

OVERVIEW

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

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

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

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

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

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

OUR COMPETITIVE STRENGTHS

We have a well established position in the market

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

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

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

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

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

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

We adopt standardised and computerised operating and risk management systems

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

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

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

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

We have an experienced senior management team

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

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

OUR BUSINESS STRATEGIES

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

Expand our business operations by strengthening our mortgage loan business

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

We intend to use approximately 60% of the net proceeds obtained from the Share Offer to expand our mortgage loan portfolio and broadening our customer base by granting more mortgage loans to customers which are tailor-made to their different needs and repayment preferences. Such amount is expected to be utilised by the end of the financial year ending 28 February 2014 *(Note)*.

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

- (a) promote our mortgage loan services by increasing the frequency and the channels of our advertisements including online advertisements through various platforms
- (b) revamp our company website to include more information relating to our mortgage services and to enhance its functionality such as the provision of preliminary valuation services
- (c) cooperate with referral agents to increase our customer base
- (d) cooperate with realty agents for the promotion of our mortgage loan services
- (e) introduce referral reward program for our customers
- (f) recruit more personnel with experience in the mortgage loan business, in particular, those are experienced in handling mortgage loan transactions and marketing activities in the mortgage loan industry.

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Note: In the event that our Money Lenders Licence could not be renewed in May 2013, we intend to apply approximately HK\$56.8 million, representing approximately 88% of the net proceeds from the Share Offer, to expand our pawn loan portfolio and establishing a new Customer Service Centre.

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

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

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

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

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

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

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

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reward program or referral program, so as to attract return customers and will continue to promote our pawn loan services through other marketing activities such as placing advertisements in a wide range of media.

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

Increase and enhance our marketing activities

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

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

OUR PRINCIPAL BUSINESS ACTIVITIES

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

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

Pawn loan services

Pawn loans are loans provided whereby personal properties such as gold, jewellery and diamonds, watches and consumer electronic products are used as collaterals for the security of the loans. During the Track Record Period and as at the Latest Practicable Date, we had 12 Pawnshops located in various locations in Hong Kong providing pawn loan services. As at the Latest Practicable Date, we had in aggregate 40 staff working at our 12 Pawnshops.

We have both the Pawnbrokers Licences and the Money Lenders Licence. The Pawnbrokers Ordinance provides that the interest rate charged shall not exceed 3.5% per lunar month for an amount not exceeding HK\$100,000 and that upon the expiration of four lunar months from the date of advancing the pawn loan, the collaterals become the properties of the pawnbrokers if they were not redeemed or the loan was not renewed. As such, we generally provide a term of four lunar months at an interest rate of 3.5% per lunar month to our customers for pawn loans granted under our Pawnbrokers Licences.

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

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

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

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

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

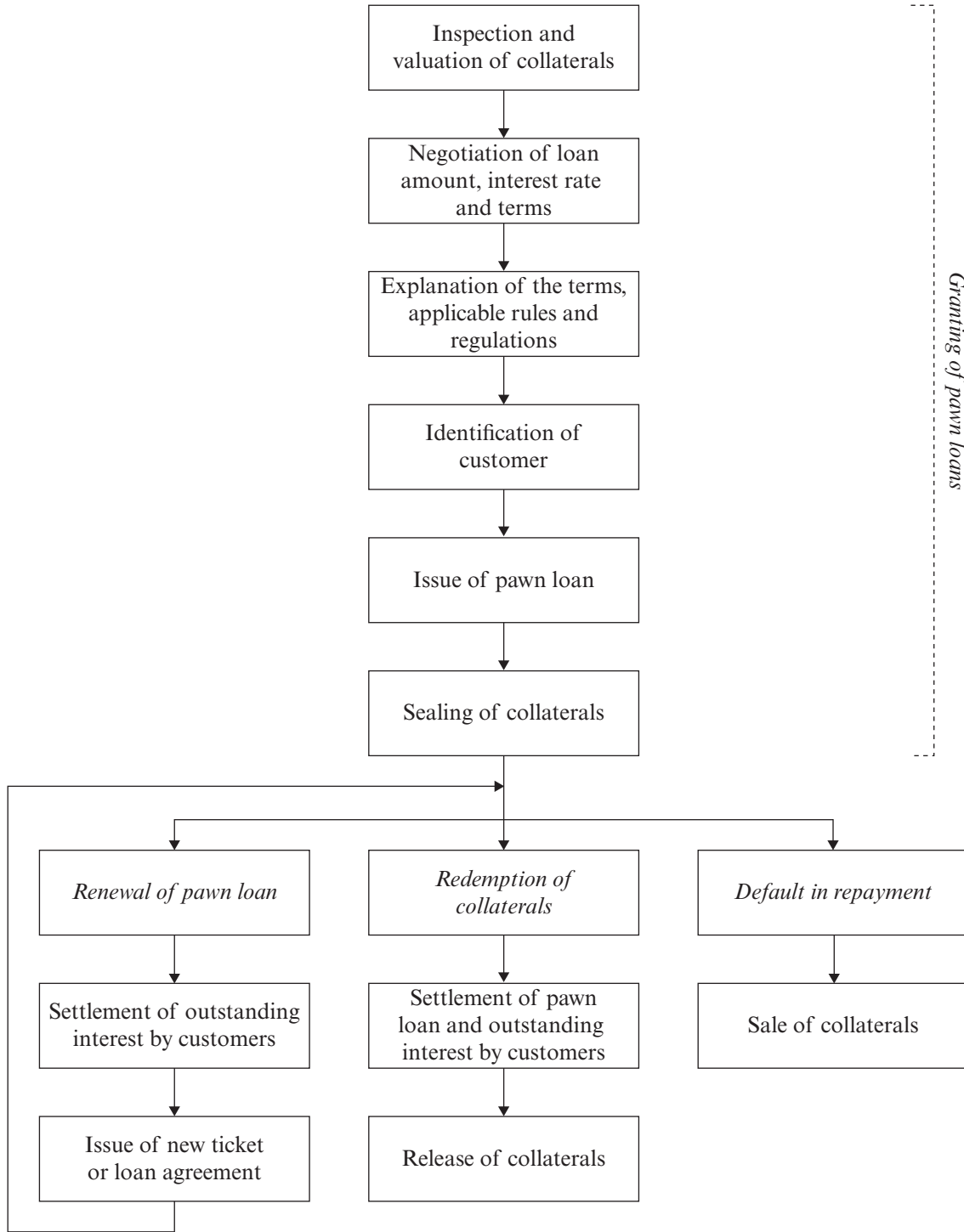
	Pawn loans granted under	
	Pawnbrokers Licences	Money Lenders Licence
Loan amount	Not exceeding HK\$100,000	No restriction
Interest rate	Not exceeding 3.5% per lunar month	Not exceeding 3.5% per lunar month
Term	Four lunar months	Mutually agreed term of one to four lunar months
Documentation	Tickets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

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

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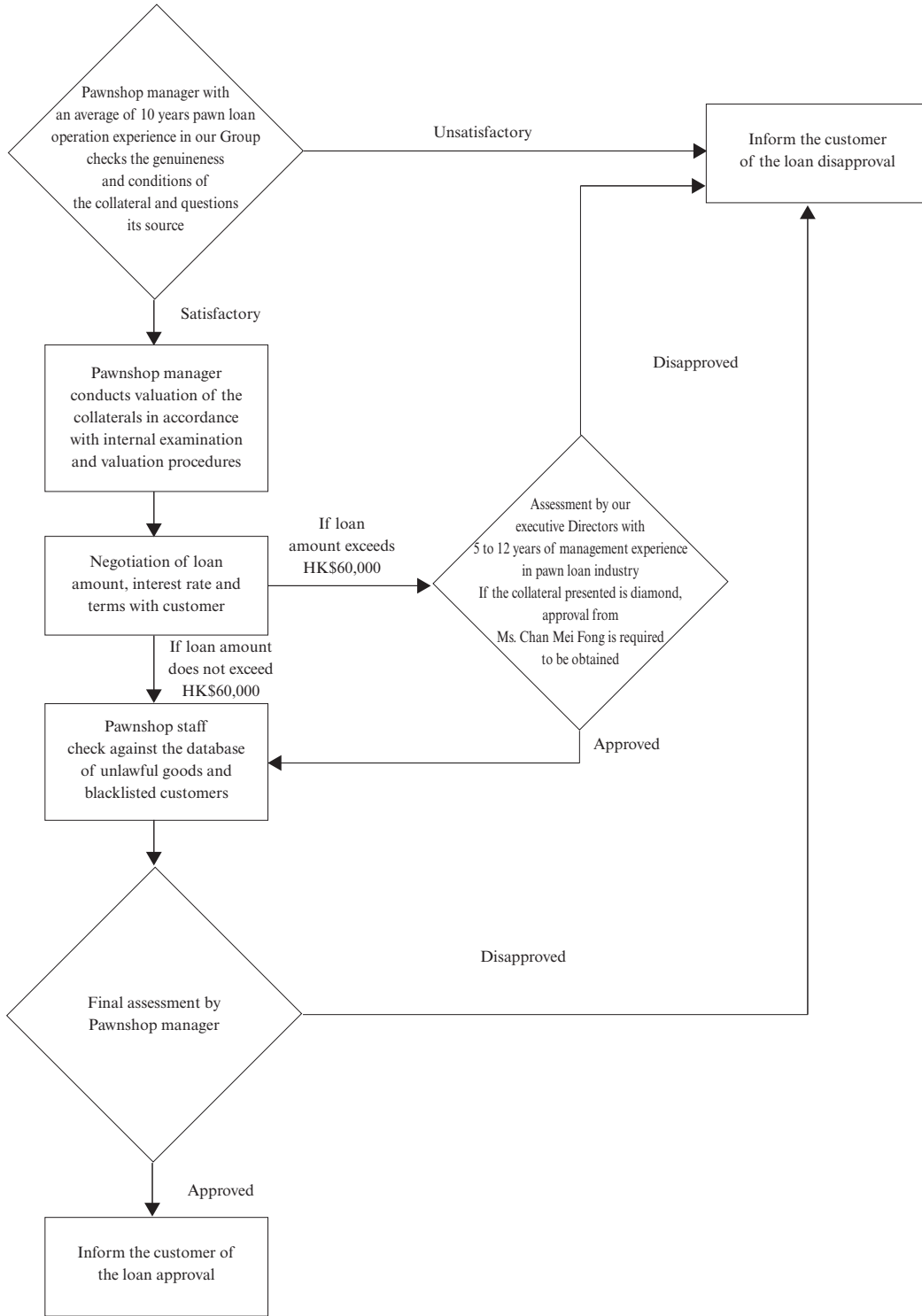
As at 30 November 2012, the outstanding pawn loan amount (including pawn loans granted under our Pawnbrokers Licences and our Money Lenders Licence) amounted to approximately HK\$123.1 million.

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



Granting of pawn loans

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



i. Inspection and valuation of collaterals

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

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

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

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

(a) Gold and jewellery

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

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

(b) Diamond

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

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

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

(c) Watch

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

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

(d) Consumer electronic product

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

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

ii. Negotiation of loan amount, interest rate and terms

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

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The approximate key operating data for our pawn loan services during the Track Record Period is as follows:

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

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Notes:

- (1) Given that the term for the pawn loans granted under our Money Lenders Licence can be agreed mutually between the customers and us, a significant number of pawn loans under HK\$100,000 were granted by us under our Money Lenders Licence to those customers who prefer pawn loans with more flexible terms during the Track Record Period.
- (2) Including pawn loans which have not fully complied with the Money Lenders Ordinance. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, there were 54, 104, 153 and 4 incidents, respectively, with an aggregate loan amount granted of approximately HK\$8.9 million, HK\$16.0 million, HK\$23.1 million and HK\$0.6 million, respectively, where we mistakenly issued tickets to customers for pawn loans exceeding HK\$100,000 granted pursuant to our Money Lenders Licence. Our Legal Counsel was of the opinion that the omission of the signature of the borrower on the relevant tickets constituted a breach of section 18 of the Money Lenders Ordinance. Please refer to the section headed “Business — Regulatory compliance” in this prospectus for further details.
- (3) According to the Pawnbrokers Ordinance, the interest rate of pawn loans is calculated with reference to “lunar month” and hence disclosed on the basis of each “lunar month”.
- (4) Average interest rate refers to the arithmetic average of interest rates of each of our pawn loans during the year/period. The average interest rate per annum is for illustrative purpose only and is calculated based on 12 lunar months per year.
- (5) Average loan repayment period refers to the average number of days that our customers repay the loan.
- (6) Loan renewal ratio is calculated by dividing the number of loans renewed by the total number of loan transactions during the year/period.
- (7) Loan impairment ratio is calculated by dividing the loan impairment allowance as at the relevant year/period end by the outstanding pawn loan receivables balance as at the end of the same year/period.
- (8) Loan default rate is calculated by the aggregated amount of defaulted loans divided by the aggregate amount of loans granted during the relevant year/period.
- (9) Upon default in repayment of our pawn loans, we will sell the repossessed assets. We recorded gain on disposal of repossessed assets during the Track Record Period that represented the gain arising from the difference between the disposal value of the relevant collaterals and the relevant loan amounts plus the relevant accrued interest.

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

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

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

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

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

iii. Explanation of the terms, applicable rules and regulations

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

iv. Identification of customer

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

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

v. Issue of pawn loan

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

vi. Sealing of collaterals

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

Renewal of pawn loans

Before the end of the term of the pawn loan, the customer may come to our Pawnshop to apply for a renewal of the pawn loan. Customers are required to present the ticket or loan agreement, and pay the outstanding interests calculated on a lunar monthly basis. A new ticket or loan agreement with a new expiry date and bearing same terms as the previous pawn loan will be issued to the customer. During the Track Record Period, the total number of renewed pawn loans granted by us amounted to approximately 60,000, 63,000, 64,000 and 47,000, respectively, with the aggregated loan amount of approximately HK\$154.5 million, HK\$170.1 million, HK\$225.1 million and HK\$186.1 million, respectively.

Redemption of collaterals

On or before the expiry date of the pawn loan, the customer may redeem its collateral from us by presenting the ticket or loan agreement and repaying the amount of the pawn loan together with the outstanding interests calculated on a lunar monthly basis. We will

then return the collateral to the customer. During the Track Record Period, average loan repayment period of our pawn loans were approximately 78 days, 85 days, 83 days and 83 days, respectively.

Default in repayment

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

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

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

The Controlling Shareholders have executed the Deed of Indemnity in favour of our Group whereby they will jointly and severally indemnify each of the members of our Group against, inter alia, all expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including, but not limited to, legal and other professional costs), charges, liabilities, fines, penalties and tax which any member of our Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any legal actions

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brought against us for keeping the gains on disposals of collaterals relating to our pawn loans granted pursuant to our Money Lenders Licence prior to the Listing. Please refer to the section headed “E. Other information — 1. Estate duty, tax and other indemnities” in Appendix IV to this prospectus for further details of the Deed of Indemnity.

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

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

Mortgage loan services

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

As at the Latest Practicable Date, we had five staff who have approximately three years of experience in the mortgage loan industry in average engaged in our mortgage business and we have granted 99 new cases of mortgage loans during the Track Record Period. For each of the two years ended 28 February 2011, the year ended 29 February 2012 and the nine months ended 30 November 2012, the turnover contributed by the interests income under our mortgage loan services amounted to approximately HK\$0.2 million, HK\$0.8 million, HK\$3.2 million and HK\$4.8 million, respectively, representing approximately 0.3%, 1.5%, 4.8% and 9.1% of our total turnover, respectively. Our Directors are of the view that the results of our mortgage loan services have been positive and we are devoted to expand our mortgage loan business.

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

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

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

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

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

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The key operating data for our mortgage loan services during the Track Record Period is as follows:

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

Notes:

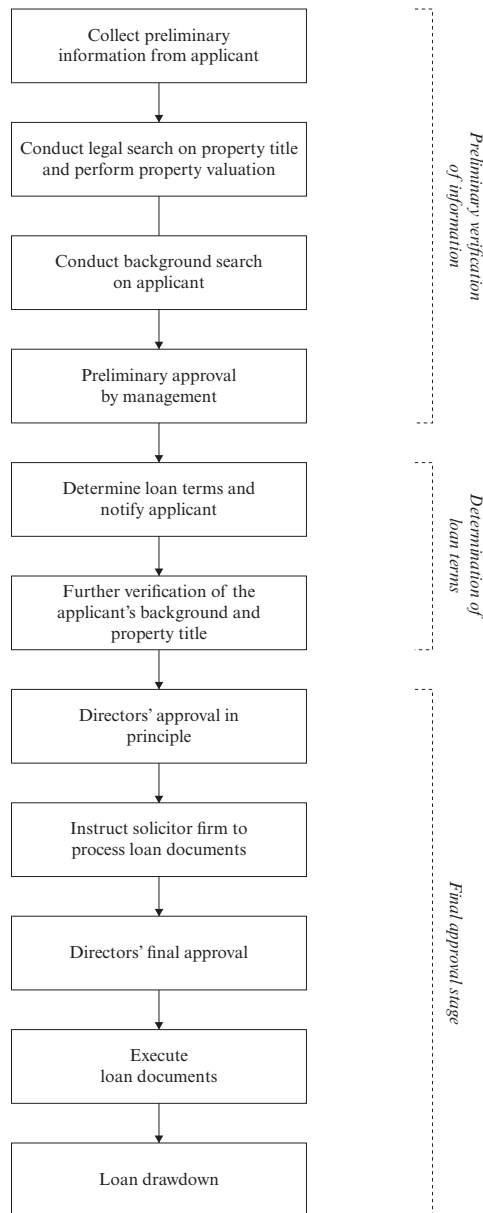
- (1) Refer to the new mortgage loan cases granted during the year/period.
- (2) All of our mortgage loans were granted under our Money Lenders Licence.

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

Granting of mortgage loans

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



i. Preliminary verification of information

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

ii. Determination of loan terms

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

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

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

iii. Final Approval Stage

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

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

Key features of our typical mortgage loan agreements

i. Repayment of loan

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

ii. Early repayment

We allow early repayment or partial repayment during the repayment period for our mortgage loans. However, we may charge the customers a handling fee ranging from 1% to 12% of the loan amount and we may require the customers to bear the legal and valuation costs. We will arrange for the redemption of titles of the underlying real estates when we confirm we have received the relevant fees and the total outstanding repayment amounts. During the Track Record Period, the aggregated handling fee charged by us and the legal and valuation costs borne by our customers amounted to approximately nil, nil, HK\$52,000 and HK\$208,000, respectively.

iii. Late payment

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

iv. Top-up mortgage

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

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v. *Administrative, legal and valuation fees*

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

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

vi. *Other principal terms*

We set forth below a summary of the other principal terms of our mortgage loan since we started this service in 2009 up to the end of the Track Record Period.

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

Loan collection process

We have not engaged any collection agents for the purpose of collecting overdue mortgage loans from customers in the past. In the event of default in repayment of mortgage loans, we will firstly provide verbal reminders by telephone to the relevant customer. If the overdue amount remains unsettled after verbal reminders, we will issue written reminders and notices to the relevant customer. Where the amount is overdue and we are unable to contact the relevant customer or the amount remains overdue after a lapse of 7 days after notification by us, we will consider taking legal action against the relevant customer for the overdue loan and enforcing and recovering possession of the mortgaged real estates by obtaining court orders. If judgment is granted in favour of our Group, in relation to any first mortgage loans, we shall be entitled to sell the mortgaged real estate by way of public auction or private contract; and in relation to any subordinated mortgage loans, we shall register the court order against the real estate and the owner shall be obliged

to repay the overdue loan from the proceeds in the future sale of the real estate. As and when necessary and on a case by case basis, we may consider engaging loan collection agents after seeking legal advice from our legal advisers in the future.

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

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

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

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

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

Furthermore, our Directors consider that although the recent quantitative easing measures launched by overseas governments will increase the liquidity in the global banking system and prolong the low interest rates environment in Hong Kong that may intensify our competition with banks in short-term secured financing services as they may offer lower interest rates to borrowers, our target customers are mainly those who could not meet the

relatively more stringent requirements imposed by banks. With our increased marketing campaigns, we aim to capture this group of customers for our mortgage loan services and at the same time promote our “Oi Wah” brand name.

INTERNAL CONTROL

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

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

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

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

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

Pawn loan services

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

Valuation

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

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

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

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Customers

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

Tickets and loan agreements

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

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

Cash

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

It is our policy to have two staff members at each of our Pawnshops to check the amount of pawn loan before handling the cash to the customers. Our staff at our Pawnshops will also compile a daily cash position report for each of our Pawnshop before the end of business each day indicating the use of cash and the remaining cash available for that particular day for that particular Pawnshop. The physical counting of the cash at each of our Pawnshops is conducted daily before business closes by one of our staff and counter-checked by the Pawnshop manager. Upon confirmation of the amount of physical cash against the records, the physical cash is kept in the safe of the Pawnshop. The daily cash position report of each of our Pawnshops is submitted to our head office on a daily basis for

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record. Our two staff responsible for internal control will visit our Pawnshops on a daily basis to check the figures submitted to the head office and the amount of cash kept in the relevant Pawnshop.

Our Directors confirm that we had not encountered any material loss of cash during the Track Record Period.

Collaterals

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

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

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

Our Directors confirm that we had not encountered any material loss of collaterals during the Track Record Period.

Unlawful goods

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

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

During the Track Record Period, we had encountered 80, 82, 75 and 82 incidents where collaterals pawned to us were seized by the police for investigations and the aggregated loan amounts involved were approximately HK\$0.3 million, HK\$0.3 million, HK\$1.7 million and HK\$0.3 million, respectively. For the same period, the amount of losses arising from the seizure of our pawned collaterals by the police net of insurance compensation amounted to approximately HK\$21,000, HK\$18,000, HK\$44,000 and HK\$50,000, respectively. As at the Latest Practicable Date, we still have pawned collaterals being seized by the police pending their investigation, involving 62 pawn loan transactions with an aggregated loan amount of approximately HK\$0.6 million.

Our Directors consider that incomplete or delayed Police Notice was the only reason leading to our wrongful receipt of unlawful goods during the Track Record Period as all the unlawful goods accepted were either not included in the then Police Notice or were included in a Police Notice delivered to us after the date of pawning of the relevant unlawful goods. Regardless whether the unlawful goods were included in the Police Notice, the police has the authority pursuant to the Pawnbrokers Ordinance to seize the goods from us if there are grounds to believe that the goods were pawned without the authority of their owners. Our Directors consider that the number of incidents that our collaterals were seized by the police for their investigation and the corresponding losses net of insurance compensation during the Track Record Period are immaterial given the number of pawn loans granted by us and

the total turnover recorded by us during the same period. Therefore, our Directors are of the view that the insurance coverage on loss arising from seizure of unlawful goods is adequate. Our Directors are not aware of any industry practice of such insurance coverage and believe that the insurance coverage for any pawnshops shall be determined by their operators or owners with reference to their own assessment on the risks exposure of the respective pawnshops.

Security

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

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

Staff

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

Server and computers

Each of our Pawnshops is equipped with at least two sets of computers set up with a tailor-made system for our pawn loan business. We have engaged an independent server provider for the provision and maintenance of our server. If the server or the computer breaks down, our staff will record the details of the customers and pawn loans manually until the server or the computer has been repaired. Our system performs full back-up on pawn loan data every night. During the Track Record Period, we did not encounter any disruption of business due to server system failure.

Mortgage loan services

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

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

In light of the aforesaid market practices, our Group has strengthened our aforesaid credit assessment procedure, in particular in processing subordinated mortgage loan application. Our Directors are of the view that the higher interest rates charged on our subordinated mortgage loans in comparison to those charged on our first mortgage loans has reflected the risks borne by our Group. During the Track Record Period, our Group has not written off any of our first and subordinated mortgage loans.

Adequacy and effectiveness of our internal control systems

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

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

To address the internal control improvement opportunities identified, we have implemented measures to improve the internal controls, and intend to continue to monitor, test and enhance our internal control systems. We also plan to continue to invest resources to improve the effectiveness of our internal controls and procedures going forward and to closely monitor areas where internal control improvement opportunities were identified. In particular, we will appoint compliance adviser to advise us on matters relating to the Listing Rules and will engage internal control adviser to review our internal

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control systems on a regular basis upon Listing. We will also set up an internal audit department by first quarter of 2013. Our Directors are of the view that our internal control systems have been properly implemented and the internal control measures taken or to be taken are adequate and effective. Based on its due diligence work performed, including the review of our internal control procedures and the result of the agreed-upon-procedures performed by the internal control adviser, the Sole Sponsor is of the view that, save for the issuing of tickets to customers for pawn loans exceeding HK\$100,000 granted pursuant to our Money Lenders Licence as further elaborated in the section headed “Business — Regulatory compliance” in this prospectus which our Group has already adopted measures to circumvent any possible non-compliance instances in the future, it is not aware of any material deficiencies in our internal control systems and concurs with the view of our Directors that our internal control measures taken or to be taken are adequate and effective.

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

RISK MANAGEMENT

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

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

Credit risk management

Our pawn loan and mortgage loan businesses are subject to credit risk, which is the risk of loss arising from the borrower who defaults in making repayment. To mitigate such credit risk, our pawn loans and mortgage loans granted to our customers are all secured by collaterals with valuation higher than the loans granted and we have developed and adopted a set of pawn loan and mortgage loan approval procedures, which are reviewed from time to time to ensure its effectiveness.

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

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

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

Operational risk management

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

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

Market risk management

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

Liquidity risk management

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

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

During the Track Record Period, there were incidents where we issued tickets to customers for pawn loans exceeding HK\$100,000 granted under our Money Lenders Licence whereby our tickets were not in full compliance with the requirements of the Money Lenders Ordinance. Upon observation of such non-compliance, we had implemented various measures to rectify the same and improved our internal procedures to ensure that we are in full compliance with the Money Lenders Ordinance. For details of these incidents, please refer to the section headed "Business — Regulatory compliance" in this prospectus.

Regulatory risks regarding anti-money laundering

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

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

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

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

Verification of identity

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

Record keeping

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

Staff training

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

Reporting of suspicious transactions

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

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

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

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

PRICING AND INTEREST CHARGES

Pawn loan services

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

Mortgage loan services

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

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

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

CUSTOMERS

Pawn loan services

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

Differ from customers of second-hand product dealers on the streets who sell their personal properties directly for a certain amount of money, our customers are individuals in need of short-term financing without the intention to sell their personal properties. During the Track Record Period, over 88% of our pawn loans granted had their collaterals redeemed by our customers within the term of the relevant pawn loans.

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

Mortgage loan services

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

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

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

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

Notes:

- All of our pawn loan customers are individuals.
- Others include non-Hong Kong identity card holders such as PRC citizens and foreigners.

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

None of our Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of our Company (immediately following completion of the Share Offer) had any interest in any of the five largest customers of our Group during the Track Record Period.

SOURCE OF FUNDS

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

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

MARKETING

During the Track Record Period, we advertise our "Oi Wah" brand and services through media such as newspapers, over the internet and on radio and television in Hong Kong and mailing of promotional leaflets.

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

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LICENCES

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

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

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

We will renew our licences before their respective expiry dates. Our Group had not experienced any refusal of renewal of the licences necessary for our operations during the Track Record Period.

INSURANCE

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

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

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

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

PROPERTY INTEREST

Our Pawnshops

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

No.	Trading Name	Address	Saleable Area (<i>sq.ft.</i>)	Continuing Connected Transactions	Rent (<i>HK\$</i>)	Term
1.	Wai Wah Pawnshop	Shop 6, Ground Floor, Wah May Building Block B, Nos. 207, 209 & 213 Portland Street Nos. 36C-36F Shantung Street, Kowloon	265	Yes	HK\$40,000 per month exclusive of government rent, rates and management fees.	From 8 June 2012 to 7 June 2014
2.	Hing Wah Pawnshop	Shop G-24A & Portion of G-25 on Ground Floor, Sun Hing Building, 603, 603A-B, 605, 605A, 607A-B, 609, 609A Nathan Road, 17A-B & 19 Soy Street, 174, 176 & 178 Portland Street, Mongkok, Kowloon	275	Yes	HK\$40,000 per month exclusive of government rent, rates and management fees.	From 8 June 2012 to 7 June 2014
3.	Ho Wah Pawnshop	Portion of Flat B, Ground Floor, Tak Yan House Stage 7, Nos. 337-339 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong	420	No	HK\$41,926.5 per month exclusive of government rates and management fees. HK\$53,000.00 per calendar month for the period between 1 April 2013 to 31 March 2014 and HK\$56,000.00 per calendar month for the period between 1 April 2014 to 31 March 2016 exclusive of government rates and management fees.	From 1 April 2011 to 31 March 2013 From 1 April 2013 to 31 March 2016

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

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

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No.	Trading Name	Address	Saleable Area (<i>sq.ft.</i>)	Continuing Connected Transactions	Rent (<i>HK\$</i>)	Term
9.	Heng Wah Pawnshop	Shop B, Ground Floor, (including Cockloft) Nos. 2-4 San Lok Street, Sheung Shui, New Territories, Hong Kong	Shop: 510 Cockloft: 340	No	HK\$52,500 per month for the 1st and 2nd years and HK\$59,000 per month for the 3rd and 4th years and HK\$67,800 per month for the 5th year exclusive of government rent, rates and management fee. Remark: portion of shop unit on Ground Floor and whole of the cockloft is licensed to an independent third party at a license fee of HK\$25,500 per month inclusive of government rates and management fee for a license term from 1 March 2012 to 28 February 2013.	From 1 February 2009 to 31 January 2014
10.	Cheung Wah Pawnshop	Shop 3B, Level 1, Shatin New Town, Nos. 1-15 Wang Pok Street, Shatin, New Territories, Hong Kong	390	No	HK\$53,235 per month for the period between 1 April 2010 and 31 March 2011 and HK\$59,623 per month for the period between 1 April 2011 and 31 March 2012 and HK\$60,800 per month for the period between 1 April 2012 and 31 March 2013 exclusive of government rent, rates and management fees. HK\$81,000.00 per month for the period between 1 April 2013 to 31 March 2014 and HK\$85,000.00 per month for the period between 1 April 2014 to 31 March 2015 and HK\$88,000.00 per month for the period between 1 April 2015 to 31 March 2016 exclusive of government rent, rates and management fees	From 1 April 2010 to 31 March 2013 From 1 April 2013 to 31 March 2016
11.	Kei Wah Pawnshop	Shop YIII, Ground Floor, Wing On House, No. 71 Des Voeux Road Central, Central, Hong Kong	160	No	HK\$58,000 per month inclusive of government rent, rates and management fees	From 1 January 2013 to 31 December 2015

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No.	Trading Name	Address	Saleable Area (<i>sq.ft.</i>)	Continuing Connected Transactions	Rent (<i>HK\$</i>)	Term
12.	Hung Wah Pawnshop	Shop 80, Ground Floor, Fortune Plaza, No. 4 On Chee Road, Tai Po, New Territories, Hong Kong	236	No	HK\$32,000 per month exclusive of management fee but inclusive of government rent and rates.	From 15 December 2011 to 14 December 2013

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

Additions/alterations in Wai Wah Pawnshop

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

Our Directors confirmed that the additions or alterations in Wai Wah Pawnshop were not built by the landlord or us. Such additions or alterations are within premises of Wai Wah Pawnshop and any removal of them by the landlord might have influence to the operation of Wai Wah Pawnshop. Our Directors estimated that the demolition of the additions or alterations might require our operation to suspend for approximately seven days and the potential loss due to such suspension would amount to approximately HK\$99,000.

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

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

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

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

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

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

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

Subletting of our Pawnshops

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

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

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

Our Head Office

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

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

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

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

INTELLECTUAL PROPERTY RIGHTS

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

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

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

COMPETITION

Pawn loan industry

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

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

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

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

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

Mortgage loan industry

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

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

LITIGATION

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

REGULATORY COMPLIANCE**Pawn loans granted under our Money Lenders Licence**

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

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

Non-Compliance incidents

During the Track Record Period and up to the Latest Practicable Date, we had mistakenly issued tickets to customers for pawn loans exceeding HK\$100,000 due to inadvertent administrative oversight, and where our computer system could generate tickets for pawn loans exceeding HK\$100,000 prior to our upgrading of such system.

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

Breach of section 18 of the Money Lenders Ordinance

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

Possible liabilities and consequences and time barred under the Magistrates Ordinance

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

As advised by our Legal Counsel, the non-compliance incidents were breaches of section 18 of the Money Lenders Ordinance but of minor nature as the breaches were trivial, the relevant lending transactions were genuine and there was no doubt that the borrowers

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were perfectly clear about the terms of the agreement notwithstanding that they did not sign anything. Our Legal Counsel is of the view that such non-compliances would be pardoned by the Court and in such cases, it is impossible for prosecution to be successfully brought as they were time barred under section 26 of the Magistrates Ordinance.

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

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

- (a) (i) the major terms of the loan (i.e. the loan amounts, the term and the interest rate), as in the case of all pawn loans, have been negotiated between our Group and the customer under the general operation procedures of our Group; (ii) the ticket has been prepared based on the terms agreed between our Group and the relevant customer; (iii) the terms of the loan have been further explained to the relevant customer by our staff pursuant to the internal control policies adopted by our Group prior to the granting of the loan; and (iv) after explanation of the terms of the loan, a copy of such ticket containing the major terms agreed with the relevant customer would be given to the relevant customer for his or her retention prior to the drawdown of the loan;
- (b) the obligations under the tickets have been duly performed by the respective parties by way of conduct (i.e. the repayment of the loan, the payment of the interest, and the redemption of the collaterals before the expiry of the term); and
- (c) our Directors confirmed that our Group did not receive any complaints from any customers that they had been misled. No legal dispute between the parties in relation to such tickets has been arisen;

As advised by our Legal Counsel, section 26 of the Magistrates Ordinance provides that for offences, other than an indictable offence, unless any other laws which provides otherwise, complaint to the relevant government authority in respect of any breach shall be made within 6 months from the time when the offence was committed. Our Legal Counsel is of the view that, an offence pursuant to section 18 of the Money Lenders Ordinance is not an indictable offence (being an offence which can commit the accused person to prison for trial before the court) but a summary offence, and the relevant time limit for our customer to lodge a formal report or complaint to the police in order for the police to institute any criminal prosecution for our breaches of section 18 of the Money Lenders Ordinance shall be 6 months from the date when the relevant transactions were occurred. The last incident where we issued ticket to customer for pawn loan exceeding HK\$100,000 granted pursuant to our Money Lenders Licence occurred in early June 2012. The 6-month limitation period for such pawn loan has lapsed as at the Latest Practicable Date. Accordingly, as advised by our Legal Counsel, on the basis that our letter to the police on 30 November 2012 was not a formal report or complaint with a view to bring prosecution and no formal report or

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

Enforceability of the relevant tickets

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

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

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

pawn loans granted by us pursuant to our Money Lenders Licence were legally binding and enforceable under applicable laws and regulations. In view of the above, no provisions have been made for these non-compliance instances.

Immediate rectification

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

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

Renewal of Pawnbrokers Licences and Money Lenders Licences

Save as disclosed above, our Legal Counsel has confirmed that as at the Latest Practicable Date, our Group had complied with all relevant laws and regulations in all material respects of our operations in Hong Kong, including obtaining all required permits and licences. As advised by Pang & Co., legal advisers to our Company as to Hong Kong law, in the absence of any non-compliance of the Pawnbrokers Ordinance, there should not

be any legal impediment for the renewal of the Pawnbrokers Licences by us. Furthermore, as mentioned above, our Legal Counsel is satisfied that there should not be any legal impediment for the renewal of our Money Lenders Licence in spite of the historical non-compliance instances, on the basis that i) the Company did not deliberately foul the requirement of the Money Lenders Ordinance and the breach was of minor nature; ii) no customer has filed any complaint with the police and iii) there were no other breaches of the Money Lenders Ordinance.

Indemnity from our Controlling Shareholders

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

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Findings and recommendation by our internal control adviser

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

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

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

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

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

Our Directors and the Sole Sponsor's views

Having considered that since the implementation of the above internal control measures and up to the Latest Practicable Date, (i) our Group has not issued any ticket for pawn loans exceeding HK\$100,000 granted pursuant to our Money Lenders Licence; and (ii) the adherence of our internal guidelines by our staff in relation to the issue of loan agreements for pawn loans granted by us under our Money Lenders Licence to ensure compliance with section 18 of the Money Lenders Ordinance, our Directors are of the view that the various internal control measures adopted by us are and should be adequate and effective under Rule 3A.15(5) of the Listing Rules. The Sole Sponsor, after considering the above and reviewing our internal control measures and the result of the agreed-upon-procedures in relation to our internal control performed by the internal control adviser engaged by us, concurs with the view of our Directors that the various internal control measures adopted by us are and should be adequate and effective under Rule 3A.15(5) of the Listing Rules.

Our Board considers that those non-compliance incidents above were inadvertent administrative oversight where we issued tickets to our pawn loan customers that do not require their signatures for pawn loans over HK\$100,000 granted by us pursuant to our Money Lenders Licence, and would not affect the suitability of our executive Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability of listing of the Company under Rule 8.04 of the Listing Rules. In particular, (i) the executive Directors had many years of experience in pawn loan and mortgage industries by devoting themselves in running our Group's business; (ii) our Legal Counsel is of the view that the non-compliance incidents, being a breach of section 18 of the Money Lenders Ordinance, was of minor nature; and given the minor nature of the breach, the renewal of our Money Lenders Licence should not be affected; (iii) the non-compliance incidents were unintentional, did not involve any fraudulent act by our executive Directors, and did not raise any question as to the integrity of our executive Directors; (iv) we have taken remedial actions including the implementation of internal control measures and upgrading of our computer system immediately upon discovery of the non-compliance; (v) to assist our assessment of the effectiveness and adequacy of the internal control systems, we have engaged an internal control adviser to perform agreed-upon-procedures in relation to our internal control systems; (vi) our Group has not issued any ticket for pawn loans exceeding HK\$100,000 granted pursuant to our Money Lenders Licence since the implementation of the above internal control measures and up to the Latest Practicable Date; (vii) we had adopted other internal control measures to ensure the strict compliance with applicable laws, rules and regulations by our Group and we intend to set up the internal audit department by first quarter of 2013; (viii) we had engaged a compliance adviser to advise us after Listing; and (ix) we shall engage an internal control adviser to review our internal control procedures on a regular basis after Listing. The Sole Sponsor, after considering the above, concurs with the view of our Board that our executive Directors have the standard of competence commensurate with the positions as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules and that those non-compliance incidents above would not affect the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability of listing of the Company under Rule 8.04 of the Listing Rules.