140 million, we are the only pawn loan provider in the Greater Suzhou Area that can provide short-term secured loans in an aggregate principal amount over RMB35 million to a single borrower or loans secured by real estate collateral with an aggregate principal amount over RMB14 million, which puts us in an advantageous position to service SMEs with short-term demands for relatively large amounts of capital.

Moreover, MOFCOM maintains control over the total loan amount a pawn loan provider can grant through the approval of its registered capital. Since the enactment of the Pawning Measures, we have obtained five approvals from MOFCOM and its local counterparty to increase the registered

capital of the PRC Operating Entity from RMB5 million to RMB500 million. Judging from such historical performances, we believe our established track record will enable us to maintain our leading position in Jiangsu province in the foreseeable future.

Prudent and Centralised Risk Management Resulting in Strong Loan Portfolio with Low Impaired Loan Ratio

We have built a loan portfolio with a low impaired loan ratio through our commitment to prudent and centralised risk management.

Due to continued economic growth in China and the increase in the number and size of SMEs in Jiangsu Province, demand for alternative channels of financing continues to grow. By leveraging our leading market position and strong brand recognition in the Greater Suzhou Area, we believe we have been in a position to continue to improve our loan portfolio by giving priority to loan applicants with high quality collateral, strong economic strength and good credit histories. We have implemented a risk control system which we believe is both rigorous and efficient in reducing various risks involved in our operations such as credit risks and liquidity risks, as evidenced by our low impaired loan ratio during the Track Record Period. Our multi-level loan approval process and collateral appraisal process are designed to ensure that our loan portfolio has a low impaired loan ratio and a weighted average appraised loan-to-value ratio sufficiently low to cover for potential losses in the event of default. Moreover, in 2012, we implemented a pawn loan management IT system that helps our management monitor various aspects of our operations by providing detailed information on individual loans, as well as aggregate outstanding amounts of different categories of loans. The risk control department uses this IT system to perform compliance status checks on a daily basis. The IT system is also available to each Approval Committee member as well as other senior management in the finance department in the loan approval process. In June 2012, we rolled out additional features of the IT system including automatic alerts to prevent individual and aggregate loan amounts and fees we charge from exceeding relevant thresholds under the Pawning Measures. This IT system has enhanced our internal controls and strengthened our compliance capabilities.

Our impaired loan ratio was 0.3%, 0.2%, 0.6% and 0.1% as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. As we continue to implement more sophisticated risk management policies and enhance our internal risk control operations, the Directors expect our impaired loan ratio to remain low in the foreseeable future. In addition, our centralised loan management enables us to utilise our available equity efficiently.

Long Market Presence in Jiangsu Province Resulting in Extensive Local Knowledge

Short-term secured financing is a business that relies on extensive local knowledge. We were established in 1999 and were among the first short-term secured financing service providers to open stores in Suzhou city. Through 14 years of operation in the Greater Suzhou Area, we have built in-depth local knowledge that helps us to provide services catered to the needs of our local customers. Our branch managers and employees have established longstanding and close working relationships with major SMEs and their proprietors in their branch areas, and maintain frequent contact with existing and potential customers to understand their financing needs and to give them financing advices. Such first-hand knowledge of customer needs also provides us a starting point in our efforts to design innovative services and financial products to better serve our customers in the fast growing and the ever-changing private business sector. Our local knowledge also helps us make quick and informed decisions on collateral appraisal. Branch managers and employees have

up-to-date knowledge of the real estate market in their branch areas for the purpose of appraising and monitoring values of real estate collateral and keeping track of the financial status of major local SMEs. Moreover, our strong local presence and knowledge also help us recruit and retain strong talent and build an experienced management and operational team.

We have won multiple national level awards, including:

- 2010 Top Ten Trustworthy Brand in Financial Industry in China;
- 2011 PRC AAA-Grade Exemplary Enterprise of Good Faith Business Practice; and
- 2010 PRC Exemplary Chinese Enterprise of Good Faith Business Practice.

We are the only pawn loan provider to have won these awards. As recognition of our good faith business practice and prudent internal control by the issuing government authorities and industry organisations, these awards enhanced our brand prominence in our industry and trust of customers in the quality of our services.

Well-established Branch Front and Sales Network

We have established the largest sales network in Jiangsu Province, according to the Euromonitor Report, with 11 branches that cover the Greater Suzhou Area as of 30 June 2013. Pursuant to the Pawning Measures, the opening of each branch office by a pawn loan provider must be approved by MOFCOM and its counterparty at the provincial level and filed with MOFCOM. Such pawn loan provider must satisfy certain criteria in order to get approvals for opening branch offices, such as a minimum working capital to be appropriated to such new branches and no record of illegal operation in the last two years. We believe these criteria and approval process serve as additional entry barriers to newcomers.

We are a member of various national and provincial trade unions and organisations, such as the National Pawning Business Professionals Association, Jiangsu Pawning Business Association and Suzhou Pawning and Auction Business Association. These memberships serve as important informational and customer development channels, and help us strengthen our local presence and obtain up-to-date knowledge of the local and national markets.

We have established mutually beneficial relationships with two major local commercial banks, namely, the Bank of Jiangsu and the Bank of Suzhou⁽¹⁾. Pursuant to the three-year strategic agreements we entered into with these two banks in December 2011, the banks can elect to grant loans to the PRC Operating Entity with favorable interest rates provided that such interest rates are in compliance with relevant PBOC regulations and the internal policies of the banks. In return, the PRC Operating Entity agreed to choose the two banks as the major banks for deposit, account

Note:

(1) Wuzhong Group owns a 4.5% equity interest in the Bank of Suzhou and is its fourth largest shareholder.

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management, financing consultation, and other services. In addition, pursuant to such strategic agreements, the banks and we agreed, on a non-exclusive basis and free of any referral fee or other charge, to make customer referrals to each other, meaning the banks may refer their customers with urgent, short-term financing needs to us, and we may refer our customers whose financing needs are better suited to a bank loan to these banks through our financing consulting services. Such strategic relationships and alliances serve as an additional customer development channel for us. Neither agreement contains any termination or renewal provisions.

Experienced Management Team

The success of our business has been, and in the future will continue to be, dependent on the valuable services of our senior management and key personnel. Members of our senior management have contributed significant experience and expertise to our operations during their tenure with us. In particular, Mr. Wu Min, the Chief Executive Officer of the Company and the General Manager of the PRC Operating Entity, had 26 years of experience working in local branches of Industrial and Commercial Bank of China, one of the major state-owned commercial banks in China, before joining us and served in various positions such as manager, vice president, and president of such local branches. In 2006, Mr. Wu won a National Labor Day Award, one of the most prominent awards issued by the All China Federation of Trade Unions to reward individuals with outstanding work ethics and contribution. Mr. Wu has expertise in finance as well as management and administration of financial institutions, which are critical to our business operations. Our Chief Financial Officer, Mao Zhuchun, has been a member of the Wuzhong Group for ten years and served as a manager of the Assets Audit Department of Wuzhong Group and the chief financial officer of Wuzhong Group, where his responsibilities included overall financial management and control and accounting system of Wuzhong Group and its then subsidiaries. Other members of our management also have extensive experience in the pawn loan, banking and risk management areas.

We rely on our management's in-depth local knowledge and extensive experience in commercial lending to identify potential credit risks with respect to loan applicants and hidden issues with respect to the collateral during the loan approval and collateral appraisal processes. Our branch managers have an average of 20 years of experience in financial-related industries, and some of our branch managers served as heads of branch offices of major local commercial banks prior to joining us. Moreover, our branch managers have built long and on-going working relationships with many local SMEs and their proprietors, who trust the professionalism of our branch managers based on past experience. As a result, our branch managers also serve critical roles in our customer acquisition and maintenance.

OUR STRATEGIES

Our goal is to become the largest short-term secured financing service provider in China and expand into other financial service sectors. To achieve our goal, we intend to leverage our existing strengths and pursue the following strategies:

Selectively Expand in Jiangsu Province and the Yangtze River Delta Area

We constantly evaluate opportunities to leverage our industry expertise and extend our geographic reach. Currently substantially all the loans we grant are initiated in the Greater Suzhou Area. We plan to solidify our position as the market leader in the Greater Suzhou Area by expanding our operations in this area. We plan to selectively open new branches in the Greater Suzhou Area in the future.

As a long-term goal, we plan to build our business into a nationwide short-term secured financing service company through prudent and strategic expansion. We are analysing opportunities to expand into major cities in the Yangtze River Delta area beginning in the second half of 2014. We plan to leverage our industry expertise and experienced senior management to expand our operations into the Yangtze River Delta area, which is one of the most economically developed areas and one of the areas in which SMEs are most active in China.

Innovate Our Short-term Secured Financing Services

We are exploring the possibility to innovate our short-term secured financing services to make them more flexible and better suited to customers' individual needs. For example, we plan to provide consulting services in connection with our short-term secured financing services in which we would advise our customers on a variety of financing related issues such as financing channels, collateral appraisal and risk management. As the Pawning Measures do not provide any limitation on customers' use of pawn loans granted to them, we are also exploring means to expand the types of our customers and to offer tailor-made financing services to customers other than local SMEs, such as individuals who need funds for tuition or travel. We will accept the same types of collateral from such individuals as from our existing customers, namely, real estate, equity interest or personal property, and subject loan applications from such individuals to the same loan approval and collateral appraisal processes, which we believe will ensure that such loans are in compliance with relevant laws and regulations and will not expose us to any additional credit risk as compared with our existing loan portfolio. Starting in 2013, we have also begun to diversify our collateral composition in response to market conditions and will continue to prudently expand the types of personal property we accept as collateral to include larger and more valuable types of personal property such as raw materials and finished products. We have recently amended our internal and appraisal policies to provide relevant operational and appraisal procedures for such types of collateral. These initiatives will expose us to new market potential currently unexplored.

Further Strengthen Our Risk Management Systems

We are committed to constantly improving our internal risk management systems. We plan to strengthen our risk management by further standardising the loan approval and collateral appraisal procedures. In 2012, we implemented a new management information system through which all our Substantial Loan approvals and collateral appraisals will be conducted. We plan to further enhance the management information system by implementing a feature which will include a virtual data room of application documents for each loan to facilitate review and verification of loan applications by management. Such feature will enable more efficient record keeping and help

identify potential risk control shortcomings or loopholes. In addition, we are in the process of hiring more staff members who are experienced in risk management to join our risk control department, and we believe such added experience will further strengthen our risk management control. Moreover, we intend to implement risk management policies for any new services we introduce.

SHORT-TERM SECURED FINANCING BUSINESS

We grant short-term loans secured by real estate, equity interest or personal property collateral, and charge loan interest and composite administrative fees. The monthly loan interest we charge on loans we grant is set based on the prevailing PBOC Benchmark Interest Rate for 6-month loans. The composite administrative fees are individually negotiated and typically calculated as percentages of the principal amounts of the loans.

A pawn loan is commonly defined or understood to mean a loan provided against the security of the pledge or deposit of personal property such as jewels and other chattels. In many jurisdictions around the world, the pawn industry is therefore categorised as the business of lending small amounts of money in exchange for personal property that is deposited as security by the borrower. However, the pawn industry in the PRC is not restricted to the business of providing small loans against the security of pledged personal property. The Pawning Measures and other relevant PRC laws and regulations provide that pawn loan businesses may accept real estate or equity interest as collateral for the provision of loans to borrowers. Since real estate and equity interest collateral usually has a larger value than personal property collateral, pawn loan providers in the PRC may, within the limits prescribed by law, lend larger amounts of money secured by real estate or equity interest collateral compared with traditional pawn loans secured by personal property collateral. The short-term secured financing services we engage in differ from the traditional understanding of the pawn loan business in that such short-term loans are often secured by collateral such as real estate and equity interest in enterprises, as compared to traditional pawn loans that are typically secured by personal property and for much smaller principal amounts. In addition, in contrast to the common practice in many jurisdictions where pawn loans are strictly non-recourse loans for which the borrower cannot be held personally liable, lenders in China can make personal claims directly against borrowers. Pursuant to the Pawning Measures, if the estimated value of collateral is more than RMB30,000, the collateral may be disposed of pursuant to the Security Law of the People's Republic of China or may be auctioned through an auction house appointed by the pawnshop based on the agreement by the parties, and if the proceeds from such auction are smaller than the amount due to us, we can make a direct claim against the borrower for the shortfall. Conversely, if any proceeds remain after the repayment of all outstanding amount owed to us, we should return such remaining proceedings to the borrower. The majority of our loans are secured by either real estate or equity interest collateral.

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The table below sets out the details of outstanding loans we granted as of the dates indicated:

	As of 31 December			As of 30 June
	2010	2011	2012	2013
Number of loans outstanding				
Loans secured by real estate collateral	53	66	47	51
Loans secured by equity interest collateral	45	39	28	26
Loans secured by personal property collateral . . .	<u>1,759</u>	<u>1,751</u>	<u>1,319</u>	<u>1,282</u>
Total	<u><u>1,857</u></u>	<u><u>1,856</u></u>	<u><u>1,394</u></u>	<u><u>1,359</u></u>
Gross loans to customers amount (RMB'000)				
Loans secured by real estate collateral	182,641	390,457	438,740	484,921
Loans secured by equity interest collateral	357,439	249,873	245,435	247,519
Loans secured by personal property collateral . . .	<u>11,879</u>	<u>14,156</u>	<u>11,738</u>	<u>14,370</u>
Total	<u><u>551,959</u></u>	<u><u>654,486</u></u>	<u><u>695,913</u></u>	<u><u>746,810</u></u>
Average Loan Amount (RMB'000)				
Loans secured by real estate collateral	3,446	5,916	9,335	9,508
Loans secured by equity interest collateral	7,943	6,407	8,766	9,520
Loans secured by personal property collateral . . .	6.8	8.1	8.9	11

In addition, the following table sets forth the details of new loans secured by real estate and equity interest collateral we granted during the indicated periods:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
Total number of new loans granted	287	254	158	70	56
Total new loan amount granted (RMB in millions)	1,523	1,492	1,328	531	485
Total number of loans renewed	Nil	2	34	31	23
Total loan amount renewed (RMB in millions)	Nil	21	347	315	259
Average loan repayment period (day) ⁽¹⁾	118	102	113	104	127

(1) Representing average repayment period for all loans granted in the indicated period and repaid in full during the Track Record Period. Repayment period of a loan is the number of days between the date a loan is granted and the date the loan is repaid in full.

The turnover rate of our loans to customers decreased during the Track Record Period as we shifted our lending strategy to be more selective in choosing the customers to whom we would grant loans. We have increasingly given priority to customers who have good credit histories with us or who can pledge collateral with readily ascertainable value. In 2010, we granted many loans the terms of which were no more than a few days. However, in 2011 and 2012 we increasingly granted loans to selected customers for relatively longer loan terms in order to build long-term relationships with such customers, which resulted in an decrease of the number of loans we granted from 2010 to 2012.

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Certain loans we granted in 2010 were not renewed upon expiration and became overdue. Many such Overdue Loans were not repaid in full until after the second half of 2011 when we enhanced our collection efforts, which resulted in a longer average loan repayment period for loans granted in 2010.

As part of our enhanced collection efforts to reduce the number and amount of Overdue Loans starting in the second half of 2011, we closely monitored the repayment status of outstanding loans and their collateral, and requested borrowers to either repay the outstanding amounts or submit applications for renewals for loans about to expire in order to prevent such loans from becoming Overdue Loans upon expiration. The number and amount of renewed loans we reviewed and approved increased significantly in 2012 as a result of such efforts. Conversely, the overdue amount as a percentage to the total outstanding loan amount decreased from 33.6% as of 31 December 2010 to 4.3%, 6.2% and 5.0% as of 31 December 2011 and 2012 and 30 June 2013, respectively. We reviewed and approved the renewal applications for such loans by the same standards applied to applications for new loans, so that such renewals met our loan application requirements and we did not observe any deterioration of the financial condition of the borrowers. As a result, our Directors believe such increase in number of renewed loans in 2012 and the six months ended 30 June 2013 did not have a significant adverse impact on our loan portfolio and overall quality of collateral as of 31 December 2012 and 30 June 2013, respectively.

We generate substantially all our income from loans to customers secured by real estate and equity interest collateral during the Track Record Period. The following table sets forth the contribution to interest income (before business taxes and surcharges) for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Interest income from:										
Loans secured by real estate collateral	27,038	40.6	61,908	45.4	122,551	58.8	71,595	59.6	71,823	60.1
Loans secured by equity interest collateral	34,690	52.1	68,384	50.2	77,093	37.0	44,577	37.1	41,480	34.7
Loans secured by personal property collateral	4,779	7.2	5,351	3.9	7,182	3.4	3,780	3.2	4,471	3.7
A related party ⁽¹⁾	12	<0.1	494	0.4	—	—	—	—	—	—
Bank deposits	33	<0.1	91	<0.1	1,634	0.8	156	0.1	1,789	1.5
Total	<u>66,552</u>	<u>100</u>	<u>136,228</u>	<u>100</u>	<u>208,460</u>	<u>100</u>	<u>120,108</u>	<u>100</u>	<u>119,563</u>	<u>100</u>

(1) Interest income from a related party was generated from funds we advanced to Wuzhong Jiaye. Historically, Wuzhong Group had an internal policy that all unutilised funds of each entity within Wuzhong Group should be deposited in a designated account to facilitate Wuzhong Group's overall management of funds. Wuzhong Jiaye paid us variable interest at rates based on the market rates of seven-day call deposits. We have been advised by our PRC Legal Adviser that such funds advanced to Wuzhong Jiaye did not violate any applicable laws or regulations. Pursuant to our internal control policy currently in place, all funds advanced to Wuzhong Jiaye were returned as of the Latest Practicable Date and the Directors do not expect to advance any funds to Wuzhong Jiaye or other related parties in the future.

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For more details on interest income, please see “Financial Information — Description of Certain Line Items in the Consolidated Statements of Comprehensive Income — Interest Income” in this prospectus.

Loan Process

Loan Application

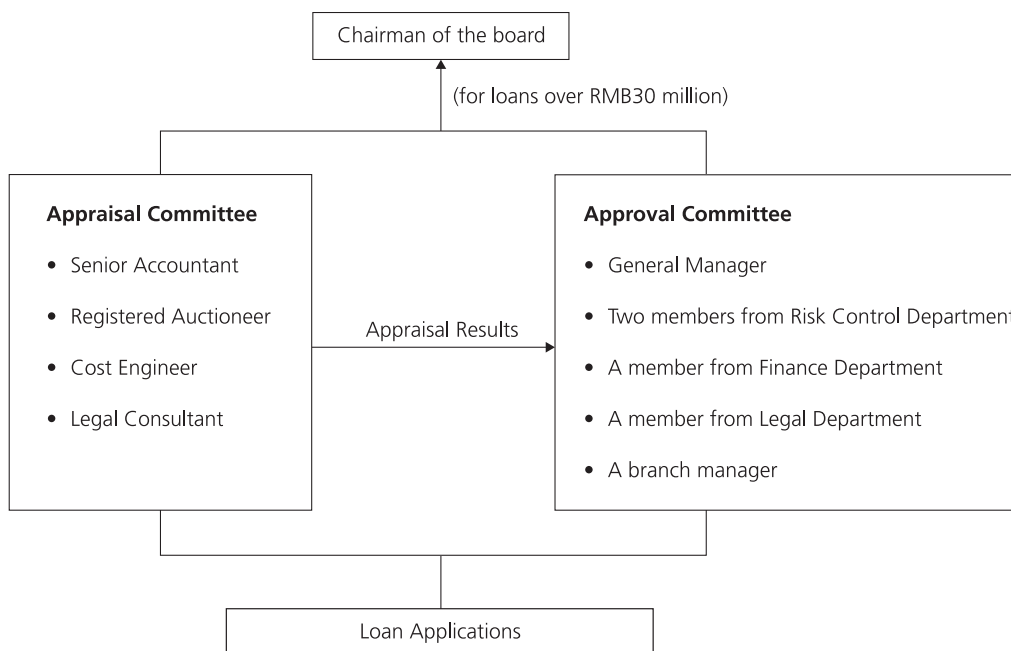
A person who wants to apply for a loan must file an application form at one of the branches of the PRC Operating Entity.

The application process for each loan is initiated at one of our branches. An applicant fills and submits a standard form and provides, among other things, the amount and term of the loan applied for, the information of collateral pledged and planned use of the loans. For a Substantial Loan application, we require an additional set of information and documentation, including but not limited to, credit history, financial statements and operating data of the applicant and guarantor, if applicable. For more details, see “— Risk Management” in this prospectus.

Loan Approval

Prior to April 2012, our risk control policy provided that any loan application form for a loan with a principal amount no less than RMB500,000 must be submitted to headquarters for review and approval. In April 2012, we amended our risk control policy to provide that all loan application forms for Substantial Loans must be submitted to headquarters for review and approval. A branch manager has discretion to approve loans to customers secured by personal property collateral with a principal amount less than RMB300,000. The Approval Committee was formed in 2007 and was the entity in charge of both loan approval and collateral appraisal until October 2011. In October 2011, we formed the Appraisal Committee and since then the Approval Committee has focused on the loan approval process while the Appraisal Committee has taken charge of the collateral appraisal process by using its expertise to provide collateral appraisal results to be reviewed by the Approval Committee.

The following diagram illustrates the review process of Substantial Loans after April 2012:



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The Approval Committee consists of six members and each member is experienced in his or her respective area, which we believe provides an additional measure of protection against loan default or collection risk. The following table describes the Approval Committee members' respective positions and their relevant experience:

Name	Position	Prior Experience
Wu Min	President of our Company and General manager of the PRC Operating Entity	Over 26 years of experience working in local branches of Industrial and Commercial Bank of China
He Jiong	Chief Risk Officer of our Company and the manager of the risk control department of the PRC Operating Entity	Over 8 years of working experience in domestic and international banks
Zhang Chunhua	Assistant to the President of our Company	Over 8 years of working experience in financial operations in the PRC Operating Entity
Fang Jun	Assistant manager of the legal department of the PRC Operating Entity	Certified PRC attorney with over 8 years of experience of working in the legal department of the PRC Operating Entity, Wuzhong Group and another company
He Jianping	Assistant manager of the risk control department of the PRC Operating Entity	Nearly 20 years of working experience in domestic banks
Branch manager	Branch manager	Most of the branch managers have prior working experience in commercial banks to review loan applications, analyze a range of collateral types including precious metals, automobiles and local real estate properties, and evaluate financial statements relating to equity interests

Each Approval Committee member independently reviews all the loan application documents and information collected at the branch level and can also request additional information when necessary. After reviewing the application materials, each member will make a vote on the loan application in writing, together with a brief description of his or her evaluation. Each member is required to provide his or her vote and comments in writing; otherwise such member's vote will be automatically deemed to be a rejection of the loan. If two or more members do not provide written approval for granting the loan, the application is rejected. The Approval Committee will normally revert with its decision on a Substantial Loan application to the branch manager who submitted such application within two business days after the applicant submits all the required information and documentation. Branch managers are required to give the Approval Committee advance notice for loan applications for principal amounts in excess of RMB10 million.

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Branch manager review. A branch manager is the direct contact with loan applicants and has two main responsibilities in the initial review process: to collect required appraisal information and documentation from the loan applicant and to make an initial evaluation of the loan application based on his or her local knowledge.

We apply different appraisal policies for different types of collateral, and a branch manager is responsible for collecting all the required information and documentation for the specific collateral in question pursuant to the respective policy. As a measure to reduce risk of default, for all Substantial Loan applications, we take into consideration the loan applicants' financial strength and credit history in addition to the value of the collateral pledged. We take into consideration a wide variety of factors in the evaluation of the financial strength of a SME loan applicant, including operational scale, equipment condition, inventory, supply contracts, number of employees, as well as planned use of loan proceeds. Pursuant to our risk control policy, the Approval Committee requires the following information of the applicant and guarantor, if any, to be submitted for review:

- loan application and information required in the loan application form, including the organisational documents of an enterprise applicant or guarantor;
- capital verification report and the latest quarterly financial statements and other relevant financial information;
- operating data and credit report;
- other financial information such as ownership of real estate, automobiles, and other property; and
- any other information the Approval Committee may deem relevant.

A branch manager is responsible for collecting these documents and information and verifying their authenticity by making a required on-site visit to applicants or their premises for Substantial Loans secured by real estate or equity interest collateral. A branch clerk is required to verify in person the personal property collateral securing a Substantial Loan.

After reviewing a loan application form, a branch manager may, in his discretion and depending on the loan amount and the type of collateral, request additional information or documentation from the loan applicant. If a branch manager considers a Substantial Loan application to be eligible for approval after his initial review, he submits such loan application form, together with the relevant information and documentation, to the headquarters for further review by other members of the Approval Committee. For non-Substantial Loans, the branch manager rejects or approves the loan application based on his own review of the loan application as well as the supporting documentation and information.

Legal department review. The legal department is responsible for, among other things, verifying the eligibility of the collateral, preparing loan agreements, checking for compliance with relevant laws and regulations, including the Pawning Measures, and overseeing the completion of the collateral registration process after a loan is approved but before the loan amount is released to the borrower to ensure that no loan is released without valid collateral registration.

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In particular, the legal department's responsibilities in the loan approval process include:

- verifying that the applicant has the power or authorisation to pledge and dispose of the proposed collateral;
- searching for any existing mortgage, lien or other legal obligations or entitlements that are, or may potentially be, attached to the collateral;
- reviewing, among other things, business license, identification card of the legal representative, tax registration, organisational documents, board and shareholder resolutions, and any existing loan agreements to which such applicant is a party for an enterprise applicant;
- reviewing information including personal identification card, marriage certificate, land use right certificate and house ownership certificate of individual applicants; and
- drafting the loan agreement based on a standard form agreement and providing customer-specific adjustments or amendments when necessary.

The legal department also collaborates with the finance department and risk control department in the approval process to ensure compliance with the Pawning Measures and other relevant rules and regulations. In addition, when a loan secured by real estate or equity interests is granted, the legal department oversees the registration of the pledge at a local real estate registrar office or the local branch of the State Administration for Industry & Commerce, or SAIC, to effectuate such pledge and ensure priority in claims over such collateral.

Finance department review. The finance department is in charge of reviewing a loan applicant's financial condition, allocating the loan amount applied for and checking for compliance with various applicable thresholds pursuant to the Pawning Measures and our risk control policy.

In particular, the finance department's responsibilities in the loan approval process include:

- estimating the loan applicant's profit margin, cash flow, short-term and long-term ability to repay its debts based on all the financial information provided;
- analysing the financial information provided in light of information collected by branch managers during an on-site visit to evaluate the credibility of such financial information;
- collaborating with the risk control department to ensure compliance with various thresholds mandated by the Pawning Measures, such as the maximum amount for loan interest and composite administrative fee, the maximum amount for an individual loan secured by a particular type of collateral, and the maximum amount for aggregate amount of loans to a single customer;
- ensuring the appraised loan-to-value ratio of the loan is below the threshold as prescribed by our risk control policy; and
- ensuring that we have sufficient capital to grant the loan amount if such loan is approved.

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If the finance department believes that a particular loan does not meet the required appraised loan-to-value ratio, exceeds the applicable thresholds mandated by the Pawning Measures, or would otherwise result in non-compliance with the Pawning Measures, the finance department highlights such issues for the attention of the legal department, risk control department and the office of the General Manager.

In addition, while non-Substantial Loans are granted and subsequently monitored by branch offices, we implemented an integrated information technology system in January 2012 through which the branch managers report the aggregate amount of outstanding loans at their respective branches to the finance department by the conclusion of each business day. As a result, the finance department is in control of the aggregate amount of outstanding loans on a daily basis.

Risk control department review. The risk control department, managed by our Chief Risk Officer, reviews the loan application process to ensure such process duly complies with relevant PRC laws and regulations, as well as our risk control policy, including, among other things, that the collateral pledged is eligible under relevant PRC laws and regulations, and an applicant does not have rolling loans or multiple loans at a different branch of ours. Since the implementation of the second phase of our pawn loan management IT system, the risk control department verifies the relevant information of a Substantial Loan application in the database. For more details, see “— Risk Management” in this prospectus.

General Manager review. The General Manager of the PRC Operating Entity gives a high-level review based on the reviews of other members of the Approval Committee and the appraisal result produced by the Appraisal Committee and makes the final decision on all Substantial Loan applications. The General Manager of the PRC Operating Entity has the right to veto a loan application in his sole discretion.

Chairman of the board of directors review. Our risk control policy provides that any loan application for a principal amount over RMB30.0 million also needs to be approved by the chairman of the board of directors of the PRC Operating Entity, Mr. Chen Yannan.

Loan Monitoring

Our branch managers monitor outstanding loans by obtaining regular updates on the borrowers' financial conditions, both through direct contact with the borrowers and publically available information. Our branch managers make weekly contact with borrowers who have outstanding Substantial Loans secured by real estate and equity interest collateral. For a Substantial Loan secured by equity interest collateral, we require the borrower to provide quarterly financial reports of the enterprise whose equity interest is pledged to secure the loan. One of our branch employees also visits the enterprise at least once a month. If a branch manager discovers any material adverse change related to a Substantial Loan, he is required to report such change to the Approval Committee immediately upon discovery. The Approval Committee reviews relevant information and engages the Appraisal Committee for a re-evaluation of the collateral when necessary. If the Appraisal Committee decides that the value of the collateral has significantly deteriorated, the Approval Committee can request the borrower to either repay a portion of the outstanding loan amount or provide additional collateral to maintain the appraised loan-to-value ratio at a level below the threshold for the respective collateral as provided by our appraisal policy. Due to the short terms of our loans, significant deterioration of the collateral value during the terms of the

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loans occurs less frequently than in the case of long-term secured loans. In addition, every half-year, members of the Approval Committee are required to visit each of the top 10 customers in terms of outstanding loan amounts as of the last day of the prior half-year period. Information collected during the term of a loan is also used for evaluation when a borrower applies for a renewal of the loan.

Loan Renewal

If a borrower repays all the principal and interest in accordance with the loan agreement, the collateral is released and the transaction is deemed to be completed. Pursuant to the Pawning Measure, a borrower has to repay or renew a loan within five days upon expiration, or the loan becomes an Overdue Loan after the five-day period. An Overdue Loan cannot be renewed, and the collateral of such Overdue Loan is deemed forfeited. Pursuant to the Security Law, we are entitled but not obliged to enter into an agreement with the borrower to arrange for an auction or sales of the forfeited collateral in order to recover the outstanding loan amount of an Overdue Loan. If such agreement cannot be reached, we have the right to initiate legal proceedings to repossess and dispose of the collateral to recover the outstanding amount. For more details on relevant regulations on collateral repossession and disposal, see “Regulatory Overview — The Pawn Loan Industry — Regulations and Rules on the Disposal of the Forfeited Pawned Property” in this prospectus.

Pursuant to our standard loan agreement and internal policy, a borrower may renew a loan upon expiration by going through the same application process for a new loan. A borrower is required to submit a renewal application for our review within five days of expiration of the loan. In addition, we only renew an Overdue Loan if all outstanding interest on such loan is repaid in full pursuant to the Pawning Measures. In reviewing a renewal application, we go through the same loan approval and collateral appraisal processes for a new loan, as such, all internal control procedures in relation to granting a new loan are equally applicable to the renewal process. We review the same types of documents required for a new loan application to assess the borrower’s financial condition, among other things, and we conduct a new appraisal on the collateral pledged. As an additional risk control measure for a renewal application, the Approval Committee will review the previous application(s) of the loan and take it into consideration in determining whether to approve the renewal. Such additional measure helps the Approval Committee to ensure that a renewal is granted only if it is due to the borrower’s continued needs for short-term liquidity. If the Approval Committee determines that the borrower’s financial condition or the value of collateral has deteriorated significantly compared with information provided in the previous application(s), it will reject the renewal application and demand immediate repayment of all outstanding amount, even if the renewal application otherwise satisfies all criteria for approval of a new loan. As such, we believe renewed loans in our loan portfolio are comparable to new loans in terms of credit risk and collateral quality. One of our top five customers in terms of interest income in the year ended 31 December 2012 and our largest customer in terms of interest income in the six months ended 30 June 2013, respectively, had outstanding renewed loans with us as of 30 June 2013.

The Pawning Measures or other relevant regulations do not impose any restriction on how many times a loan can be renewed. Although not an absolute requirement, we generally only allow one renewal per loan with a maximum term of six months pursuant to our risk control policy. We limit the number of repeat renewals as a matter of best practice and only allow repeat renewals in limited instances on a case-by-case basis. We enforced this policy consistently and during the Track

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Record Period, we had only four loans in the aggregate amount of RMB57 million for which we granted more than one renewal. Applications for renewals were submitted for such loans as the borrowers continued to have needs for short-term liquidity upon expirations of the loans. We approved the renewals after the application review and collateral appraisal processes as described above, as the outstanding amounts were sufficiently secured by the collateral and we were familiar with the borrowers and their business operations. All four loans were repaid in full as of the Latest Practicable Date. None of the borrowers of such renewed loans was among our top five customers during the Track Record Period. The table below sets forth details of the four loans for which we granted more than one renewal:

Principal amount (RMB'000)	Type of collateral	Number of renewals	Initial loan grant Date	Final due date	Date of repayment in full⁽¹⁾
10,000	real estate	3	April 2011	August 2012	February 2013
25,000	real estate	2	August 2011	October 2012	November 2012
20,000	real estate	2	December 2011	June 2012	May 2012
2,000	equity interest	2	January 2012	September 2012	December 2012

(1) Certain loans were repaid in full after the respective final due dates pursuant to the repayment schedules entered into between the borrowers and us.

During the Track Record Period, certain borrowers failed to submit renewal applications upon expiration of their loans, resulting in such loans becoming Overdue Loans. We generally continued to charge loan interest and administrative fees on an overdue amount for the overdue period based on the same rates specified in the relevant loan agreement. As advised by our PRC Legal Adviser, such charges on Overdue Loans are not in violation of the Pawning Measures because: (i) according to the Pawning Measures, a pawn loan provider is entitled but not obliged to dispose of the collateral of an Overdue Loan, and the Pawning Measures neither specifically prohibit a pawn loan provider from continuing to collect the loan interest and composite administrative fees on an Overdue Loan prior to the disposal of the collateral nor impose any penalties when the pawn loan provider opts not to dispose of such collateral; and (ii) according to the PRC Contract Law, a lender is entitled to collect interest and/or penalty interest on an overdue loan. We assess each loan individually at the balance-sheet date and recognize an individual impairment allowance if there is a significant change in the collateral quality or the credit quality of the borrower which indicates the outstanding amount may not be fully recoverable. For more details, see “Financial Information — Summary of Significant Accounting Policies”, “Financial Information — Description of Certain Line Items in the Consolidated Statements of Financial Position — Loans to Customer — individually assessed impairment allowance — Overdue but not individually impaired” and “— Individually impaired loans” in this prospectus.

Loan Collection and Repayment

Starting in the second half of 2011, we enhanced our efforts to reduce the number and amount of Overdue Loans and to collect outstanding amount of a loan as it becomes due. We implemented a three-step collection procedure for Overdue Loans. Firstly, the branch manager is required to monitor the outstanding loans on a daily basis and contact the borrower by phone to demand

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repayment of any overdue amount of the loan, including interest payment or repayment of principal amount, in the days immediately following the due date. Secondly, if no repayment is made within the next few days, the branch manager makes a personal visit to the borrower to investigate further. During the visit, the branch manager first inquires into the reason for the delay in repayment. If the branch manager deems there to be a substantial risk that we will not be able to collect the outstanding amount due to significant deterioration of the borrower's financial condition, significant depreciation of the collateral value, or any other reason, the branch manager demands immediate repayment and reports to the headquarters for approval to initiate the collateral repossession and disposal process. Conversely, if the branch manager decides that the delay is due to the borrower's continued needs for short-term liquidity, the branch manager either suggests the borrower to apply for renewal or works out a repayment schedule of the amount due with the borrower, which specifies the repayment time and amounts, typically in installments in the next few months, for the full outstanding amount. The renewal application or repayment schedule is subject to approval by the headquarters. Due to such a pre-screening procedure performed by our branch managers, we approved all renewal applications submitted to us after the review process as described above during the Track Record Period. We require the borrower to follow the repayment schedule strictly. Finally, if the loan is still not repaid on demand after the visit by the branch manager or if the borrower fails to follow the repayment schedule, we designate the loan as a Defaulted Loan and a certified attorney from our legal department sends a letter informing the borrower of our intent to seek legal remedy if the loan is not repaid before a certain deadline. Upon expiration of such deadline, we either negotiate with the borrower for an arrangement to dispose of the collateral through auction or commence legal proceedings for collateral repossession and disposal in order to recover the outstanding amount. For more details, see "— Short-Term Secured Financing Business — Collateral Disposal" in this prospectus. We do not engage outside collection agents for the collection process. Currently we have not experienced any substantial resistance from customers in our efforts to collect Overdue Loans and subsequently do not believe it is necessary to engage any third-party collection agent. We might consider engaging such agent in the future if circumstances warrant such a measure.

Collection by Assignment

In two instances, we collected amounts due on loans by assigning the creditor's rights to independent third party assignees, in exchange for the payment of the full outstanding amount of the principal and accrued interest. We were initially approached by the assignees with proposals for the potential assignments in both instances. We believe similar debt assignment transactions are common in the financial industry. Pursuant to such debt assignment, the assignee is entitled to receive the full outstanding amount of the principal amount and accrued interest of the loan from the borrower, and as a result is entitled to receive profit that equals to the accrued interest on the loan between the date of assignment and the date on which all outstanding principal and interest amount is repaid in full, either by the borrower or through the disposal of the underlying collateral. The PRC Operating Entity can realize immediate liquidity through such assignment by receiving from the assignee a payment equivalent to the principal amount and the accrued interest up to the date of the assignment. In these assignments, the assignees authorize us to pursue legal proceedings against the relevant borrower to recover any outstanding amounts on their behalf.

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After assigning the creditor's rights, we are no longer exposed to any risk as the rights and obligations have been transferred to a third-party assignee without recourse against us. The details of the instances where we collected loans by assignment are as set forth below:

- (1) In the first instance on 28 August 2011, a borrower entered into five pawn loan agreements pursuant to which the PRC Operating Entity provided a loan of RMB35,000,000 in aggregate principal amount to the borrower. The loan was secured by real estate collateral with a loan-to-value ratio of approximately 57%. The borrower failed to repay the loan when it became due.

The PRC Operating Entity and an assignee, who is an independent third party both to us and to the borrower, entered into (i) an assignment agreement on 28 June 2012 under which the assignee agreed to be assigned all the creditor's rights under the relevant loan agreements for the payment of RMB38,115,000 which represented the principal and accrued interest overdue and unpaid by the borrower; and (ii) a power of attorney on 3 July 2012 under which the assignee entrusted the PRC Operating Entity to pursue legal proceedings against the borrower on behalf of the assignee for recourse, with all costs and expenses for legal proceedings to be borne by the assignee while all funds recovered would be retained by the assignee without recourse to the PRC Operating Entity. We believe the assignee was informed with the borrower's financial condition and the value of the underlying collateral, as the borrower is a long time supplier to the assignee for materials. As of the Latest Practicable Date, the assignee had paid to the PRC Operating Entity all sums as agreed in the assignment agreement. In July 2012, the PRC Operating Entity pursued litigation in the Suzhou City Wuzhong District People's Court against the borrower on behalf of the assignee pursuant to the power of attorney. In November and December 2012, the Suzhou City Wuzhong District People's Court issued its decision and ordered the borrower to repay the principal and accrued interest. To the best of our knowledge, the assignee was still in the process of enforcing the court judgment and had not received the principal amount and the accrued interest of the loan as of the Latest Practicable Date.

- (2) In the second instance, the PRC Operating Entity granted a borrower a loan secured by equity interest collateral in the principal amount of RMB6.0 million and with a loan-to-value ratio of approximately 50% on 30 December 2011. The borrower failed to repay the loan when it became due. The PRC Operating Entity assigned to an assignee, who is an independent third party both to us and to the borrower, all its creditor's rights over such loan for the payment of RMB7,844,800 on 20 December 2012 which represented the principal and accrued interest overdue and unpaid by the borrower. The assignee is a professional investment company and we believe the assignee was aware of the borrower's financial condition and the value of the underlying collateral. The assignee also entrusted the PRC Operating Entity to pursue legal proceedings against the borrower on behalf of the assignee for recourse, with all the costs and expenses for legal proceedings to be borne by the assignee while all funds recovered would be retained by the assignee without recourse to the PRC Operating Entity. In May 2013, the Suzhou City Wuzhong District People's Court issued its decision and ordered the borrower to repay the principal and accrued interest. To the best of our knowledge, the assignee was still in the process of enforcing the court judgment and had not received the principal amount and the accrued interest of the loan as of the Latest Practicable Date.

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We are advised by our PRC Legal Adviser that: (i) the assignment arrangement and the relevant power of attorney are not in violation of applicable PRC laws and regulations, including the Pawning Measures, and (ii) according to the PRC Contract Law, a creditor is entitled to assign its rights to a third party without prior consent of the borrower but the creditor shall inform the borrower. The PRC Operating Entity fulfilled its obligation to inform the relevant borrowers with respect to the assignment arrangement mentioned above.

Collateral Appraisal

According to our internal policy, the principal amount of a loan we grant to a loan applicant is individually negotiated with the applicant but the appraised loan-to-value ratio of the loan is capped at 50% for equity interest collateral and 70% for real estate collateral. The following table sets forth a breakdown by collateral type of (i) aggregate loan amount; (ii) appraised value of collateral at time of loan approval; and (iii) the weighted average appraised loan-to-value ratio as of the granting dates of loans outstanding as of the indicated date:

	As of 31 December			As of
	2010	2011	2012	30 June
	2010	2011	2012	2013
Aggregate loan amount (RMB in million)				
Real estate collateral	182.6	390.5	438.7	484.9
Equity interest collateral	357.4	249.9	245.4	247.5
Appraised value of collateral at time of loan approval (RMB in million)				
Real estate collateral ⁽¹⁾	509.8	789.4	927.3	950.0
Equity interest collateral ⁽²⁾	961.7	680.5	1,241.3	1,242.6
Range of appraised loan-to-value ratios				
Loans secured by real estate collateral	14%–70%	11%–70%	13%–70%	20%–70%
Loans secured by equity interest collateral	10%–50%	5%–50%	4%–50%	0.4%–50%
Weighted average appraised loan-to-value ratio⁽³⁾				
Loans secured by real estate collateral	58%	57%	52%	54%
Loans secured by equity interest collateral	41%	42%	29%	30%

(1) Appraised value of real estate collateral is calculated based on the publicly available information of the market price of the real estate or similar real estate. Since December 2011, we have engaged a third-party appraisal company to assess the real estate collateral value underlying all the outstanding loans every half year to ensure that there has been no significant decrease in the collateral value. The value of real estate is subject to market fluctuations, changes in regulatory policies and fires and other disasters that may impact the value of a specific property. For more details, see “— Short-term Secured Financing Business — Collateral Appraisal — Real Estate Collateral” and “— Collateral appraisal”, and “Risk Factors — Risks Relating to Our Business — Our collateral appraisal is based on limited information available to us and might be inaccurate or outdated” in this prospectus.

(2) Appraised value of equity interest collateral is calculated mainly based on the net asset value of the enterprise as reported in its most recent financial statement and takes into consideration other financial data such as revenue and cash flow. As a result, there are intrinsic uncertainties associated with appraised value of equity interest collateral. For more details, see “— Short-term Secured Financing Business — Collateral Appraisal — Equity interest collateral — Collateral appraisal”, “Risk Factors — Risks Relating to Our Business — Our collateral appraisal and monitoring is based on limited information available to us and might be inaccurate, unreliable or outdated” and “Risk Factors —

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Risks Relating to Our Business — We have limited information regarding our customers, and we may not be able to detect fraud in the information provided by our customers in their loan applications or during the term of the loans” in this prospectus.

- (3) Appraised loan-to-value ratio of a loan is calculated by dividing the outstanding principal amount of the loan as of the calculation date by the appraised value of the underlying collateral as decided in the loan application review process. The loan-to-value ratio does not take into consideration interest accumulated on the loan or any change in the collateral value during the term of the loan. Accordingly, the appraised loan-to-value ratio may not reflect subsequent changes in collateral value during the term of the loan or after the loan is extended. We regard the appraised loan-to-value ratios to be valuable information as such ratios reflect the average degree of security that was provided on outstanding loans on the calculation date, which also give us an overall indication of the implementation of our risk control management. The maximum initial term of our loans is six months, and since the second half of 2011, we have taken initiatives to reduce Overdue Loans both in absolute amount and as a percentage to our total loan amount. Since the chance of significant depreciation of real estate or equity interest collateral value during the term of a short-term secured loan is smaller than that of a long-term secured loan, the appraised average loan-to-value ratios can also provide more meaningful approximate indications of levels of over-collateralisation of our outstanding loans compared with those of long-term secured loans. The weighted average appraised loan-to-value ratio as of a calculation date is calculated by taking the average of all the appraised loan-to-value ratios of the outstanding loans with same collateral type as of the calculation date. Judging from our knowledge of the market and peer companies in China, we believe that the use of these ratios as an operating metric to gauge the level of securitisation of collateralised loans is in line with market practice.

An aggregate amount of RMB22 million, RMB94 million, RMB89 million and RMB85 million of our loans secured by real estate collateral were secured by second charge on the collateral as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively, representing 4.0%, 14.4%, 12.8% and 11.4% of the total outstanding amount as of the same dates. All of our other loans are secured by the first charges on the collateral. We apply the same loan approval and collateral appraisal criteria for loans secured by second charge as loans secured by first charge, but as a risk control measure we exclude loan amount secured by the first charge from the value of the collateral securing the loan amount we grant to the customer for the purpose of calculating appraised loan-to-value ratio. We use the appraised value of the collateral less the loan amount secured by first charge as the value of the collateral securing the loan we granted. If a borrower defaults on the loan, we can initiate legal proceedings to dispose of the underlying collateral without having to obtain prior consent from the holder of the first charge on the collateral. However, the proceeds from the disposal of the collateral will first be applied to the repayment of the outstanding amount secured by the first charge, and the remaining amount will be applied to the repayment of the outstanding amount owed to us under the second charge.

In 2010, we granted two loans without performing the relevant collateral registration processes and we subsequently recognised the full outstanding amount as individually assessed impairment charges on these loans. For more details, see “Financial Information — Description of Certain Line Items in the Consolidated Statements of Comprehensive Income — Impairment Charge on Loans to Customers — Individually Assessed Impairment Charge/(Reversal)” in this prospectus. All other collateral was registered with the competent local authorities during the Track Record Period.

Compared with traditional banks, we are able to provide quick access to capital to our customers, and unlike the traditional bank loan appraisal process, we do not require a third-party appraisal report for the pledged collateral before the loan is first granted. Our collateral appraisal policies mandate the information and documentation to be collected and appraised and provide for the details of the appraisal processes, which consist of collateral verification and evaluation. For Substantial Loans, we take into consideration the credit history and economic strength of the loan

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applicant in addition to the value of the collateral. Our branch managers and employees are responsible for the initial collateral appraisal, and are required to document details of their appraisal by filling out an appraisal report. All of our branch managers have in-depth knowledge of the local areas where their respective branches operate. Branch managers are usually familiar with loan applicants who are local SMEs or their proprietors, which helps them make informed initial appraisals of the value of the pledged collateral. The branch manager then submits the initial appraisal result and all the relevant information of a Substantial Loan application to the Appraisal Committee for further review.

The members of the Appraisal Committee are certified professionals and employees of Wuzhong Group or its subsidiaries or related parties who are selected for their expertise in their respective areas to provide us with independent judgment and analysis regarding the value and sufficiency of collateral. Although experts with similar levels of experience can be readily hired from the local market, we decided to engage employees of Wuzhong Group and its subsidiaries or related parties to form the Appraisal Committee because these professionals' employment with Wuzhong Group and its subsidiaries or related parties provide a good track record of their professionalism and competency. In addition, the PRC Operating Entity was a subsidiary of Wuzhong Group before the Reorganisation and had a long history of working with management and employees of Wuzhong Group and its subsidiaries or related parties. Engaging employees of Wuzhong Group and its subsidiaries as Appraisal Committee members gives us the benefit of fast and open communication with such members. We pay members of the Appraisal Committee annual consulting fees for their services at market rate for similar services. We paid consulting fees in the aggregate amount of RMB200,000 in 2012. The following table describes the Appraisal Committee members' respective relevant credential and responsibilities:

Name	Title	Responsibility in the Appraisal Committee	Experience
Li Wanlong	Certified cost engineer	Evaluating construction costs of real estate collateral	Over 9 years of experience in cost engineering in two subsidiaries of Wuzhong Group
Guo Yue	Certified auctioneer	Evaluating marketability and estimated auction costs of collateral	Approximately 8 years of experience in Suzhou Wuzhong Auction Co., Ltd., a related party of Wuzhong Group
Jin Xiaopin	Senior accountant	Evaluating collateral value, especially the value of equity interest collateral based on financial information provided by applicants	Over 20 years of experience in the financial departments of Wuzhong Group and its subsidiaries
Yin Hui	Certified PRC attorney	Evaluating potential legal remedies and costs, compliance matters	Over 3 years of experience in People's Courts in Jiangsu Province before joining the legal department of Wuzhong Group in April 2011

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The Appraisal Committee will submit an appraisal result in writing for each Substantial Loan application for further review by the Approval Committee.

Real Estate Collateral

Pursuant to our appraisal policy for real estate collateral, the appraised loan-to-value ratio of a loan secured by real estate collateral may not exceed 70.0% at the time of the collateral appraisal.

Collateral verification. A loan applicant is required to provide definitive proof such as a land use right certificate and building ownership certificate to show that such applicant has the power or authorisation to pledge and dispose of the real estate being pledged. If the applicant is not the sole owner of the real estate, relevant information of and consent to collateralisation from the co-owner must be provided. In addition, personal identification and, if applicable, marriage certificates are required for applicants and co-owners who are natural persons. Enterprise applicants are required to provide personal identification of their legal representative and applicable board and shareholder resolutions authorising the pledge of the real estate. Our branch employees go to the local real estate registrar office to verify the land use right certificate or house ownership certificate of the collateral and search for any existing mortgage, lien or other legal obligations or entitlements that are or might potentially be attached to the collateral. We accept real estate collateral that has an existing mortgage or superior entitlement where the appraised residual value of the real estate is sufficient to cover the applied amount and comply with the required appraised loan-to-value ratio, although as a matter of practice we try to minimize and are prudent in granting such loans. Our branch employees are also required to pay on-site visits to the pledged real estate property to verify the status of the real estate property as well as identify potential issues.

Collateral appraisal. Each branch is responsible for the initial appraisal of real estate collateral pledged for loan applications submitted to such branch. Our branch employees maintain comprehensive and up-to-date local market knowledge by collecting, on a regular basis, relevant market information from various sources, such as realtors, real estate trading centres, and advertisements. In addition to current market prices, branch employees also take into consideration other conditions when evaluating the pledged real estate property, such as the transaction volume of similar or nearby properties. If the application is for a Substantial Loan, the application will be submitted to our headquarters where the Appraisal Committee will review the application and initial evaluation and make confirmation or adjustments as necessary in their appraisal result. Prior to October 2011, the Approval Committee performed collateral appraisals as part of the loan approval processes. Members of the Approval Committee all have in-depth local knowledge and expertise in their respective areas. They are familiar with the local real estate market and local SMEs and their proprietors. In particular, most of our branch managers and the General Manager at the PRC Operating Entity have prior working experience related to commercial loans in local commercial banks. Since December 2011, we engaged Suzhou Wanlong Assets Appraisal Co., Ltd. (蘇州萬隆資產評估有限公司), a professional appraisal company holding a Qualification and License for Asset Appraisal issued by the Department of Finance of Jiangsu Province and an independent third party unrelated to us, to evaluate the real estate collateral value underlying all the outstanding loans every half year to ensure that there is no significant decrease in the collateral value. Such third-party appraisal reports also serve as an evaluation on the adequacy of our appraisal process and the accuracy of our appraisal results. The table sets forth the aggregate values of the real estate

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collateral appraised by Suzhou Wanlong Assets Appraisal Co., Ltd. and by us during the collateral appraisal process for loans outstanding as of the date indicated:

	As of			
	31 December 2011	30 June 2012	31 December 2012	30 June 2013
	(RMB in million)			
Aggregate appraised value by				
Suzhou Wanlong.	795.5	483.2	946.3	1,061.3
The Company.	789.4	483.7	927.3	950.0

We rely on the Appraisal Committee and our own risk control processes to make the initial assessment because the loan approval and collateral appraisal processes are designed to be fast and efficient in order to meet individual customers' urgent and short-term financing needs, and the members of the Approval Committee and Appraisal Committee all have in-depth local knowledge in their respective fields. We engage the third party appraisal company for the subsequent evaluations because, at the time of the subsequent evaluation, we believe it is advisable to have a separate party provide independent analysis under a less stringent timeline of both individual real estate collateral value and the overall quality of our real estate collateral portfolio. We believe a half-year review is sufficient because the maximum initial term of loans we grant is six months and we believe the chance of significant depreciation of real estate collateral value over a period of less than six months in China is relatively small.

As the value of real estate collateral is generally easily appraisable and such collateral is readily disposable, we do not require third party guarantees on loans secured by real estate collateral.

Equity Interest Collateral

Pursuant to our appraisal policy for equity interest collateral, the appraised loan-to-value ratio of a loan secured by equity interest collateral shall be no more than 50% at the time of collateral appraisal.

Collateral verification. A loan applicant is required to provide definitive proof that such applicant has the power or authorisation to pledge and dispose of the equity interests being pledged. Information and documentation required to be provided include a business license of the enterprise, financial information and operating data of the enterprise, filings with the local branch of the SAIC, a shareholder list and relevant board and shareholders resolutions authorising the pledge of the equity interests.

Loan guarantee. The majority of equity interest collateral pledged to us is equity interest in private enterprises for which there is no readily available fair value. For more details, see "Risk Factors — Risks Relating to Our Business — Our collateral appraisal and monitoring is based on limited information available to us and might be inaccurate, unreliable or outdated" in this prospectus. To manage credit risk associated with such equity interest collateral, we require third-party guarantees for loans secured by equity interest collateral. Pursuant to our standard loan agreement, if we cannot recover the principal amount in full by disposing of the equity interest collateral underlying a Defaulted Loan, the guarantor has an obligation to compensate us for the shortfall. We require

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the same types of information and documentation from the guarantor as from the borrower to verify the financial capacities of the guarantor. If the guarantor lacks the financial means to provide the necessary surety, we will not approve the loan.

Collateral appraisal. Each branch is responsible for the initial appraisal of equity interest collateral. A branch manager or employee reaches an initial appraisal value of the equity interest pledged mainly based on the net asset value of the enterprise as reported in its most recent financial statement filed with the SAIC and takes into consideration other financial data such as revenue and cash flow. The branch managers also evaluate personal information of the individual borrowers or the proprietors of the SME borrowers. When necessary, we may also contact local banks as well as the enterprise's customers and suppliers to verify information about the enterprise and provide more basis on which to verify details about the collateral. The application will then be submitted to our headquarters where the Appraisal Committee will review the application materials and initial appraisal submitted by the branch managers and make confirmation or adjustment on the appraised value as necessary in their appraisal result.

During the Track Record Period and through and as of the Latest Practicable Date, we had not granted any loans secured by an equity interest in any listed company. We are willing to provide loans to companies secured by an equity interest in a listed company and may do so in the future. For loans secured by equity interests in listed companies, we would use publicly available information, such as the last trading price of such shares on the relevant exchange on the date on which the loan is granted, trading volume, historical trading prices and trading histories of comparable companies, by which to value the equity interest collateral. We would then monitor the trading price and trading volume of the equity on a day-to-day basis.

Personal Property Collateral

Personal property generally refers to all chattels and tangible property other than real estate. Through 2012, the only personal property we accepted as collateral consisted of automobiles, gold and platinum, which are typically pledged for loans in relatively small amounts. Outstanding loans to customers amount secured by personal property collateral accounted for approximately 2.1%, 2.2%, 1.7% and 1.9% of total outstanding loans to customers amount as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. Starting in 2013, we began to accept a broader range of personal property as collateral, including larger and more valuable types of personal property such as raw materials and finished products. We refer to such personal property collateral as inventory collateral. In the six months ended 30 June 2013 we granted a total of three loans to customers secured by inventory collateral including product parts made of plastic or copper and finished products for an aggregate principal amount of RMB27 million with an average appraised loan-to-value ratio of approximately 50%. As of 30 June 2013, all three loans were repaid in full.

Automobile, gold and platinum. The appraisals of such collateral are usually made at the branch level. Pursuant to our appraisal policy, the appraised loan-to-value ratios of loans secured by automobile and precious metal collateral may not exceed 80% at the time of collateral appraisal. When a loan secured by automobile, gold and platinum is granted, we take possession of the collateral. Each branch has a safe where small collateral is stored. We have a garage for automobile collateral. We require loan applicants to present proof of ownership when applicable, such as receipts of purchase of gold and platinum personal property and the automobile ownership certificate to prevent our accepting stolen goods or automobiles. We require a loan applicant who pledges collateral consisting of gold or platinum to provide his or her personal identification card to prevent receipt of stolen goods. Moreover, we videotape the entire pawning process where gold or

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platinum collateral is involved and archive the videotape for two months for potential internal or police investigation as required by the relevant police authorities. As a result, to our knowledge, since the inception of our business in 1999, there has been no incident in which stolen goods have been pledged to us as collateral. Staff at the branch offices have received relevant professional training in personal property appraisal. For collateral consisting of gold or platinum, our staff at the branch offices refers to prevailing market prices while also evaluating the authenticity, quality, carat weight and marketability of such collateral.

For automobile collateral, the staff refers to publicly available information and local stores and mechanics in order to evaluate the collateral. The appraised values of automobile often vary from local market to local market and are also affected by conditions such as mileage, brand and marketability. We check the relevant registration of an automobile at the local department of mobile vehicles to verify that the loan applicant has the legal right to pledge such automobile.

Inventory collateral. For larger and more valuable personal property such as raw materials and finished products, a loan applicant is required to provide definitive proof of ownership of the personal property being pledged, such as a purchase invoice. For a corporate applicant, we also require the business license, organizational documents, financial statements, and board or shareholder resolutions authorising the loan and the pledge of collateral. We require a loan applicant to procure insurance on the inventory collateral being pledged on their own expenses, with the PRC Operating Entity as the beneficiary. We typically use fair market value of the collateral as the appraised value. For example, for product parts made of plastic or copper which we took as collateral, we required the loan applicants to provide purchase invoices with purchase price information and we subsequently referred to publicly available price quotations for such materials as a means of cross-checking. For inventory, such as certain finished products, that was readily disposable but had no publicly available price quotation system, we ascertained the market price of the collateral by consulting local corporations who deal with the similar materials and products on a regular basis. Due to our long presence in the Greater Suzhou Area and our dealings with local corporations in various industries, we are usually able to assess and cross-check the fair market value of the inventory commonly dealt by corporations in the Great Suzhou Area through such consultation. We will not accept any inventory as collateral if it is not easily disposable locally or if we cannot assess its fair market value with reasonable certainty. In addition, as we require a borrower to purchase insurance on the inventory collateral pledged, we also use the collateral value appraised by the insurance companies as a reference. For inventory collateral, we take legal possession of such collateral through a third-party custodian we engage to secure such collateral on our behalf through custody agreements entered into among the respective borrowers, the PRC Operating Entity and the custodian. Such third-party custodian company also provides similar services to local commercial banks. We also understand that each of the borrowers has agreed to rent the warehouse where the inventory is stored to the custodian for a nominal value of RMB1. The custodian takes full control of the warehouse and the inventory on our behalf and there is no transportation cost involved pursuant to this arrangement. We pay the custodian RMB1,300 for each batch of collateral securing a loan, although the cost might be subject to change if the number of batches of the collateral increases significantly. In the beginning of 2013, we amended our internal and appraisal policies to provide relevant operational and appraisal procedures for inventory collateral. To manage risks associated with inventory collateral, we require third-party guarantees for all loans secured by inventory collateral pursuant to our internal policy. Pursuant to our appraisal policy, the appraised loan-to-value ratio of a loan secured by inventory collateral may not exceed 60% at the time of appraisal. Our branch employees monitor such market value on a regular basis through price quotation systems and consultation of market participants as described above. If the appraised loan-to-value ratio of a loan secured by inventory collateral increases to

over 60% due to a decrease in the market value of such inventory collateral, we require the borrower to either repay a portion of the outstanding loan amount or provide additional collateral to maintain the appraised loan-to-value ratio at a level below 60%. In addition, we believe the personal property we accept as inventory collateral are readily marketable and disposable. We typically do not accept inventory collateral whose value is difficult to assess or dispose of. A branch employee is required to verify the inventory collateral in person. We believe our internal and appraisal policy in relation to inventory collateral is sufficient and appropriate to manage the various risks associated with such collateral type in our current operations and, if the market conditions demand, in any future expansion of our inventory collateral portfolio.

Collateral Disposal

Pursuant to the Pawning Measures, a loan may be deemed by a creditor to be in default if it is not repaid or extended within five days after the due date. If a creditor determines a loan secured by real estate or equity interest collateral is in default and decides to recover the outstanding loan amount by repossessing and disposing of the underlying collateral, the creditor must follow the procedures set forth in the Pawning Measures and the Security Law of the PRC. If the appraised value of the collateral is less than RMB30,000, the creditor can take possession of the collateral and dispose of such collateral at his discretion, and the creditor assumes the profit or loss resulting from such disposal. During the Track Record Period, all Defaulted Loans secured by personal property collateral had principal amounts of RMB30,000 or less. Accordingly, we disposed of the underlying personal property collateral of these Defaulted Loans and generated profits of approximately RMB1.1 million, RMB1.5 million and RMB0.3 million in the years ended 31 December 2010, 2011 and 2012, and RMB0.1 million and RMB0.1 million in the six months ended 30 June 2012 and 2013, respectively.

If the appraised value of the collateral is more than RMB30,000, the collateral may be disposed of pursuant to the Security Law of the PRC or may be auctioned through an auction house as agreed by the creditor and the borrower in advance. Excess proceeds from the auction, if any, will be returned to the borrower after deducting the principal amount owed, accumulated interest and expenses related to the auction. If the proceeds from such auction are smaller than the amount due to the creditor, the creditor can make a direct claim against the borrower for the shortfall.

Pursuant to our standard loan agreement, we normally do not charge late fees for Overdue Loan amounts in addition to accrued interest because the terms of the loans are relatively short and the outstanding amounts are covered by the collateral. When a branch manager deems there to be substantial risk that a borrower cannot repay the outstanding amount of an Overdue Loan during the loan collection process, we will initiate the collateral repossession and disposal process. We involve a certified attorney from our legal department to initiate the collateral repossession and disposal process, if the borrower cannot repay the outstanding amount in full on demand or fails to follow the repayment schedule if there is one in place. During the Track Record Period, we initiated legal proceedings against all loans designated as Defaulted Loans. If an agreement to publicly auction the collateral cannot be reached with the borrower, we have the right to initiate a legal proceeding at a local People's Court against the debtor for the collection of the loan. See "Regulations — The Pawn Loan Industry — Regulations and Rules on the Disposal of the Forfeited Pawned Property" in this prospectus. The auction process normally takes approximately two to three months from first auction to recovery of full outstanding amount. As advised by our PRC Legal Adviser, according to applicable laws and regulations, the People's Court shall complete the enforcement process within six months after the judgment comes into effect. Our appraisal policies

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provide that the appraised loan-to-value ratio of a loan secured by real estate collateral, equity interest collateral and personal property collateral may not be more than 70%, 50% and 80%, respectively. As a result we expect to be able to recover the full outstanding amount of a Defaulted Loan through the collateral disposal process.

Since 1 January 2010, we initiated a total of 27 legal proceedings to preserve and dispose of underlying collateral, all of which were either real estate or equity interests, to recover outstanding amounts of Defaulted Loans in the aggregate principal amount of RMB71.4 million plus unpaid interest. As of the Latest Practicable Date, we had received judgments granting us for remedies in 23 legal proceedings. The following table sets forth details of these 27 legal proceedings by collateral type and the year the legal proceedings were initiated by us of the relevant loans:

	Number of loans	Average period between due date and initiation of legal proceedings	Remedy		Principal amount recovered and percentage of remedy obtained as of the Latest Practicable Date		Total amount recovered as of the Latest Practicable Date
			Total principal amount	obtained for outstanding principal amount ⁽¹⁾	RMB'000	percentage	
Equity interest							
2010	3	≤2 months	1,350	1,320	205	15.6%	205
2011	2	≤1 month	11,900	11,900	9,150	76.9%	9,450
2012	2	14 months	750	500	500	100%	650
2013	0	—	—	—	—	—	—
Total	7	—	14,000	13,720	9,855	71.8%	10,305
Real estate							
2010	2	4 months	8,050	8,050	8,050	100%	12,041
2011	2	5 months	7,500	7,500	7,500	100%	9,724
2012	13	11 months	36,520	36,520	22,070	60.4%	26,035
2013	3	4 months	5,350	—	—	—	—
Total	20	—	57,420	52,070	37,620	72.2%	47,800
Total	27	—	71,420	65,790	47,475	72.2%	58,105

(1) Such amount does not include unpaid effective interest. The unpaid effective interest amount of a loan is generally calculated based on the relevant effective interest rate and the daily outstanding amount from the date of the default until the date of full repayment of the outstanding amount.

In two instances where we have collected amounts due on loans by assigning the creditor's rights to a third party in exchange for the full amount of the principal plus accrued interest overdue and unpaid, we have also initiated legal proceedings on behalf of such third parties in order to assist them in seeking recourse against the relevant borrower. In such legal proceedings, we take on no risk once the loan has been transferred to the third party with no right of recourse against us. For more details see "Business — Loan Process — Loan Collection and Repayment — Collection by Assignment."

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For more details on individually assessed impairment charges we recognised on Defaulted Loans, see “Financial Information — Description of Certain Line Items in the Consolidated Statements of Comprehensive Income — Impairment Charge on Loans to Customers — Impairment loss recognised” in this prospectus.

Remedy Collection of Defaulted Loans Secured by Equity Interest Collateral

We initiated legal proceedings in connection with three Defaulted Loans secured by equity interest collateral in 2010, and we recovered RMB204,777 and recognised the confirmed loss of RMB1.1 million.

With respect to the two Defaulted Loans secured by equity interest collateral in 2011, we had recovered the full principal amount of RMB8.9 million plus interest of RMB0.3 million for one loan. The other Defaulted Loan had a principal amount of RMB3.0 million of which we recovered RMB250,000 as of the Latest Practicable Date.

We enhanced our collection efforts against Defaulted Loans in 2012 and initiated legal proceedings on two Defaulted Loans secured by equity interest collateral due in 2010 and 2011, respectively, which resulted in the significant increase in the average period between due date and initiation of legal proceedings for 2012. We recovered the full principal amount of RMB500,000 plus interest of RMB150,000 as of the Latest Practicable Date for one loan. We were still waiting for final court judgment on the other loan the principal amount of which was RMB250,000 as of the Latest Practicable Date.

Remedy Collection of Defaulted Loans Secured by Real Estate Collateral

We initiated legal proceedings on two Defaulted Loans secured by real estate collateral in 2010. We recovered the full aggregate principal amount of RMB8.1 million plus aggregate interest of RMB4.0 million on the loans.

We initiated legal proceedings on two Defaulted Loans secured by real estate collateral in 2011. We recovered the full aggregate principal amount of RMB7.5 million plus aggregate interest of RMB2.2 million on the loans.

We initiated legal proceedings on 13 Defaulted Loans secured by real estate collateral in 2012. The significant increase in the number of legal proceedings in 2012 was due to our efforts to enhanced our enforcement against Defaulted Loans. Among the 13 loans against which we initiated legal proceedings in 2012, one was due in 2009, three were due in 2010 and one was due in 2011, which significantly increased our average period between due date and initiation of legal proceedings in 2012. We recovered the full aggregate principal amount of RMB22.1 million plus aggregate interest of RMB4.0 million for ten out of the thirteen loans as of the Latest Practicable Date. We had received court judgments on the remaining three legal proceedings and were in the process of enforcing the judgements as of the Latest Practicable Date. We expect to recover the outstanding amount of the remaining three loans in full.

We initiated legal proceedings on three Defaulted Loans secured by real estate collateral for an aggregate principal amount of RMB5.4 million in the nine months ended 30 September 2013, we were still waiting for court judgment on these three loans as of the Latest Practicable Date.

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Pricing and Interest Charged

Pursuant to the Pawning Measures, for each loan granted, we can charge loan interest as well as a composite administrative fee, including administrative fees and other fees. The monthly loan interest cannot exceed the PBOC Benchmark Interest Rate, and the monthly composite administrative fee for a short-term loan secured by real estate and equity interest collateral may not exceed 2.7% and 2.4% of the principal amount of the loan, respectively.

The monthly loan interest we charge on a loan is set based on the PBOC Benchmark Interest Rate for 6-month loans. The monthly composite administrative fee we charge on a loan is individually negotiated with the customer and typically calculated as a percentage of the loan principal amount. We reach agreement with a loan applicant on the composite administrative fee rate based on market conditions such as the prevailing PBOC Benchmark Rate and our risk-and-return assessment of the loan, taking into consideration the applicant's economic status, risk profile and the type and appraised value of the collateral pledged.

The following table sets forth the ranges and averages of the annualised loan interest rate, composite administrative fee rates and effective interest rates we charged on our loans to customers during the indicated periods, categorised by collateral type:

	Year ended 31 December									Six months ended 30 June		
	2010			2011			2012			2013		
	low	high	Average ⁽¹⁾	low	high	Average ⁽¹⁾	low	high	Average ⁽¹⁾	low	high	Average ⁽¹⁾⁽³⁾
	% of principal amount											
Loan interest												
Real estate collateral	4.86	5.35	N/A	5.35	6.00	N/A	5.59	6.00	N/A	5.59	6.00	N/A
Equity interest collateral	4.86	5.10	N/A	5.35	6.00	N/A	5.59	6.00	N/A	5.59	6.00	N/A
Composite administrative fees rate												
Real estate collateral	1.14	23.74	14.00	9.15	32.40	17.30	12.00	32.40	24.55	24.41	32.40	25.88
Equity interest collateral	9.14	28.74	11.50	9.11	30.00 ⁽²⁾	17.60	16.78	28.80	25.80	23.05	28.80	28.08
Effective interest rate												
Real estate collateral	6.00	28.60	17.70	15.00	38.40	21.60	18.00	38.40	29.56	22.37	37.99	31.10
Equity interest collateral	14.00	33.60	15.20	14.46	36.00	22.50	22.37	34.80	31.13	28.64	34.80	33.66

(1) The average effective interest rate equals the interest income from loans to customers of an indicated period divided by the average of the beginning and the ending balances of gross loan amount of the same period, multiplied by 100%.

(2) In 2011, we granted one loan secured by equity interest collateral, the monthly composite administrative fee rate of which exceeded the maximum threshold of 2.4% of the principal amount allowed under the Pawning Measures. For details, see "— Legal Proceedings and Compliance — Historical Non-compliance."

During the Track Record Period, we were able to charge composite administrative fee rates that were increasingly more favorable to us. This increase in our pricing power was due to the increase in the number of applications for our short-term secured loans, which enabled us to give priority to applicants who are willing to accept higher composite administrative fees, among other things. The increase in the number of loan applications was attributable to a number of factors, including:

- the continued economic growth in China and the increase in the number and size of SMEs in the Greater Suzhou Area resulting in an increase in demand for short-term financing;

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- the increase in the approved registered capital of the PRC Operating Entity from RMB121 million as of 1 January 2010 to RMB500 million as of 30 June 2013 resulting in a significant increase in the relevant maximum amounts of individual loans secured by real estate and equity interest collateral we are able to grant as provided by the Pawning Measures, putting us in a competitive position in the Greater Suzhou Area and enabling us to serve customers with needs for relatively large amounts of loans;
- the increase in the number of branches of the PRC Operating Entity from five as of 1 January 2010 to 11 as of 31 December 2012 enabling us to extend our service coverage and reach more potential customers;
- competitiveness of pawn loans versus traditional bank loans, as bank lending over this period was tightened; and
- our ability to attract more customers by leveraging our leading position in the Greater Suzhou Area and the build-up of our brand name over 14 years of operations.

The annualised average composite administrative fee rate we charged on loans secured by real estate collateral was 14.00%, 17.30%, 24.55% and 25.88% in the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 respectively. The annualised average composite administrative fee rate we charged on loans secured by equity interest collateral was 11.50%, 17.60%, 25.80% and 28.08% in the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. The Pawning Measures provide a higher threshold of the fee rates for loans secured by real estate collateral as compared with loans secured by equity interest collateral. Changes in the interest rate environment, economic policy and economic conditions could have a deleterious effect on interest rates, demand for our loans and our business. See “Risk Factors — Risks Relating to Our Business — Interest rate changes may adversely affect interest expense related to our borrowings, reduce net interest income and reduce demand for our financing services” and “Risk Factors — Risks Relating to Conducting Operations in China — Any slowdown in the Chinese economy may affect the industries in which we operate and result in a material adverse effect on our business, results of operations and financial condition” in this prospectus.

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The following table sets forth our interest income from loans to customers categorised by collateral type for the indicated periods:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000				
Real estate collateral					
Composite administrative fees	21,354	49,680	101,778	59,327	59,758
Loan interest	5,684	12,228	20,773	12,268	12,065
Total	27,038	61,908	122,551	71,595	71,823
Equity interest collateral					
Composite administrative fees	26,148	53,334	63,826	36,807	34,611
Loan interest	8,542	15,050	13,267	7,770	6,869
Total	34,690	68,384	77,093	44,577	41,480
Personal property collateral					
Composite administrative fees	4,326	4,767	6,474	3,360	4,082
Loan interest	453	584	708	420	389
Total	4,779	5,351	7,182	3,780	4,471
Total interest income from loans to customers.	66,507	135,643	206,826	119,952	117,774

We generated income from composite administrative fees of RMB51.8 million, RMB107.8 million and RMB172.1 million in the years ended 31 December 2010, 2011 and 2012, respectively, accounting for 77.9%, 79.5% and 83.2% of the total interest income from loans to customers for the corresponding years. The increase in interest income from composite administrative fees and the percentage to total interest income from loans to customers was mainly due to the increase in our pricing power as discussed above. We generated income from composite administrative fees of RMB99.5 million and RMB98.5 million in the six months ended 2012 and 2013, respectively, accounting for 82.9% and 83.6% of the total interest income from loans to customers for the corresponding periods.

We generated income from loan interest of RMB14.7 million, RMB27.9 million and RMB34.7 million in the years ended 31 December 2010, 2011 and 2012, respectively, accounting for 22.1%, 20.5% and 16.8% of the total interest income from loans to customers for the corresponding years. We generated income from loan interest of RMB20.5 million and RMB19.3 million in the six months ended 2012 and 2013, respectively, accounting for 17.1% and 16.4% of the total interest income from loans to customers for the corresponding periods. The decrease in percentage was due to the increase in our pricing power and as a result the ability to charge higher composite administrative fee rates.

In comparison, we incurred interest expenses of RMB9.5 million, RMB16.2 million and RMB22.1 million in the years ended 31 December 2010, 2011 and 2012, respectively, representing 14.2%, 11.9% and 10.6% of the total interest income from loans to customers for the corresponding years. We incurred interest expenses of RMB13.6 million and RMB8.6 million in the six months ended 2012 and 2013, respectively, representing 11.3% and 7.2% of the total interest income

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from loans to customers for the corresponding periods. Loan interest rates we charged on loans to customers and interest rates we paid for bank borrowings and borrowings from Wuzhong Jiaye were determined based on the prevailing PBOC Benchmark Rates, but interest rates we paid on bank borrowings were generally fixed during the terms of the borrowings. Accordingly, our borrowings from Wuzhong Jiaye during the Track Record Period did not result in any net interest savings to us as compared with borrowings we could have received from third parties.

Customers

The majority of our customers are SMEs and their proprietors in the Greater Suzhou Area. SMEs and their proprietors often lack the track record necessary to obtain lines of credit in substantial amounts from traditional commercial banks. In addition, the review process for traditional bank loans is often long and complicated, which can be onerous and often impractical for SMEs and their proprietors who have capital needs on more stringent timelines. Compared with traditional bank loans, the short-term financing services we provide offer our customers convenient and quick access to capital, and our loan approval and collateral appraisal processes are designed to be efficient and transparent to specifically suit their immediate liquidity needs. We source customers for Substantial Loans mainly through sales and marketing efforts by our management and branch managers or referrals by third parties. The majority of loans secured by personal property are granted to walk-in customers at our branches. The table below sets forth the numbers of our customers as of the indicated dates:

	<u>As of 31 December</u>			<u>As of the</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>30 June</u>
				<u>2013</u>
Customers by collateral				
Real estate	42	55	36	35
Equity Interest	43	30	25	22
Personal property (Note 1)	<u>0</u>	<u>2</u>	<u>1</u>	<u>1</u>
Total	<u>85</u>	<u>87</u>	<u>62</u>	<u>58</u>
Customers by type				
Repeat customer	34	36	40	42
New customer	<u>51</u>	<u>51</u>	<u>22</u>	<u>16</u>
Total	<u>85</u>	<u>87</u>	<u>62</u>	<u>58</u>

Note:

(1) only include customers of Substantial Loans

Our top five customers in terms of interest income in the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 accounted for 34.4%, 30.4%, 28.3% and 44.5% of our total interest income from loans to customers of the same periods, respectively. As of 31 December 2012 and 30 June 2013, none of our top five customers in terms of interest income in 2012 had Overdue or Defaulted Loans. Our largest customer in terms of interest income in the

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years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 accounted for 9.4%, 7.3%, 11.1% and 15.3% of our total interest income from loans to customers of the same periods, respectively.

None of our Directors or their respective associates or any shareholder, which to the knowledge of our Directors owns more than 5% of our Company's issued share capital, had any interest in any of our customers during the Track Record Period.

Source of Funding

Our funding sources consist primarily of paid-in capital, bank loans and retained earnings. Paid-in capital is capped at the approved registered capital amount. Pursuant to the Pawning Measures, if we intend to change the registered capital of the PRC Operating Entity such that after the change the registered capital would be over RMB50 million, such change has to be approved by a competent department of commerce at the provincial level as well as MOFCOM. In addition, the total outstanding amount of bank borrowings the PRC Operating Entity can obtain may not exceed the total equity of the PRC Operating Entity as set forth in our annual financial report of the previous fiscal year prepared under PRC general accepted accounting principles.

We have established stable funding resources and managed our capital prudently and efficiently. As of the Latest Practicable Date, the PRC Operating Entity has an approved registered capital of RMB500 million, the full amount of which was fully paid in by its equity holders. As of 31 August 2013, we had outstanding bank borrowings in the aggregate principal amount of RMB80 million and RMB170 million with the Bank of Jiangsu and the Bank of Suzhou, respectively. We typically renew our bank borrowings with the banks upon expiration and as of the Latest Practicable Date, we have never failed to obtain renewal of our bank borrowings with these two banks. Our bank borrowings generally have terms of less than one year and bore fixed interest rates ranging from 5.84% to 6.12%, from 6.39% to 8.25% and from 6.39% to 8.20% per annum in the years ended 31 December 2010, 2011 and 2012, and 6.72% to 7.80% in the six months ended 30 June 2013, respectively. We were never in default on our bank loans or turned down for renewals during the Track Record Period. For more details, see "Financial Information — Source of Funds and Indebtedness" in this prospectus.

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RISK MANAGEMENT

Overview

In February 2011, we formed the Risk Management Committee, whose primary function is to design and oversee the implementation of our risk control policy and strategy. The following table sets forth the Risk Management Committee members' respective experience in risk management:

<u>Name</u>	<u>Position</u>	<u>Experience</u>
Chen Yannan	Chairman of the board of directors of our Company and the PRC Operating Entity	approximately seven years of experience in the short-term financing industry
Wu Min	President of our Company and General Manager of the PRC Operating Entity	approximately 26 years of experience in commercial banking, finance and management
Mao Zhuchun	Chief Financial Officer of our Company	the manager of the Asset Audit Department of Wuzhong Group from 2003 to 2008 and the chief financial officer of Wuzhong Group from 2008 to 2012
Cao Jian	Non-executive Director of our Company	over 10 years of experience in the legal department of Wuzhong Group
Liu Qiang	Employee of Wuzhong Group	strategic planning for Wuzhong Group

Mr. Chen Yannan, Mr. Wu Min and Mr. Mao Zhuchun are the three executive Directors of our Company and are involved in our daily business operations and well-informed on various risks involved in our business. Mr. Cao Jian is not involved in our daily operations but provides valuable insight on various legal risks associated with our business as a certified PRC attorney. Mr. Liu Qiang is an employee in the strategic investment department of Wuzhong Group and a specialist in strategic planning. The Risk Management Committee meets at least once every fiscal quarter to design or revise the overall risk management strategy by taking into consideration of regulatory environment, market conditions and particular aspects of our operations. The three executive Directors of the Risk Management Committee also oversee the implementation of the existing risk management strategy. Our risk management strategy promotes the following three major principles:

Prioritisation: Risk management is one of the most important aspects of our overall business strategy. All three of our executive Directors are members of the Risk Management Committee to make sure our risk control strategy covers all material aspects of our operations and development. Their close involvement in the daily business operations strengthens the implementation of our risk management strategy which is designed to anticipate and effectively reduce risks that are presented in our particular business model and operational situations, including internal risks associated with our corporate structure, business operations and employee allocation, as well as external risks presented in market environment, general economic conditions and regulatory limitations.

Systemisation: we endeavour to systemise our risk control procedures and make such procedures transparent, coherent and easy to follow. To ensure risk control quality and consistency, our risk control policy sets forth detailed information to be requested from applicants as well as detailed procedures to be followed in the approval and appraisal process. In addition, the departmentalised multi-step loan approval process also provides a procedural guarantee that no member of the Approval Committee can exert undue influence on a loan application outside of such member's responsibility assigned by the risk control policy. In January and June 2012, we rolled out a pawn loan management IT system which maintains a database of all loans secured by real estate, equity interest or inventory collateral we grant, which enables the risk control department and the Approval Committee to review electronically all relevant information of a Substantial Loan before and after it is granted. The IT system also has a feature that monitors and alerts any non-compliance with the Pawning Measures of a loan before it is granted, preventing approval of non-compliant loans. We plan to further enhance the IT system to increase the efficiency of our loan approval process and strengthen our loan monitoring.

Professionalisation: we believe risk management is most efficient when it is departmentalised and specialised. The risk control department is dedicated to daily risk control undertakings and our Risk Management Committee focuses on designing and overseeing the implementation of the overall risk management strategy. In addition, other departments such as the finance department, legal department and the Appraisal Committee also serve critical functions in our risk management by reviewing loan applications and appraising collateral utilising their respective expertise. In addition, we are committed to constant professional trainings of our risk control personnel. We hold two trainings each year for our employees on various topics related to the short-term secured financing industry, including business overview, risk management and industry development. We give annual reviews to our risk control personnel on their compliance to the risk control policy and their overall performance, and grant rewards or make necessary adjustment depending on the results of review.

Credit Risk Management

We have implemented a risk control policy that is designed to effectively reduce the various aspects of credit risks we face as a short-term secured financing service provider, such as default of loans we grant and deterioration of collateral. The risk control policy sets out various operational instructions, guidelines, policies and risk control measures for our business, and is tied to our loan approval, collateral appraisal and collateral disposal policies. The Risk Management Committee is responsible for revising the risk control policy and overseeing its implementation both at the headquarters and branch level. We plan to continue to revise and improve our risk control policy to adapt to changing economic and customer conditions.

We manage the credit risks associated with our loans mainly by implementing rigorous and multi-level loan approval and collateral appraisal procedures to reduce risks of loan default and collateral deterioration. See “— Short-term Secured Financing Business — Loan Process — Loan Approval” and “— Short-term Secured Financing Business — Collateral Appraisal” in this prospectus.

During the term of a loan secured by real estate and equity interest collateral, we obtain regular updates on the loan status and the borrowers' financial condition. We also monitor the status of companies whose equity interests are pledged to us as collateral, including such companies' operational statuses and major capital expenditures, by reviewing the periodical financial statements of such companies, which are provided to us by the borrowers and by visiting the

companies at regular intervals. Any material adverse change relating to such loans are reported to the Approval Committee, which may take emergency measures to mitigate potential risks that arise from such changes.

The risk control department coordinates with the finance and legal departments in the loan approval process to ensure legal and internal policy compliance. Every week the risk control department oversees the compilation by branch managers of a list of expiring loans and expired loans, and works with branch managers to follow up on these loans in order to ensure timely repayment. The risk control department also investigates major customers of each branch by a random sampling at least twice a year.

Liquidity Risk Management

The finance department is responsible for managing liquidity as we aggregate and manage all Substantial Loans at headquarters. Centralised management of Substantial Loans gives us a better understanding of our liquidity and enables us to utilise our equity capital efficiently, which in turn enables us to reduce our overall liquidity credit risk and achieve high efficiency in capital utilisation.

For each Substantial Loan approved, the finance department allocates funds to the branch at which such loan was initiated. Similarly, repayments of Substantial Loans made at our branches are remitted to the finance department on the same day. The branch managers report the aggregate amounts of outstanding loans at their respective branches to the finance department by the conclusion of the business day every day, which helps the finance department monitor the liquidity distribution among branches as well as ensure compliance with the Pawning Measures requirements that the working capital of a branch shall be no less than RMB5 million and no more than 50% of the approval registered capital. Pursuant to our risk control policy, if the amount of Overdue Loans initiated at a certain branch reaches 50% or more of the total principal amount of loans initiated at such branch, or when the overdue amount (not including loans secured by personal property as such loans are generally of small principal amounts and involve significantly smaller risk) is more than RMB50 million, the Approval Committee has the right to order such branch to stop initiating new loan applications so that the branch employees can focus their operations on loan collection, until the overdue amount is reduced to a level that the finance department deems acceptable. During the Track Record Period, two of our branches were ordered to stop initiating new loan applications in February 2012 and another branch was ordered to stop initiating new loan applications in July 2012. One of the branches reduced the overdue amount to an acceptable level in March 2012 and was approved by the finance department to recommence initiation of new loans. The other branch that received stop order in February 2012 subsequently reduced its overdue load amount to nil and was approved by the finance department to recommence initiation of new loans as of the Latest Practicable Date. The Overdue Loan amount of RMB19.5 million of the third branch receiving the stop order in July 2012 was due to two loans, one of which with outstanding amount of RMB7.5 million was subsequently repaid in full. We received a court judgement in favour of us for a loan with an outstanding principal amount of RMB12.0 million plus accrued interests and we are in the process of enforcing the judgement as of the Latest Practicable Date.

In addition, the finance department monitors our bank loans to ensure timely interest payments and repayment of principal when due.

Legal Risk Management

Our legal department consists of two PRC-qualified attorneys and one legal assistant. Our legal department is involved in many aspects of our operations, including contract negotiation, collateral verification, compliance overview, and litigation to recover Defaulted Loans. In addition, in response to our incidents of non-compliance, we implemented a series of remedial measures to rectify existing and prevent future occurrences of non-compliance. For details, see “— Legal Proceedings and Compliance — Historical Non-Compliance — Background of and Reasons for Non-compliance and “— Remedial Measures” in this prospectus.

SALES AND MARKETING

We conduct sales and marketing through our 11 branches in the Greater Suzhou Area by leveraging the industry expertise and local knowledge of our staff. Staff at our branch offices contact existing and potential customers regularly to understand their requests and financing needs, and to establish close relationships with them. In particular, some of our branch managers are former managers from major local commercial banks, who have built longstanding relationships with local SMEs and their proprietors. We have established non-exclusive, mutual customer referral arrangements with Suzhou Bank and Jiangsu Bank. We promote customer awareness of our brands and services by advertising through a variety of media channels, such as billboards and radio. These activities have enabled us to increase awareness of our brands, and to maintain a stable customer base and achieve effective market penetration to potential customers.

COMPETITION

The short-term financing industry in China is competitive and localised in nature. Currently we only operate in the Greater Suzhou Area and our main competitors are other short-term financing service providers in the Greater Suzhou Area, totaling 54 pawnshops and 29 branch offices, with an aggregate approved registered capital of RMB2.1 billion in 2012, according to the Euromonitor Report. We are the market leader in the Greater Suzhou Area with 11 branches and a registered capital of RMB500 million, representing 23.8% of the aggregate approved registered capital amount in the Greater Suzhou Area as of 31 December 2012. In comparison, the second largest short-term financing service provider in Suzhou has a registered capital of RMB140 million as of 30 June 2013, according to the Euromonitor Report.

We believe our ability to compete with our competitors depends on, among other things, our ability to:

- maintain a leading position in approved registered capital;
- manage loan default risk and maintain a low impaired loan ratio;
- maintain strong brand recognition and customer relationships; and
- diversify our service portfolio and deepen market penetration.

We believe we are well positioned to maintain our leading market position in Jiangsu Province in the foreseeable future because of our competitive advantages. See “— Our Competitive Strengths” in this prospectus. We constantly evaluate our competitive positions and explore opportunities to increase our competitive strength.

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In addition, as we provide an alternative financing channel to traditional bank loans, we may begin to compete with local commercial banks for customers. Local commercial banks may decide to increase their lending to local SMEs, or even strengthen their presence in the short-term secured financing industry, which could pose intense competition to us given their capital and operational magnitude.

EMPLOYEES

As of the Latest Practicable Date, we had a total of 120 full-time employees. The following table shows the breakdown of our full-time employees by function as of the Latest Practicable Date:

Department	Number of employees
Management	6
Administration	4
Risk control	12
Finance	17
Legal	3
Operations	78
Total	120

Pursuant to the applicable PRC regulations, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. As of the Latest Practicable Date, we were in compliance with all statutory social insurance and housing fund obligations applicable to us under PRC laws in all material aspects. We have not experienced any strikes or significant labour disputes that have materially affected our operations, or any that are expected to materially affect our operations, and we consider our relations with our employees to be good. We are not subject to any collective bargaining agreements.

INSURANCE

Pursuant to the applicable PRC regulations, we have made contributions to social security insurance funds and housing funds for our employees. See “Employees” above. We do not have any business insurance which is consistent with the market practice in China. For further details, see “Risk Factor — Risks Relating to Our Business — We do not maintain any business insurance to cover our business risks.”

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

INTELLECTUAL PROPERTY

Intellectual properties material to our business are “Wuzhong Dian Dang” in Chinese characters (“吳中典當”) and the graphic trademark with trademark number 7334814. We were advised by the State Trademark Bureau in the PRC that the name of an administrative district of a county level or above may not be used or registered as a trademark according to the PRC Trademark Law. However, since our PRC Operating Entity has registered “Wuzhong Dian Dang” in Chinese characters (“吳中典當”) with the Administration for Industry and Commerce of Suzhou City, no other companies may register “Wuzhong

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Dian Dang” in Chinese characters as a trade name or use the same name in their business operation in the Greater Suzhou Area, which would constitute an infringement of the trade name right of our PRC Operating Entity. In addition, to the best knowledge of our Directors, DOC Jiangsu maintains a fairly tight control over the name of a pawnshop and will generally recommend a new pawnshop applicant to use a trade name different from that of a prior established pawnshop. Pursuant to an agreement we entered into with Wuzhong Group in October 2011, we have the 10-year exclusive right to use the graphic trademark (Trademark No. 7334814) owned by Wuzhong Group in connection with our short-term secured financing service business. For more details, see “Risk Factors — Risks Relating to Our Business — Our PRC Operating Entity uses “Wuzhong” and “Wuzhong Dian Dang” in Chinese characters in its company name and logo and we are currently unable to register that brand name and logo with the State Trademark Bureau of PRC. As a result, we may face disruptions to our business operations and our brand name and logo may become vulnerable to third-party imitation or infringement” in this prospectus. The trademark agreement will be regarded as a continuing connected transaction exempt from the reporting, announcement, annual review and independent shareholders’ approval requirements under Rule 14A.33 of the Listing Rules. For further details, please refer to the section headed “Connected Transactions” in this prospectus.

We have not experienced any infringement of our intellectual property rights by third parties, nor have we infringed upon any intellectual property rights owned by third parties.

PROPERTY INTEREST

As of the Latest Practicable Date, we leased 15 premises in Suzhou, Changshu and Taicang city, and the PRC Operating Entity and/or its branches are the lessee in these lease agreements. We have not registered 3 of these lease agreements with the relevant PRC authorities, which could subject us to administrative fines of up to RMB30,000 if the deficits are not rectified within the time frame prescribed by the relevant government authorities. For more details, see “Risk Factors — Risks Relating to Our Business — We do not have all the relevant documentation for some of the properties leased to us, which may adversely affect our rights to use such properties” in this prospectus.

According to our latest audited consolidated balance sheets in the Accountants’ Report set forth in Appendix I to this prospectus, as of 31 December 2012, none of our properties have a carrying amount of 15% or more of our consolidated total assets.

On the basis of the above, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report on our property interests. Accordingly, pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempt from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all our Company’s interests in land or buildings.

We, with Huifang PRC as the lessee, lease an office space of approximately 150 sq.m. for our headquarters from Wuzhong Real Estate, which holds the land use rights and building ownership rights relating to such premises. The lease commenced on 16 December 2011 and will expire on 15 December 2014, and has an annual rental amount of RMB14,400. We, with Huifang Tongda as the lessee, lease an office space from Wuzhong Real Estate which have an area of 150 sq.m. and an

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annual rental amount of RMB14,400. The leases are deemed to be an exempted continuing connected transaction under Chapter 14A of the Listing Rules. For more details, please see “Connected Transactions” in this Prospectus. Furthermore, we, with the PRC Operating Entity as the lessee, lease one property in Suzhou for office use, which have an area of approximately 720 sq.m. and an average annual rental amount of RMB210,166.

The eleven leased properties for business and office uses located in Suzhou have an aggregate area of approximately 3,226.3 sq.m. and various annual rental amounts ranging from RMB14,400 to RMB315,000. The leases have expiry dates between 31 May 2012 and 31 December 2018.

The leased property for business and office uses located in Taicang have an area of approximately 256.61 sq.m. and an average annual rental amount of RMB123,840. The lease commenced on 1 April 2012 and will expire on 31 March 2017.

The leased property for business and office use located in Changshu has an area of approximately 227.77 sq.m. and an average annual rental amount of RMB132,000. The lease commenced on 18 May 2011 and will expire on 17 May 2016.

The two leased properties for business and office use located in Wujiang have an aggregate area of approximately 199.05 sq.m. and average annual rental amount of approximately RMB101,000 and RMB75,000, respectively. Both leases will expire on 31 July 2014.

The table below shows a summary of the property interests rented and occupied by the Group:

No.	Use and name/ brief description of properties	Gross floor area/leasable area (sq.m.)	Number of buildings/ units	Lessor	Lessee	Terms of tenure (year of leasehold expiry)	Average annual rental amount (RMB)
1	Leased properties for business use, located in Wuzhong West Road 6 Suzhou, PRC	96.00	1	Yang Xuehua	PRC Operating Entity	commenced on 31 July 2013 and expiring on 31 July 2016	51,666
2	Leased property for business use, located in Heshan Road 131, Suzhou, PRC	166.25	1	Tao Zhongrong	PRC Operating Entity, Fengqiao Branch	commenced on 1 February 2012 and expiring on 31 January 2017	220,000
3	Leased property for business use, located in Huamei Garden 607, Xiangcheng District, Suzhou, PRC	150.00	1	Huang Xiaping	PRC Operating Entity, Xiangcheng Branch	commenced on 1 June 2013 and expiring on 31 May 2016	200,000
4	Leased property for business use, located in Flat 104, Block 5, Yifeng Yard, Suzhou Industrial Park, Suzhou, PRC	267.58	1	Suzhou Ruiqiao Investment Consulting Limited	PRC Operating Entity, Yuanqu Branch	commenced on 6 April 2012 and expiring on 5 April 2015	224,000
5	Leased property for business use, located in No. 128, Golden House Ornament Plaza District 1, Binhe Road 58, Suzhou, PRC	200.00	1	Qi Youyu	PRC Operating Entity, Xinqu Branch	commenced on 1 March 2010 and expiring on 28 February 2015	220,000

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No.	Use and name/ brief description of properties	Gross floor area/leasable area (sq.m.)	Number of buildings/ units	Lessor	Lessee	Terms of tenure (year of leasehold expiry)	Average annual rental amount (RMB)
6	Leased property for business use, located in Flat 101, Nansha Road 115, Changshu, Jiangsu Province, PRC	227.77	1	Wang Chunhua	PRC Operating Entity, Changshu Branch	commenced on 18 May 2011 and expiring on 17 May 2016	132,000
7	Leased property for business use, located in Baxian Road 4-6, Wuzhong Shopping Mall, Wuzhong District, Suzhou, PRC	338.29	1	Wuzhong Shopping Mall Limited	PRC Operating Entity, Chengnan Branch	commenced on 1 January 2011 and expiring on 31 December 2018	100,000
8	Leased property for business use, located in Mudu Shopping Mall 1-1, Mudu Town, Wuzhong District, Suzhou, PRC	700.00	1	Zhang Guilian, Zhou Jiankang and Zhou Lan	PRC Operating Entity, Mudu Branch	commenced on 1 January 2012 and expiring on 31 December 2016	315,000
9	Leased property for business use, located in Zhongshan North Road 767, Songling Town, Wujiang, Jiangsu province, PRC	107.33	1	Li Qirong	PRC Operating Entity, Wujiang Branch	commenced on 1 April 2011 and expiring on 31 July 2014	101,000
10	Leased property for business use, located in Zhongshan North Road 769, Songling Town, Wujiang, Jiangsu province, PRC	91.72	1	Shen Yan	PRC Operating Entity, Wujiang Branch	commenced on 1 August 2011 and expiring on 31 July 2014	75,000
11	Leased property for office use, located in Dongwu North Road 101, Suzhou, Jiangsu province, PRC	150.00	1	Wuzhong Real Estate	Huifang PRC	commenced on 16 December 2011 and expiring on 15 December 2014	14,400
12	Leased property for office use, located in Dongwu North Road 101, Suzhou, Jiangsu province, PRC	150.00	1	Wuzhong Real Estate	Huifang Tongda	commenced on 3 February 2012 and expiring on 2 February 2015	14,400
13	Leased property for office use, located in Dongwu North Road 101, Suzhou, Jiangsu province, PRC	720.00	1	Wuzhong Real Estate	PRC Operating Entity	commenced on 1 January 2012 and expiring on 31 December 2014	210,166
14	Leased Property for business use, located in Units A108 and A109, Kuanan Road 2, Weiting Town, Suzhou High-tech Zone, PRC	288.18	2	Wu Baimei	PRC Operating Entity, Chengbei Branch	Commenced on 10 March 2012 and expiring on 9 March 2015	219,000
15	Leased Property for business use, located in East Binhe Road 168, Chengxiang Town, Taicang City, Suzhou, PRC	256.61	1	Jiangsu Wuyang Real Estate Co., Ltd.	PRC Operating Entity, Taicang Branch	Commenced on 1 April 2012 and expiring on 31 March 2017	123,840

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We have been advised by our PRC Legal Adviser that, except as disclosed in the Risk Factors section of this prospectus, each of the above lease agreements is legal, valid and binding on the landlord and tenant, and each landlord has the right to lease the property to us.

INFORMATION TECHNOLOGY

Our information technology, or IT, systems are integral to many aspects of our business operations, including transaction processing and quality control, risk management, customer services and financial management. We have adopted a number of advanced IT systems, including, Wuzhong Pawning Credit Monitoring Platform, Chinese Pawning Business Information Management system and UFIDA NC Accounting Software, to improve the efficiency and quality of our services and to further strengthen our risk and financial management capabilities. Our IT personnel have extensive IT knowledge and experience, and have collaborated with third party software companies to design our IT systems and to supervise implementation of IT related rules and measures. We have formulated and implemented an internal policy to regulate information system governance measures, procedures and tools, inspection of our internet environment and equipment maintenance, information safety strategies, anti-virus protection and internet controls. We have also established an internal IT back-up system.

ENVIRONMENTAL COMPLIANCE

As a financial services provider, we are not subject to any significant environmental regulations. We do not currently have any environmental liabilities and do not expect to incur any environmental liabilities that could have any material impact on our financial condition or business operations in the future.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We are involved, from time to time, in legal proceedings arising in the ordinary course of our business. These legal proceedings involve claims initiated by us to recover payment of Defaulted Loans or dispose of the underlying collateral. For more details, see “— Short-term Secured Financing Business — Collateral Disposal” in this prospectus.

During the Track Record Period and as of the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on its business, financial condition or results of operations.

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Licenses and Permits

According to the relevant PRC laws and regulations, the provision of pawn loans is a “Special Administrated Industry” which is administrated by the Ministry of Public Security and MOFCOM. As of the Latest Practicable Date, we had obtained all the necessary licenses and permits for the operation of our business, in addition to our business licenses:

<u>Branch</u>	<u>Name of licenses/permits</u>	<u>Expiration date of licenses/permits</u>	<u>Last renewal date of licenses/permits</u>
The PRC Operating Entity	典當經營許可證 (Pawn Operations Business License)	3 March 2019	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Fengqiao Branch . . .	典當經營許可證 (Pawn Operations Business License)	31 March 2015	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Chengnan Branch . . .	典當經營許可證 (Pawn Operations Business License)	16 November 2014	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Changshu Branch . . .	典當經營許可證 (Pawn Operations Business License)	7 May 2017	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Industrial Zone Branch	典當經營許可證 (Pawn Operations Business License)	7 April 2017	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013

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Branch	Name of licenses/permits	Expiration date of licenses/permits	Last renewal date of licenses/permits
High-tech Zone Branch	典當經營許可證 (Pawn Operations Business License)	2 February 2016	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Xiangcheng Branch	典當經營許可證 (Pawn Operations Business License)	18 November 2015	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Wujiang Branch	典當經營許可證 (Pawn Operations Business License)	7 May 2017	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Mudu Branch	典當經營許可證 (Pawn Operations Business License)	3 March 2019	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Chengbei Branch.	典當經營許可證 (Pawn Operations Business License)	15 April 2018	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013
Taicang Branch	典當經營許可證 (Pawn Operations Business License)	15 April 2018	28 May 2013
	特種行業許可證 (Special Industry License)	No expiry date	28 June 2013

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Historical Non-compliance

Types of Non-compliance

During the Track Record Period, there were incidents in which the PRC Operating Entity was not in compliance with certain aspects of section 28, 38 and 44 of the Pawning Measures.

Individual non-compliant loans. The following table sets forth details of all nine historical incidents of non-compliance with the Pawning Measures involving individual loans during the Track Record Period, categorized by the type of non-compliance:

Year of occurrence	Number of non-compliant loans	Percentage of total number of loans for the year	Aggregate interest income from non-compliant portion of the loans (RMB'000)	Percentage of total interest income for the year	Aggregate outstanding non-compliant amount at the end of the year (RMB'000)	Percentage of outstanding gross loan amount at the end of the year
Category (i) Principal amount of an individual loan secured by real estate collateral exceeding 10% of the then-approved registered capital of the PRC Operating Entity (Section 44(5))						
2010	5	1.2%	2,888 ⁽¹⁾	4.3%	18,000	3.3%
Category (ii) Aggregate loan amount to an individual customer exceeding 25% of then-approved registered capital of the PRC Operating Entity (Section 44(2))						
2010	3	0.7%	2,170 ⁽²⁾	3.3%	2,500	0.5%
Category (iii) Monthly composite administrative fee rate charged on a loan secured by equity interest collateral exceeding 2.4% of the loan principal amount. (Section 38)						
2011	1	0.2%	4 ⁽³⁾	<0.01%	nil	0%

Notes:

- (1) represents the portion that exceeded 10% of the then-approved registered capital of the PRC Operating Entity.
- (2) represents the portion that exceeded 25% of the then-approved registered capital of the PRC Operating Entity.
- (3) represents the portion that exceeded 2.4% of the principal amount.

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Non-compliant borrowings and aggregate loan amount. In addition, during the Track Record Period we were not in compliance with Section 28 of the Pawning Measures which allows a pawn loan provider to borrow funds from commercial banks only and Section 44(5) of the Pawning Measures which sets various thresholds for maximum aggregate loan amounts. The following table sets forth amounts borrowed from a non-bank entity, and the loan amounts that exceeded the relevant thresholds and their percentages of the gross loan amounts, unless otherwise indicated, as of the indicated dates:

	As of 31 December					
	2010		2011		2012	
	RMB'000	%	RMB'000	%	RMB'000	%
Category (iv) Borrowing funds from Wuzhong Jiaye which is not a commercial bank ⁽¹⁾ (Section 28)	111,184	N/A	nil	N/A	nil	N/A
Category (v) Aggregate outstanding amount of loans secured by equity interest collateral exceeding 50% of the then-registered capital of the PRC Operating Entity (Section 44(5))	232,439	42.1	124,873	19.1	nil	N/A
Category (vi) Aggregate outstanding amount of loans secured by real estate collateral exceeding the then-registered capital of the PRC Operating Entity (Section 44(5))	nil	nil	140,457	21.5	nil	N/A

Note:

- (1) The loans were granted to us at arm's-length and bore variable interest rates based on the market rates of six-month bank loans. As a result, we did not generate any interest savings from such loans.

Background of and Reasons for Non-compliance

Our Directors have examined each incident of non-compliance that occurred during the Track Record Period and determined that each incident was caused by a particular aspect of internal control deficiencies then existing. We experienced significant growth in 2010 as compared with 2009, evidenced by (a) a 213.4% increase in interest income and 140.1% increase in gross amount of loans to customers and (b) an increase of approved registered capital of the PRC Operating Entity from RMB45.0 million as of 1 January 2009 to RMB121.0 million as of 1 January 2010. Growth in the scale of our business outpaced increase in the number of our personnel, and as a result we were understaffed during this period and our growth put significant strain on our then-existing management and employees. The heavy work load on our employees also made systematic professional training difficult. In addition, during this period we were adjusting our business model and increasingly focused on SME borrowers who typically applied for much larger loan amounts as compared with the amounts applied for by individuals. The increase in loan scale presented new risk control and management issues for us. As a result, our operations were exposed to various internal control deficiencies, resulting in historical incidents of non-compliance. The types of non-compliance in categories (i) and (ii) were incidents that involved individual loans. Such loans were all granted in 2010, primarily due to internal control deficiencies in the individual loan approval process resulting from the lack of (a) systematic loan approval procedures; (b) sufficient awareness of relevant legal requirements on the part of our employees; and (c) sufficient personnel dedicated to compliance matters.

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The type of non-compliance in category (iii) was an isolated incident where an employee mistakenly recorded a composite administrative fee rate in the loan agreement that was slightly higher than the negotiated rate; the error was not instantly spotted as the discrepancy was small.

The type of non-compliance in category (iv) arose primarily due to insufficient internal controls with regard to operational independency, corporate structure and legal expertise at the management level. Prior to the Reorganisation, we were a subsidiary of Wuzhong Group which had a system for managing all unutilised funds within the group. Moreover, Wuzhong Jiaye was a majority shareholder of the PRC Operating Entity prior to the Reorganisation. The then-management of the PRC Operating Entity, which consisted of only one director, regarded loans from Wuzhong Group as part of internal funds flow and did not recognize that they would be considered as incidents of non-compliance with the Pawning Measures.

The type of non-compliance in categories (v) and (vi) arose due to insufficient management of our overall loan portfolio as a result of the significant increase in individual loan applications. In 2010, we did not have a management team member who was dedicated to compliance matters. The main compliance measure in this period was to make periodic reports of our operational results to the DOC Jiangsu, which contained operating data that clearly reflected incidents of non-compliance in categories (v) and (vi). In this period, we considered any non-compliance in such categories that may have occurred to be immaterial since we did not receive any legal sanction, penalty or warning, written or oral, from relevant government authorities or experience any negative legal consequences after having reported such types of non-compliance.

Remedial Measures

Since 2010, we have been taking active measures to rectify these incidents of non-compliance and progressively enhance our overall internal controls. As a result, all incidents of non-compliance were rectified as of 30 June 2012 and no incident of non-compliance occurred since then. Having considered the background of the historical non-compliance, the remedial measures the Directors have implemented since 2010, the Sole Sponsor is of the view that nothing has come to its attention which would lead it to believe that the Directors do not meet the suitability requirements under the Listing Rules.

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

Remedial measures implemented ⁽¹⁾	Time of implementation	Category of non-compliance addressed	Remedial Result
(a)	March 2010, March 2012	All	Significant reduction of incidents in categories (i) and (ii) from 2009 to 2010; no incidents of non-compliance in categories (i) and (ii) in 2011 and after
(b)	January 2011	All	Commenced revamping of our internal control and risk management system
(c)	February 2011	All, and more specifically, (iv)	No incident of non-compliance category (iv) since October 2011 and no new incident since implementation
(d)	January and June 2012	All	No incident of non-compliance since implementation
(e)	April 2011, April 2012	All, and more specifically, (i) to (iii)	No incident of non-compliance in categories (i) and (ii) in 2011 and after; no incident of non-compliance in category (iii) in November 2011 and no new incident since implementation
(f)	Periodic	All, and more specifically, (iii)	No incident of non-compliance of category (iii) since implementation
(g)	Periodic	All	Increased compliance awareness of management and employees
(h)	January to June 2012	(v) and (vi)	No incidents of non-compliance in category (v) and (vi) as of 30 June 2012 and no new incident since implementation

Note:

(1) See detailed explanation of each type of remedial measure in the paragraphs following this table.

We enhanced our compliance efforts starting in 2010 by implementing various measures aimed at rectifying and preventing each category of non-compliance, as well as measures designed to enhance the efficiency and effectiveness of our overall internal controls. The remedial measures we have implemented at the PRC Operating Entity include:

(a) *Adding two qualified management members for the risk control department.* As the first step to strengthening our internal control and compliance, Mr. He Jiong was hired as the manager of the risk control department of the PRC Operating Entity in March 2010. Mr. He had over eight years of experience in domestic and international banks prior to joining the PRC Operating Entity and is experienced in risk control, asset quality assessment, and legal and disclosure related issues. In March 2012, we hired the assistant manager of the risk control department who had over nine years of experience in domestic banks with a specialty in credit loan approval. The assistant manager is responsible for cross-checking each loan application

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currently under review and monitoring each loan that is secured by real estate or equity interest collateral on a daily basis to ensure every aspect of the loan complies with relevant rules and regulations.

- (b) *Hiring the General Manager.* In January 2011, we hired Mr. Wu Min as the General Manager of the PRC Operating Entity to revamp our internal control and risk management system and to oversee our daily operations. Prior to joining us, Mr. Wu Min had 26 years of experience with Industrial and Commercial Bank of China serving as manager, vice president and president of its local branches. Mr. Wu Min oversaw the formation of our Risk Management Committee and currently leads its operation.
- (c) *Forming the Risk Management Committee.* To strengthen our internal controls in order to enhance our compliance as well as reduce various risks associated with our operations, we formed the Risk Management Committee of the PRC Operating Entity in February 2011. The Risk Management Committee consists of our Executive Directors as well as legal and strategic planning experts. The Risk Management Committee focuses on designing and overseeing the implementation of our risk control policy and strategy. Shortly after its formation, the Risk Management Committee, led by our Executive Directors, reviewed the overall compliance status of the PRC Operating Entity and implemented a series of remedial measures. For more details, see “— Risk Management” in this prospectus. More specifically, the Risk Management Committee oversaw the repayment of all loans from Wuzhong Jiaye to rectify incidents of non-compliance in category (iv) in connection with the Reorganisation. The Risk Management Committee also implemented relevant internal policy to prohibit any borrowings from entities other than commercial banks to ensure strict compliance with Section 28 of the Pawning Measures. As a result, no incident of non-compliance of Section 28 has occurred since October 2011. Our Directors, who have the sole authority to approve any borrowings we might incur, confirm that we will not take loans from any entity other than commercial banks going forward.
- (d) *Developing and installing pawn loan management IT system as a key compliance control measure.* We have developed and in January 2012 implemented the first phase of a pawn loan management IT system that maintains a database of all loans secured by real estate, equity interest or inventory collateral we grant and helps our management monitor various aspects of our operations by providing detailed information on individual loans and loan applications as well as aggregate outstanding amounts of different categories of loans. Information on each loan or loan application that can be accessed through this IT system includes customer identity, type of collateral, date of loan grant, principal amount, repayment status, and internal assigned serial code for the loan. Aggregate outstanding amounts are also available on loans granted to individual customers and loans secured by each type of collateral. The assistant manager of the risk control department uses this IT system to perform compliance status checks on a daily basis. The IT system is also available to each Approval Committee member as well as other senior management in the finance department. This first phase of the pawn loan management IT system enables us to identify non-compliance of outstanding loan balance on a timely basis.

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In June 2012, we implemented the second phase of the IT system, in which we added various automatic monitoring functions to prevent individual and aggregate loan amounts from exceeding relevant thresholds as provided by the Pawning Measures. Before a loan secured by real estate, equity interest collateral or inventory is approved by the Approval Committee, a branch accountant enters relevant information of the loan into the IT system, which is then validated by the assistant manager of the risk control department. The automatic monitoring functions checks the relevant information of the loan against applicable thresholds as provided by the Pawning Measures, and prevents submission of the loan information into the database, as well as any approval of such loan application if it identifies potential non-compliance. The second phase of the pawn loan management IT system ensures timely detection of non-compliance through the automatic system notification feature.

- (e) *Amending our risk control policy to address specific internal control deficiencies.* To make the loan approval process more systematic, the Risk Management Committee adopted our amended risk control policy in April 2011. The amended risk control policy sets out more specific and detailed guidelines designed to result in a tightened loan approval process, including increased involvement of the General Manager and the risk control department in the loan approval process, requiring headquarters' approval for Substantial Loans to ensure more stringent compliance review of Substantial Loan applications, and specifying order of review result submission to clarify review hierarchy. In April 2012, the Risk Management Committee further amended the risk control policy to address specific internal control deficiencies that gave rise to certain non-compliance incidents. Such amendment including:
- making the manager of the risk control department responsible for checking the compliance status of loan applications and individual outstanding loans that pledged or are secured by real estate or equity interest collateral;
 - prohibiting the release of loan proceeds to a customer before the completion of the collateral registration process;
 - requiring all loans secured by real estate and equity interest collateral as well as Substantial Loans secured by personal property collateral to be approved by the Approval Committee and requiring branch managers to check composite fee and interest rate of each non-Substantial loan to ensure compliance with the relevant thresholds for composite administrative fee rates to prevent category (iii) non-compliances; and
 - requiring the assistant manager of the risk control department to review the aggregate loan amount to an individual customer when a loan application by such customer is approved, and if such aggregate amount exceeds 80% of the relevant threshold of the aggregate loan amount to an individual customer as provided by the Pawning Measures, a notice will be sent to all branches requiring any further loan application by such customer to be submitted to headquarters for review and approval to prevent category (ii) non-compliance.
- (f) *Issuing periodic as well as specific internal memos on compliance matters.* The risk control department is responsible for monitoring any governmental interpretations or amendments of relevant rules and regulations and issuing periodic internal memos on any such updates to all employees. More specifically, as a response to the incident of non-compliance in category (iii),

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we issued an internal memo to all employees in April 2012 which highlighted relevant provisions of the Pawning Measures we are required to strictly comply with in the loan approval process and supplemented relevant risk control procedures.

- (g) *Systematic and periodic employee training on compliance matters.* The risk control department is responsible for giving periodic training to employees on selected topics on risk control and compliance matters. In 2011 and 2012, we held two and five training sessions, respectively, for selected management and employees on various topics including our amended risk control policy, issues encountered in daily operations, loan review procedure for loans secured by personal property collateral and financial matters. We expect to continue to hold periodic training sessions and seminars for management and employees on a quarterly basis in the future to refresh the overall compliance awareness of our operations.

To rectify the incidents of non-compliance in categories (v) and (vi), we conducted an internal analysis of details of the non-compliance, sought advice of our PRC Legal Adviser on the relevant rules and regulations, and obtained the view of the relevant competent governmental officials. After due consideration, the Directors formulated a plan to rectify incidents of non-compliance in categories (v) and (vi) by increasing the approved registered capital of the PRC Operating Entity and reducing the outstanding amount of loans to customers.

- (h) *Reducing outstanding amounts of loans to customers.* We took active measures to rectify the incidents of non-compliance in categories (v) and (vi) by reducing the aggregate loan amounts below the relevant thresholds. We did not renew certain loans to customers upon expiration and actively collected Overdue Loan amounts. In addition, we effectuated early termination through negotiation on a small number of loans to customers to further reduce the aggregate outstanding loan amount. We selected the customers and structured the negotiation of the termination of their loans to ensure that no material cost or loss to the customers resulted from such early terminations. As a result, we eliminated non-compliance in category (v) and (vi) as of 30 June 2012 and have not had any new incident of non-compliance since then.

In addition to the foregoing measures, the PRC Shareholders have agreed to indemnify the PRC Operating Entity for any and all fines and other losses that the PRC Operating Entity may be subject to as a result of the above-mentioned historical non-compliance.

As a result of our continuous effort and the implementation of the above remedial measures, all historical incidents of non-compliance had been rectified as of 30 June 2012. Our Directors confirm that there has been no incident of non-compliance from 30 June 2012 through the Latest Practicable Date. Accordingly, the Directors believe that the above established remedial measures have significantly enhanced our internal controls, and are adequate and effective in identifying and avoiding any potential non-compliance with the Pawning Measures and the relevant Judicial Interpretation. In particular, the Pawning Industry Regulations, which was promulgated on 5 December 2012, further specify the responsibilities of MOFCOM and its local counterparts and mandate strengthened supervision on certain aspects of a pawn provider's business operation, such as loan approval and collateral appraisal. For more details, see "Regulation — The Pawn Loan Industry — The Administrative Measures for Pawning" in this prospectus. We believe the internal control procedures we implemented as described above are sufficient to ensure compliance with such strengthened regulation. In addition, the Sole Sponsor is of the view that (i) the enhanced

internal control measures are reasonably adequate and effective to ensure compliance with the Pawning Measures; (ii) the Company has complied with the Pawning Measures and there has not been any non-compliance by the Company from 30 June 2012 through the Latest Practicable Date. We will continue to cooperate with the local authorities in their regulation of our operations such as submitting relevant information and accepting inspections. We have been in compliance with the Pawning Industry Regulations since the date of promulgation. As of the Latest Practicable Date, no penalties for any incidents of non-compliance of the Pawning Industry Regulations had been imposed on us by any competent PRC authority. In the second quarter of 2013, we successfully renewed the Pawn Operations Business Licenses and the Special Industry Licenses for the PRC Operating Entity and each of its branches. For more details on the renewal of the Pawn Operations Business Licenses and Special Industry Licenses, see “— Legal Proceedings and Compliance — Licenses and Permits.”

Our Directors, including our independent non-executive Directors, will review our internal control and compliance with relevant rules and regulations, including the Pawning Measures after Listing. We will disclose our compliance with all relevant rules and regulations including the Pawning Measures in our annual reports after Listing.

Independent internal controls consultant review

Internal Controls Review

We engaged an independent internal controls consultant to perform an internal controls review engagement (“**Internal Controls Review**”) with reference to Clause 33, 34 and 35 of the “Technical Bulletin — AATB 1 Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting” issued in March 2008 by the Auditing and Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) to review and comment upon selected internal control procedures over financial reporting, which included certain underlying controls over loan operations, collateral underlying Defaulted Loans, fixed assets, payroll and benefits, cash and bank management procedures, general computer system controls and company level controls. Certain provisions of Sections 30, 31 and 33 in Chapter 5 Pawn Loan Ticket and Sections 36, 37, 39, 40, 41, 42, 44 (not including Sections 44(2) and 44(5)) and 45 in Chapter 6 Operational Rules of the Pawning Measures were covered by the Internal Controls Review. Our Directors confirm that historically we did not have any incident of non-compliance with regard to such provisions. In addition, the results of the Internal Control Review and the legal opinion given by the PRC Legal Adviser did not reveal any finding of non-compliance with regard to such provisions. The Internal Controls Review was conducted based on information we provided and no assurance or opinion on internal controls was expressed by the internal control consultant. After the initial review in October 2011, the internal controls consultant reported to us and identified certain deficiencies and gaps in internal control procedures and made corresponding recommendations. Since then, we have been taking active measures to remediate the deficiencies and gaps identified. The internal controls consultant conducted follow-up reviews in April and July 2013 and had no further comments or recommendations with regard to our internal control procedures reviewed by them.

ISAE 3000 Review

In addition, the internal controls consultant also reviewed the design, implementation and operating effectiveness of our relevant loan compliance management controls (“**Loan Compliance Management Controls**”) for the period from 1 July 2012 to 30 June 2013 in accordance with the

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International Standard on Assurance Engagement 3000 (“ISAE 3000”) to ensure compliance with Sections 38, 44(2) and 44(5) of the Pawning Measures (the “**Relevant Provisions**”), which are sections we historically had incidents of non-compliance with and considered, after consultation with the Sole Sponsor and the internal control consultant, to be significant. The internal controls consultant reported to us that nothing has come to their attention that causes them to believe that such Loan Compliance Management Controls were not designed, implemented and operated effectively, in all material respects, to ensure compliance with the Relevant Provisions.

Consequence of Historical Non-compliance and Potential Penalties

Since January 2010, the PRC Operating Entity has also been making monthly online reports through the National Pawn Loan Industry Management Information System, which is accessible by both MOFCOM and DOC Jiangsu. Such monthly reports contain data which clearly reflect incidents of non-compliance in categories (v) and (vi). During the Track Record Period, the PRC Operating Entity did not experience any legal obstacle in (a) obtaining relevant regulatory approvals from DOC Jiangsu and MOFCOM to increase its approved registered capital or to open new branches, (b) renewing its licenses for the pawn loan business with DOC Jiangsu and MOFCOM or (c) passing each annual examination by DOC Jiangsu. We submitted the applications for two new branches to the Suzhou Bureau of Commerce in December 2011 and obtained approvals for both branches from DOC Jiangsu and MOFCOM in April 2012. Accordingly, we do not believe the historical incidents of non-compliance will affect the PRC Operating Entity’s qualification to increase its approved registered capital or to open new branches in Jiangsu Province in the future.

According to the PRC Law on the Administrative Penalties (中華人民共和國行政處罰法), administrative penalty for illegal acts must be imposed within two years from the date that such an act is committed. If the illegal acts are ongoing or continuous, the date shall be counted from the date on which the acts end. We, our PRC Legal Adviser and the PRC legal adviser of the Sole Sponsor, met with certain officials of DOC Jiangsu for consultations on 7 August 2013 and it was confirmed that the PRC Operating Entity will not be subject to any penalties due to those historical incidents of non-compliance for which the two years statute of limitation has expired. Based on the above, our PRC Legal Adviser advised that those incidents of non-compliances in categories (i) and (ii) and (iv), for which the statute of limitation of two years has expired will not be subject to any administrative penalties.

With respect to the incidents of non-compliance in category (iii), which were within the statute of limitation of two years, our PRC Legal Adviser advised that the Pawning Measures provides for a penalty of up to RMB30,000. With respect to those incidents in categories (v)–(vi) which were within the statute of limitation of two years, the Pawning Measures provide for fines of between RMB5,000 and RMB30,000 for each incident and it is not entirely clear as to how such penalty will be applied to such incidents in categories (v)–(vi). In the verbal consultations with certain officials of DOC Jiangsu on 7 August 2013, the officials confirmed that if a pawn enterprise failed to rectify incidents of non-compliances in categories (v)–(vi), a penalty up to RMB30,000 may be imposed for each category of non-compliance as of the date upon which such a penalty is imposed. Based on the above, our Directors believe that the aggregate amount of penalties that may be imposed on the Company would be up to RMB90,000.

However, since we have rectified all historical incidents of non-compliances by 30 June 2012, as of the Latest Practicable Date, no penalties for any incidents of non-compliance had been imposed upon the Company by any relevant PRC authority. In addition, DOC Jiangsu issued a Letter of Confirmation stating that neither the PRC Operating Entity nor any of its branches, nor any other member of the Group had been sanctioned for violation of any relevant laws or regulations relating to the administration of pawn loan business operations since their respective dates of establishment. On 8 May 2013, DOC Jiangsu issued an updated Letter of Confirmation to us restating the same confirmations as of the date of the issuance of the letter. Moreover, in the verbal consultations with certain officials of DOC Jiangsu on 7 August 2013, the officials confirmed that the PRC Operating Entity will not be subject to any penalties since the historical incidents of non-compliances in categories (iii), (v) and (vi) are minor and have been rectified. Therefore, our PRC Legal Adviser advised that the possibility that penalties might be imposed on the PRC Operating Entity due to the historical incidents of non-compliance is remote.

Regulatory View on Non-compliance

Although the historical incidents of non-compliance did not result in any adverse effects to our business or to any regulatory sanctions, we have taken initiatives to obtain views from the competent government authorities concerning these incidents of historical non-compliance.

(a) *DOC Jiangsu*

On 12 June 2012, one of our Directors and representatives of the Sole Sponsor and our PRC Legal Adviser held a meeting with two officials from the DOC Jiangsu to discuss our incidents of non-compliance. One of the officials was from the Division of Circulation Industry Development (流通業發展處) and he confirmed that his division in DOC Jiangsu is responsible for regulating the pawn loan industry in Jiangsu Province. The other official was from the Division of Government Policy and Regulation (政策法規處) which is responsible for interpreting and implementing governmental rules and regulations. We reported to the officials all of our historical and then existing incidents of non-compliance and the remedial measures we had taken to rectify all incidents of non-compliance, including our measures with regard to the incidents in categories (v) and (vi).

In response, the officials verbally confirmed during the interview that (a) the incidents of non-compliance, individually and in aggregate, have not caused any major adverse effect and do not constitute a material breach of the Pawning Measures; (b) no penalty will be imposed by DOC Jiangsu in connection with any such incident of non-compliance, including the historical non-compliance in category (i) to (iv) and the then existing non-compliance in categories (v) and (vi) which were in the process of being rectified; (c) the revenue generated from non-compliant loans is and will be deemed to have been legally earned; (d) the incidents of the PRC Operating Entity's non-compliance, individually and in aggregate, will not affect the qualification and licences currently held by the PRC Operating Entity, nor the renewal of such qualification and licences in future; and (e) the incidents of non-compliance, individually and in aggregate, will not affect the PRC Operating Entity's qualification to increase its approved registered capital or open new branches in or outside Jiangsu Province. In addition, the officials acknowledged the remedial measures with regard to the non-compliance in categories (v) and (vi). The officials further noted that the government authorities understand that the pawn loan industry in China has experienced significant growth and transformation in the period since the current Pawning Measures were enacted. In response, the Legislative Affairs Office of the State Council is in the process of enacting a new regulation to repeal and replace the current Pawning Measures which will, among other

things, change the relevant thresholds to accommodate the existing operations and growth need of pawn loan providers in China. As of the Latest Practicable Date there was no definitive timeline of the enactment of the new regulation. Aside from such oral confirmations in subsequent interviews as described below, we have not obtained written confirmation since the May 2013 letter.

On 7 August 2013, one of our Directors, our PRC Legal Adviser and the PRC legal adviser of the Sole Sponsor held a follow-up meeting with certain officials from the Division of Circulation Industry Development (流通業發展處) of DOC Jiangsu. We have been advised by our PRC Legal Adviser that such officials have the appropriate authority to provide such confirmations. We reported that we rectified all historical incidents of non-compliances as of 30 June 2012. In response, the officials further verbally confirmed during the interview that (a) the historical incidents of non-compliance were not material breaches of the Pawning Measures; (b) no penalty will be imposed by DOC Jiangsu on historical incidents of non-compliances for which the two-year statute of limitation has expired; and (c) the PRC Operating Entity will not be subject to any penalties since historical incidents of non-compliances in categories (iii), (v) and (vi) were not material and have been rectified.

(b) Suzhou Bureau of Commerce

On 19 April 2012, one of our Directors and our PRC Legal Adviser had a meeting with an official of the Division of Market System Development (市場體系建設處) of the Suzhou Bureau of Commerce (蘇州市商務局), which is responsible for regulating the pawn loan industry in Suzhou City. In this meeting, we reported to the official the remedial measures we have taken to rectify all incidents of non-compliance categories (v) and (vi) above, and our remedial plan with regard to the incidents of categories (v) and (vi). The official confirmed that the Suzhou Bureau of Commerce has been supervising operations of the PRC Operating Entity, and it has been receiving and reviewing the monthly reports submitted by the PRC Operating Entity, which contain operating data which clearly reflect incidents of non-compliance of categories (v) and (vi). The official indicated that the Suzhou Bureau of Commerce was aware of all types of non-compliance that had occurred in connection with the PRC Operating Entity's business and acknowledged the remedial measures taken by the PRC Operating Entity and the remedial plan. The official also noted that the Legislative Affairs Office of the State Council is in the process of enacting a new regulation to repeal and replace the current Pawning Measures and the draft of this new regulation was published for public consultation. Certain provisions in the draft new regulation would have the effect of increasing the permitted maximum amount of pawn loans secured by real estate and equity interest collateral that could be granted.

During the meeting, the official further confirmed to us that (a) the incidents of the PRC Operating Entity's non-compliance, individually and in aggregate, do not constitute a material breach of the Pawning Measures; (b) the incidents of the PRC Operating Entity's non-compliance, individually and in aggregate, will not affect the qualification and licences currently held by the PRC Operating Entity nor the renewal of such qualification and licences in future; (c) the incidents of non-compliance, individually and in aggregate, will not affect the PRC Operating Entity's qualification to increase approved registered capital or open new branches in Jiangsu Province; (d) the revenue generated from non-compliant loans will be deemed to have been legally earned; and (e) no penalty will be imposed on us in connection with any incident of non-compliance described in this prospectus. We have been advised by our PRC Legal Adviser that such official has the appropriate authority to provide such confirmations.

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Based on the above, our PRC Legal Adviser has advised us that:

- since (a) we have submitted the monthly reports through online National Pawn Industry Management Information System containing operating data that reflected certain incidents of non-compliance; and (b) as confirmed by the competent officials of DOC Jiangsu and the Suzhou Bureau of Commerce as described above, the Suzhou Bureau of Commerce has received and reviewed our monthly reports and DOC Jiangsu is aware of all historical and then existing incidents of non-compliance, and the above non-compliances will not be deemed by the Suzhou Bureau of Commerce and DOC Jiangsu to be material violations of the Pawning Measures and no penalties have been or will be imposed in relation to such non-compliances, our PRC Legal Adviser believes that such non-compliances were not material violations of the Pawning Measures;
- pursuant to applicable PRC laws and regulations, the non-compliant incidents stated above cannot be used as the basis for rejecting our application for the issuance of renewed licenses and will not affect the renewal of our licenses; and
- according to the PRC Contract Law, violations of administrative rules (including the Pawning Measures) will not render the contract invalid and the Pawning Measures do not require forfeiture of interest income derived from any non-compliant loan; consequently the income derive from such loans is legal income, and therefore the validity of the loan agreements is not affected by the above non-compliance and the revenue generated from such loans is legal income.

Our Directors confirm that we are able to meet the minimum profit requirement as set forth in Rule 8.05 of the Listing Rules by including only interest income from compliant loans based on chronological order, with adjustments to costs limited to business tax and surcharges and income tax expenses only. Our Directors further confirm that, except as disclosed above, we have complied with all applicable PRC rules and regulations in all material aspects, including the Pawning Measures, during the Track Record Period.