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## REGULATORY ENVIRONMENT

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### REGULATORY ENVIRONMENT AND LAWS AND REGULATIONS IN THE FINANCING GUARANTEE INDUSTRY

#### Regulatory authorities of the financing guarantee industry

The State Council approved the establishment of the Inter-ministries Joint Meeting of Financing Guarantee Business Supervision (the “Joint Meeting”) on April 22, 2009. Under the *Reply of the State Council Concerning the Approval of the Establishment of the Inter-Ministries Joint Meeting of Financing Guarantee Business Supervision* (國務院關於同意建立融資性擔保業務監管部際聯席會議制度的批覆) issued by the State Council on April 22, 2009 and *Notice of the General Office of the State Council on Further Specifying the Supervisory Functions for Financing Guarantee Business* (國務院辦公廳關於進一步明確融資性擔保業務監管職責的通知) issued by the General Office of the State Council on February 3, 2009, the Joint Meeting is responsible for:

- studying and formulating policy measures for promoting the development of the financing guarantee business;
- propositioning systems for the supervision and administration of the financing guarantee business;
- coordinating with the relevant ministries to jointly address the major problems in the supervision of the financing guarantee business;
- guiding the local people’s governments to conduct supervision and risk management for the financing guarantee business; and
- other matters as instructed by the State Council.

The Joint Meeting is led by the CBRC, and involves seven other ministries, namely, the NDRC, the Ministry of Industry and Information Technology, the Ministry of Finance, the PBOC, the SAIC, the Legislative Affairs Office of the State Council and the Ministry of Commerce. The office of the Joint Meeting is located in the CBRC, which is in charge of the daily work of the Joint Meeting.

The people’s governments of all provinces, autonomous regions, and municipalities directly under the central government of the PRC shall, according to their practical situations, be responsible for:

- formulating policy measures for promoting the healthy development of the local financing guarantee business and mitigating SMEs’ difficulties in obtaining loans and financing guarantees;
- formulating specific measures for risk prevention and disposition of local financing guarantee institutions;

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- coordinating risk disposition initiated by financing guarantee institutions;
- reforming and managing market withdrawal of financing guarantee institutions;
- urging regulatory authorities of the financing guarantee business to strictly fulfill their duties and strengthen supervision according to the law; and
- instructing financing guarantee institutions to explore ways to establish business models complying with national industrial policies and responding to market trend, and to improve operating mechanisms and risk control systems.

The people's governments of provinces, autonomous regions, and municipalities directly under the central government of the PRC shall comply with the rule which states that "whoever examines and approves the incorporation of financing guarantee institutions shall also be in charge of the supervision", and assign the corresponding departments to undertake the examination and approval of the incorporation, withdrawal and daily supervision of local financing guarantee institutions in accordance with relevant rules and policies of the state. Based on the principle of territorial jurisdiction, the local people's governments shall be responsible for supervision and risk management of trans-regional or large financing guarantee institutions.

### **Regulatory policies of the financing guarantee industry**

#### *Nationwide regulatory policies*

In 2010, *Interim Measures for the Administration of Financing Guarantee Companies* (融資性擔保公司管理暫行辦法) was jointly formulated and issued by CBRC, NDRC, Ministry of Industry and Information Technology, Ministry of Finance, Ministry of Commerce, PBOC, and SAIC. The main contents of the Interim Measures are as follows:

#### *Incorporation of financing guarantee companies:*

- the incorporation of financing guarantee companies and their branches shall be subject to examination and approval by the regulatory authorities;
- financing guarantee companies and their branches established upon approval shall obtain franchise licenses from the regulatory authorities before applying for registration with the industry and commerce authority; and
- registered capital of financing guarantee companies shall be paid-in capital of no less than RMB5 million and be contributed in cash.

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*Issues requiring examination and approval of the regulatory authorities are:*

- change of the company's name;
- change of the company's organizational form;
- change of the company's registered capital;
- change of the company's domicile;
- change of the company's scope of business;
- change of directors, supervisors and senior managers;
- change of shareholders holding over 5% equity;
- spin-off or merger;
- amendment to the articles of incorporation; and
- other changes regulated by the regulatory authorities.

*Business scope under the approval of the regulatory authorities:*

- loan guarantees;
- guarantees of acceptance of bills;
- trade financing guarantees;
- project financing guarantees;
- guarantees of letters of credit; and
- other financing guarantee business.

*Concurrent business scope under the approval of the regulatory authorities:*

- attachment bonds;
- bid bond, advance payment guarantee, project performance guarantee, guarantee of balance payment, and other guarantees of performance of agreements;
- financing consulting, financial consulting and other intermediary services related to the guarantee business;
- investment with financing guarantee companies' own capital; and
- other businesses regulated by the regulatory authorities.

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*Financing guarantee companies shall not engage in the following activities:*

- acceptance of deposits;
- extending of loans;
- granting trust loans;
- entrusted investment; and
- other activities prohibited by the regulatory authorities.

Moreover, the outstanding financing guarantee liability provided by a financing guarantee company:

- to an individual guaranteed customer shall not exceed 10% of the financing guarantee company's net assets;
- to an individual guaranteed customer and its affiliated parties shall not exceed 15% of the financing guarantee company's net assets; and
- to a bond issuance by an individual guaranteed customer shall not exceed 30% of the financing guarantee company's net assets.

The outstanding financing guarantees of a financing guarantee company may not exceed ten times its net assets. A financing guarantee company must set aside 50% of its guarantee income for each year as unearned premium reserves and not less than 1% of its outstanding guarantees at the end of the year as reserves for outstanding guarantees. If the accumulated guarantee reserves reach 10% of the outstanding guarantees, the difference shall be recognized as a provision. The measures for the difference recognition and the use of the guarantee compensation reserve shall be formulated by the respective local regulatory authorities.

Investment by a financing guarantee company of its own capital shall be limited to fixed-earning financial products with relatively high credit ratings, including treasury bonds, financial bonds and debt financing instruments of large enterprises and other investments not creating a conflict of interest, and the total amount of the investment shall be no more than 20% of its net assets. The regulatory authority may raise the requirements on the percentage of guarantee compensation reserve according to the actual risk circumstances of a specific company or pursuant to the prudent regulatory requirements generally. A financing guarantee company shall classify the risks involved in its guarantee business, and manage and measure such risks accordingly.

The *Interim Measures for the Post-holding Qualifications of Directors, Supervisors and Senior Managers of Financing Guarantee Companies* (融資性擔保公司董事、監事、高級管理人員任職資格整理暫行辦法) (the "Measures"), was issued by CBRC on September 27, 2010. The Measures provide that directors, supervisors and senior managers of financing guarantee companies shall meet certain requirements as provided in the Measures.

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On April 5, 2012, the Inter-ministerial Joint Meeting of Financing Guarantee Business Supervision promulgated *The Notice of Inter-ministries Joint Meeting of Financing Guarantee Business Supervision Concerning the Regulation of the Management of Customer Deposits by Financing Guarantee Institutions* (融資性擔保業務監管部隊聯席會議關於規範融資性擔保機構客戶擔保保證金管理之通知), which encourages financing guarantee companies discontinue the practice of taking customer pledged deposits from their guarantee customers. Key details of this notice are set out as below:

1. In order to reduce the financing cost of microenterprises, financing guarantee institutions are encouraged to discontinue the practice of taking customer pledged deposits from customers. These lenders should control the risks effectively through enhancing risk identification and management ability and the management of counter-guarantee collateral. The regulatory authorities of the financing guarantee institutions and the relevant departments will strengthen the coordination in the supervisory and policy-support areas. Those financing guarantee institutions that take customer pledged deposits from borrowers will be identified as targets of special scrutiny. The financing guarantee institutions which violate the management regulations of customer pledged deposits will not be entitled to the relevant policy support and funds.
2. For customers who have a low credit rating and insufficient collateral for which the financing guarantee institutions are required to take customer pledged deposits, the financing guarantee institutions will manage such customer pledged deposits in accordance with the following requirements strictly:
  - (1) The customer pledged deposits required by the financing guarantee institutions may only be enforced in accordance with the terms of the loan. The financing guarantee institutions may not use the collateral for entrusted loans, investment or to pay security deposits to the banking institutions. Upon the release of the guarantee obligations, the financing guarantee institutions must return the customer pledged deposits to the borrowers within the timeframe stipulated in the guarantee agreements. If a borrower fails to perform its obligations and the financing guarantee institutions need to foreclose on the collateral to remedy on behalf of the default customer, the financial guarantor must follow the conditions and procedures stipulated in the agreements and may not use collateral for its own purpose. Financing guarantee institutions may not apply collateral to management or consultation fees or take customer pledged deposits in a disguised form, such as conducting wealth management for the guaranteed customer and retaining the loan of the customer.
  - (2) Financing guarantee institutions must deposit the entire amount of customer pledged deposits into the “customer guarantee deposits” accounts opened in a bank. The account should be segregated from basic accounts and general accounts. Financing guarantee institutions could open one special customer pledged deposits account in a bank within a particular province or region. That account should be used only for taking, returning and repaying customer pledged deposits. Financing guarantee institutions should account for collateral as “customer deposits received.”

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- (3) Financing guarantee institutions should establish and safeguard the management system of customer pledged deposits by defining the standards, conditions and procedures regarding the taking, returning and repaying of and special account management of customer pledged deposits. Financial guarantors must also make any required filings with respect to collateral with the relevant regulatory authorities. Financial guarantors should register all customer pledged deposit, report the account balance and breakdown of those deposits to the regulatory authorities of the financing guarantee institutions on a monthly basis, and provide timely reports on the establishment, alteration and cancellation of special customer deposit accounts to the relevant regulatory authorities.
- (4) The regulatory authorities are required to perform their supervision duties diligently, including the formulating procedures, improving regulation of customer pledged deposits, investigating any irregularities of financing guarantee institutions (such as receiving an excessive volume of customer pledged deposits, customer pledged deposits in an inappropriate form, receiving misappropriated customer pledged deposits) through off-site regulation or on-site checks. For those provinces or regions which have greater risk of misappropriation or occupation of customer pledged deposits, the regulatory authorities are required to formulate and implement a system of third party custody or entrustment so as to enhance supervision of customer pledged deposits. In addition, the regulatory authorities are required to establish a customer whistle-blowing system, through which customers could report any irregularities with respect to financial guarantors of financing guarantee institutions to the regulatory authorities. The regulatory authorities are required to investigate in a timely manner and shall keep confidential any information provided by whistleblowers.

Taking deposits from the general public in the PRC refers to collecting money from the general public and guaranteeing return of principal and interests. Taking deposits from the general public is different from collecting deposits from guarantee customers in the credit guarantee business, which is considered a means of cash collateral for the specific purpose of satisfying a lending bank's security requirement. When a financing guarantee company returns the deposits to its customer after the release of a guarantee contract, such company typically returns only the principal amount, without any interest. A small loan company, in the form of a limited liability company or a company limited by shares which is established with investments from natural persons, legal entities or other social organizations, offers small loans without taking deposits from the general public.

### ***Local regulatory policies***

*Detailed Rules for Implementing the Administration of Financing Guarantee Companies of Chongqing (Provisional)* (重慶市融資性擔保公司管理實施細則(試行)), issued by General Office of the People's Government of Chongqing Municipality on December 13, 2010, stipulates that:

- The Chongqing Financial Affairs Office will be responsible for supervising financing guarantee institutions within Chongqing, examining and approving the

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incorporation, change, withdrawal, daily supervision and risk disposition of financing guarantee companies within Chongqing, and reporting the relevant developments to the Joint Meeting and Joint Meeting of Financing Guarantee Supervision of Chongqing.

- The financing guarantee companies registered in the nine districts of Chongqing's urban area and Chongqing New North Zone will have a registered capital of at least RMB50 million; the financing guarantee companies registered in districts/counties (autonomous counties) other than the nine districts in Chongqing's urban area will have a registered capital of at least RMB30 million; the branches of financing guarantee companies that are set up in other provinces, autonomous regions and municipalities will have a registered capital of at least RMB300 million; and the financing guarantee companies engaged in the re-guarantee business will have a registered capital of at least RMB500 million.

The *Interim Measures for the Administration of Financing Guarantee Companies of Sichuan* (四川省融資性擔保公司管理暫行辦法), issued by Sichuan Provincial People's Government on November 14, 2010, stipulate that:

- The Finance Office of the Sichuan Provincial People's Government is the regulatory authority of the financing guarantee business, responsible for examining and approving the incorporation, withdrawal, daily supervision and risk disposition of the financing guarantee companies within Sichuan province and shall report relevant developments to the Joint Meeting.
- The requirements of minimum registered capital for financing guarantee companies in Sichuan province are as follows:

<b>Type of financing guarantee company</b>	<b>Minimum registered capital  (RMB in millions)</b>
<ul style="list-style-type: none"> <li>• A company operating within a city (autonomous prefecture) in Sichuan province</li> <li>• A company operating within Sichuan province</li> <li>• A company operating across provinces</li> <li>• A company with mutually supportive membership</li> </ul>	10 30 100 5

- Financing guarantee companies must fund their registered capital from authentic and legal sources. In principle, the registered capital will be paid-in capital contributed in cash. Contribution in kind will be limited to operational assets of financing guarantee companies and will be not more than 10% of the total registered capital. The minimum amount invested by any single investor shall not be less than RMB1 million.



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The *Interim Measures for the Administration of Financing Guarantee Companies of Beijing* (北京市融資性擔保公司管理項性辦法) was approved by the People's Government of Beijing Municipality and issued by eight departments on December 31, 2010, namely, Beijing Municipal Bureau of Financial Work, China Banking Regulatory Commission Beijing Office, Beijing Municipal Commission of Development and Reform, Beijing Municipal Commission of Economy and Information Technology, Beijing Municipal Bureau of Public Finance, Beijing Municipal Commission of Commerce, Operation Office (Beijing) of the PBOC and Beijing Administration for Industry and Commerce, which provides that:

- the municipal regulatory authority is Beijing Municipal Bureau of Financial Work.
- the minimum registered capital of a financing guarantee company in Beijing must be RMB50 million, and that of a re-guarantee company must be RMB800 million. The registered capital must be paid-in capital. If a financing guarantee company registered in another province intends to set up a branch in Beijing, it will allocate at least RMB50 million as operating funds, and the branch to be set up must meet the relevant regulatory requirements of Beijing. The operating funds allocated to the branches outside Beijing by a financing guarantee company in Beijing cannot exceed 60% of the total capital of the company, and the remaining funds must meet the relevant requirements of Beijing.

The *Interim Measures for the Administration of Financing Guarantee Agencies of Liaoning* (遼寧省融資性擔保公司管理暫行辦法) was issued by the People's Government of Liaoning Province on April 16, 2010, which provides that:

- The Finance Affairs Office of the People's Government of Liaoning is the regulatory authority of financing guarantee companies in the province.
- The requirements of minimum registered capital of financing guarantee companies in Liaoning province are as follows:

<u>Type of financing guarantee company</u>	<b>Minimum registered capital  (RMB in millions)</b>
<ul style="list-style-type: none"> <li>• operating across provinces</li> <li>• operating guarantee business within Liaoning province</li> <li>• operating guarantee business within a city of Liaoning province</li> <li>• operating guarantee business within a county of Liaoning</li> </ul>	300 100 30 20

- Guarantee companies with registered capital of over RMB100 million can set up branches in Liaoning. A guarantee company should submit its application for approval of establishing a branch to the local financial office in the city in which



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such branch is registered, with the approval from the local financial office in which such guarantee company is located. Such application should be submitted to the provincial financial office for approval after it is reviewed and commented by the local financial office.

### REGULATORY ENVIRONMENT AND LAWS AND REGULATIONS IN THE SMALL LOAN INDUSTRY

#### Regulatory authorities of the small loan industry

##### *Nationwide regulatory authorities*

As of the date of this prospectus, there is no nationwide administrative regulatory authority for the small loan industry. According to the *Guiding Opinions on the Pilot Operation of Small Loan Companies* (關於小額貸款公司試點的指導意見), jointly issued by CBRC and PBOC on May 4, 2008, any provincial government that is able to assign a department, finance office or other similar agency to take charge of the supervision and administration of small loan companies and which is willing to assume the responsibility of risk management of small loan companies may commence incorporation of small loan companies on a county basis within the province, autonomous region or municipality directly under the central government of the PRC.

##### *Local regulatory authorities*

All provinces, autonomous regions, and municipalities directly under the central government of the PRC must appoint their own regulatory authority for the small loan industry. Currently, the small loan industry in the PRC is primarily regulated by the financial affairs offices of the people's governments of the relevant provinces, autonomous regions and municipalities directly under the central government of the PRC.

#### Regulatory policies of the small loan industry

##### *National guiding opinions*

The Guiding Opinions has provided guidance on pilot operation of small loan companies and has specified the incorporation, capital source, capital use and regulatory policies of small loan companies. Pursuant to the Guiding Opinions:

- to establish a small loan company, an applicant applies to the supervising authority of the provincial government, and, upon approval, must comply with registration formalities to obtain all necessary business licenses, approvals and certificates;
- if a small loan company is a limited liability company, its registered capital must be at least RMB5 million; and if it is a company limited by shares, its registered capital must be at least RMB10 million. No single natural person, legal entity, other social organization and their respective affiliated parties can hold in excess of 10% of the total registered capital of the company;

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- the funds of a small loan company mainly come from the capital contributed and funds donated by shareholders as well as funds raised from, at most, two banking financial institutions. A small loan company must accept public supervision and shall not engage in any form of illegal fund-raising;
- according to relevant laws and regulations, the funds obtained by a small loan company from banking financial institutions may not exceed 50% of its net capital;
- the balance of loans of a single borrower may not exceed 5% of the net capital of a small loan company;
- a small loan company must conduct its operations according to market-oriented principles and lift the ceiling on the loan interest rate, which may not exceed that set by judicial departments, and set the floor at 0.9 times the benchmark interest rate announced by the PBOC. The specific floating range must be determined by the small loan company based on market-oriented principles;
- no founder (being natural persons, legal entities and other social organizations) of the small loan companies and no natural person (who is nominated as a director, supervisor or senior management of small loan companies) shall have a criminal or bad credit record;
- the small loan company shall, according to relevant provisions, set up prudent and normative asset classification and provision systems, accurately classify the assets, make full provision for allowances for doubtful accounts, and guarantee that its adequacy ratio of provision for asset losses always remains above 100% in order to fully cover all risks;
- the PBOC will trace and monitor the interest rates and capital flows of small loan companies, and will include them in the credit system. The small loan company shall regularly provide the credit system with information about the borrower, loan amount, guarantee and repayment, and other business information; and
- the small loan company shall establish a sound corporate governance structure and credit management system, and strengthen internal control.

According to Article 71 of the *Legislation Law of the PRC* (中華人民共和國立法法), which provides that “*the ministries and commissions of the State Council, the People’s Bank of China, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate rules. Matters governed by the rules of departments shall be those for the enforcement of the laws or the administrative regulations, decisions and orders of the State Council*” and Article 76 of the same law, which provides that “*the rules of departments shall be promulgated by orders signed by the heads of the departments,*” our PRC legal advisors advised us that the Guiding Opinions are not an administrative regulation as defined in the Legislation Law of the PRC.

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According to Article 3 of the *Working Rules for Official Documents of Party and Governmental Institutions* (黨政機關公文處理工作條例) (the “Working Rules”), “official documents of Party and government institutions are documents with particular effect and of standard forms promulgated by Party and government institutions to exercise leadership, perform their functions and handle official affairs. They are important instruments whereby Party and government institutions publish and implement Party and state guidelines and policies, promulgate laws and regulations, supervise, coordinate and discuss their work, ask for instructions and give replies, and report and announce their work and communicate with each other” and Article 8 of the Working Rules, “the main types of official documents include:... (III) Order. Orders are applicable to promulgating administrative rules and regulations, announcing the implementation of material compulsory measures, approving the granting of and promotion in titles, and granting awards to relevant unities and individuals.... (VII) Opinion. Opinions are applicable to proposing opinions on important issues and suggesting handling methods,” our PRC legal advisors advised us that the Guiding Opinions is an official document providing opinions and solutions on important issues.

According to Article (IV) of the *Circular of the Supreme People’s Court on Printing and Issuing the Summary of the Symposium on Issues Concerning Applicable Legal Norms for the Trial of Administrative Cases* (最高人民法院關於印發《關於審理行政案件適用法律規範問題的座談會紀要》的通知) regarding selective application of rules in conflict, “in the event of any discrepancy between the provisions in ministerial regulations and those in local government regulations with respect to the same issue, such provisions may be applied by the People’s Court according to following situations: (1) Enforceable provisions made in ministerial regulations with the authorization of laws or administrative rules shall prevail; (2) Provisions made in ministerial regulations for matters subject to authorization by the decisions and orders of the State Council or to macro-control by the Central Government, for rules of market activities that need to be unified nationwide and for foreign trade and investment shall prevail if no laws or administrative rules have made any provisions for such issues; (3) Specific provisions made in local government regulations with the authorization of laws or administrative rules and according to the actual conditions of their local administrative regions shall prevail; (4) Regulations of specific administrative management issues within this administrative area pursuant to rules stipulated by local governments shall be given priority for application; (5) Directly applicable to other situations. Should any uncertainty regarding how the rules are applicable arise, the trial of administrative cases shall be suspended and reported to the Supreme People’s Court who shall refer the cases to the State Council for ruling. In case of any discrepancy in provisions on same issues among other normative documents formulated by departments in the State Council or people’s governments of provinces, municipalities and autonomous regions, refer to the above-listed procedures,” our PRC legal advisors advised us that the Guiding Opinions, as a normative document, does not fall into enforceable provisions made in ministerial regulations with the authorization of laws or administrative rules, nor is it regulating a matter subject to authorization by the decisions and orders of the State Council or to macro-control by the Central Government, for rules of market activities that need to be unified nationwide or for foreign trade and investment. Our PRC legal advisors further advised us that in relation to various local normative documents, based on this circular, the Guiding Opinions are not superior to other normative documents issued by provincial governments (including the provincial regulatory policies and measures applicable to micro and small loan companies) in terms of legal hierarchy.

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*Opinions of the State Council on Further Supporting the Sound Development of Small and Micro Enterprises* (國務院關於進一步支持小型微型企業健康發展的意見) was issued by the State Council on April 19, 2012. They provide that the restriction on the percentage of equity interest held by a single investor in a small loan company can be relaxed as appropriate.

### *Local regulatory policies and measures*

At present, pilot operations of small loan companies are supervised and managed by authorized authorities at provincial level. Provincial governments with a designated supervising authority for small loan companies have promulgated various administration measures to establish that the provincial government authorities (such as provincial-level finance bureaus) are responsible for the supervision and management of small loan companies. These provincial governments also issued various regulatory policies and measures for the purpose of supervising and managing small loan companies in their respective supervising regions.

#### *(1) Chongqing*

*Guiding Opinions on Chongqing's Promotion of Pilot Operation of Small Loan Companies* (重慶市推進小額貸款公司試點指導意見) was issued by the People's Government of Chongqing Municipality on August 1, 2008; *Interim Measures of Chongqing Municipality for the Administration of Pilot Operation of Small Loan Companies* (重慶市小額貸款公司試點管理暫行辦法) as approved by the People's Government of Chongqing Municipality was forwarded by the General Office of the People's Government of Chongqing Municipality on August 1, 2008; *Notice of Issues Concerning the Adjustment of Interim Measures of Chongqing Municipality for the Administration of Pilot Operation of Small Loan Companies* (關於調整重慶市小額貸款公司試點管理暫行辦法有關問題的通知) was issued by the General Office of the People's Government of Chongqing Municipality on April 27, 2009; *Notice on Further Promoting the Development of Small Loan Companies* (關於進一步推進小額貸款公司發展的意見) was issued by the General Office of the People's Government of Chongqing Municipality on April 12, 2011; *Opinions of the Chongqing Municipal People's Government on Enhancing the Support to the Private Sector* (重慶市人民政府關於大力發展民營經濟的意見) was promulgated by the People's Government of Chongqing Municipal on June 6, 2012. Key contents of the above regulatory policies are as follows:

- The People's Government of Chongqing Municipality authorizes the Financial Affairs Office of the People's Government of Chongqing Municipality (Chongqing Municipal Finance Office) to be responsible for the examination and approval of small loan companies in the administrative regions of Chongqing Municipality and for the supervision and administration of their business activities.
- Registered capital and equity structure:
  - If a small loan company is a limited liability company, the registered capital shall be not less than RMB20 million; and if it is a company limited by shares, the registered capital shall be not less than RMB30 million.

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- A small loan company (a limited liability company or a company limited by shares) shall have at least eight shareholders or promoters. According to *Notice of Issues Concerning the Adjustment of Interim Measures of Chongqing Municipality for the Administration of Pilot Operation of Small Loan companies*, the shareholding of the largest shareholder or the major promoter and any of their affiliates shall be not more than 30% of the total registered capital of the small loan company. According to Opinions of the Chongqing Municipal People's Government on Enhancing the Support to the Private Sector, the shareholding of the largest shareholder or the major promoter can be relaxed to 50% of the small loan company's registered capital; and the shareholding of other shareholders or promoters and any affiliates shall be not more than 10% but not less than 0.5% of the small loan company's registered capital.
- For small loan companies with sound corporate management and strong risk management ability, the balance of the capital borrowed from banking financial institutions can be 100% of its net capital, as opposed to 50% as provided in the *Guiding Opinions on the Pilot Operation of Small Loan Companies*.
- Upon approval by Chongqing Municipal Finance Office, small loan companies may operate the following businesses:
  - loan business;
  - discounted note business;
  - asset transfer.
- The balance of loans granted to a single borrower by a small loan company must not exceed 10% of the net capital of the company; and the balance of credit limit granted to a single client as a group enterprise must not exceed 15% of the net capital of the small loan company.
- A small loan company must set up a risk control and management system, and, according to relevant provisions on financial enterprises, establish a prudent and normative asset classification system and provision system, accurately divide the quality of assets, make full provision for doubtful accounts, and guarantee that its provision for asset losses adequacy ratio is not less than 100%.
- Any small loan company established in Chongqing and which conforms to the provisions of the policies on industries encouraged by the state in western development will have income tax levied at a preferential tax rate of 15%.

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### (2) Sichuan Province

The *Notice on Expanding the Pilot Operation of Small Loan Companies* (關於擴大小額貸款公司試點工作的通知) and the *Interim Measures of Sichuan Province for the Administration of Small Loan Companies* (四川省小額貸款公司管理暫行辦法) were issued by the General Office of Sichuan Provincial People's Government on November 28, 2008. Key contents of the above regulatory policies are as below:

- Sichuan Provincial People's Government authorizes the Finance Office of the Sichuan Provincial People's Government (Sichuan Provincial Finance Office) to be responsible for the examination and approval of small loan companies and industry regulation.
- Registered capital, equity structure and lock-up period:
  - The registered capital of a small loan company in a county (city, district) will typically be at least RMB100 million, except in certain areas where the minimum amount of registered capital shall be RMB50 million.
  - A single shareholder must contribute at least RMB0.5 million. In principle, the shares held by a single natural person, legal entity, other social organization and the respective affiliated parties thereof should not exceed 30% of the total registered capital of the company. Shareholders must subscribe for shares in their own names and may not aggregate funds from other natural persons to subscribe for shares.
  - A small loan company must entrust its capital to a bank. The small loan company, the entrusted bank and the municipal (state) government enter into a tripartite arrangement to specify that the entrusted bank will monitor the payment of the capital. False capital contribution and withdrawal of capital are forbidden.
  - The shares held by the major promoter of a small loan company may not be transferred within three years after the date of incorporation of the company, and those held by other shareholders may not be transferred within two years. Shareholders may not pledge shares in a small loan company for a mortgage or a guarantee. The directors and senior executives of a small loan company may not transfer their shares during their term of office. Any well-operating small loan company which meets standardized operation requirements and needs to supplement capital may increase its investment after one year.
- A small loan company may only engage in loan granting and related consulting activities. Operation beyond its authorized scope of operation is not allowed.



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- In principle, the funds of a small loan company must be used for granting a small loan with a balance of up to RMB0.2 million. For any loan with a balance of more than RMB0.2 million, the small loan company must file the transaction with the relevant municipal (state) supervising authorities.
- The supervising authorities designated by the municipal (state) government and the county (city, district) government must, according to the small loan company's asset quality, take the following supervision measures, as appropriate: instruct the company to change the directors or senior executives, as appropriate, if its non-performing assets account for over 20% of its capital; instruct the company to suspend operations if its non-performing assets account for over 50% of its capital; and dissolve or close the company if its non-performing assets account for over 80% of its capital.

### (3) Liaoning Province (including Shenyang)

The *Interim Measures of Liaoning Province for the Administration of Pilot Operation of Small Loan Companies* (遼寧省小額貸款公司試點暫行管理辦法) was issued by the General Office of People's Government of Liaoning Province on November 12, 2008; the *Guiding Opinions of the People's Government of Liaoning Province on the Pilot Operation of Small Loan Companies* (遼寧省人民政府關於開展小額貸款公司試點工作的指導意見) was issued by the People's Government of Liaoning Province on November 17, 2008; the *Opinions of the Shenyang Municipal People's Government on Implementing the Pilot Operation of Small Loan Companies* (瀋陽市人民政府關於開展小額貸款公司試點工作的實施意見) was issued by the Shenyang Municipal People's Government on February 16, 2009; and the *Interim Measures of Shenyang Municipality for the Supervision and Administration of Small Loan Companies* (瀋陽市小額貸款公司監督管理暫行辦法) was issued by the Shenyang Municipal People's Government on March 3, 2009. Key contents of the above regulatory policies are as follows:

- Regulatory authorities:
  - The provincial government appointed the Liaoning Provincial Leading Group Working on the Pilot Operation of Small Loan Companies ("Leading Group") as the entity responsible for promoting the pilot operation of small loan companies in Liaoning province. Under this Leading Group, there is a credentials committee, responsible for examining and verifying the pilot set-up schemes reported from cities and counties (cities and agricultural districts), examining the qualifications of small loan companies and issuing opinions. The finance office of the provincial government (the office of the Leading Group) shall be responsible for daily functions of the Leading Group.
  - The Finance Office of Shenyang Municipal People's Government is the city-level regulatory authority for small loan companies in Shenyang.



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- Registered capital, equity structure and lock-up period:
  - If a small loan company is a limited liability company, its registered capital must be at least RMB20 million. If it is a company limited by shares, its registered capital must be at least RMB30 million. Both are subject to a registered capital ceiling of RMB200 million.
  - Legal entities, natural persons, and other economic organizations may invest their own capital in small loan companies. The major promoter and its affiliated parties must hold shares amounting to no more than 20% of the total registered capital of the company; the other shareholders and their respective affiliated parties may make an investment in only one small loan company and hold shares amounting to no more than 10% and no less than 0.5% of the total registered capital of the company.
- Small loan companies without any substantial violation of law and that are in compliance with regulations for two consecutive years since inception can increase their capital.
- Shareholders may not transfer their shares in the small loan companies within two years after they obtain the shares; directors and senior executives may not transfer their shares during their term of office. In the event that shareholders transfer shares or outside investors purchase shares of a small loan company, they must report to the finance office of the provincial government for approval after the county (city and agricultural district) government examines and verifies and the municipal government agrees to such transfer or purchase of shares.
- The balance of loans granted to a single borrower by a small loan company may not exceed 5% of the net capital of the company, and the credit balance of a single client as a group enterprise may not exceed 20% of the net capital of the small loan company.
- The small loan company must establish a sound credit management system, loan process and work standards. A small loan company may not grant loans to shareholders or their respective affiliated parties and may not conduct business across regions.

(4) *Guangxi province (and Nanning city)*

*Implementation Opinions on Pilot Operation of Small Loan Companies* (關於開展小額貸款公司試點工作的實施意見) was issued by the General Office of the People's Government of Guangxi Zhuang Autonomous Region on December 19, 2008; *Measures of Guangxi Zhuang Autonomous Region for Administration of Small Loan Companies* (廣西壯族自治區小額貸款公司管理辦法) was issued by the People's Government of Guangxi Zhuang Autonomous Region on November 5, 2009; *Opinions on Advancing the Development of Small Loan Companies* (關於促進小額貸款公司發展的意見) was issued by the People's Government of Guangxi Zhuang Autonomous Region on August 6, 2012; *Guidelines on Establishing Small Loan Companies in the Guangxi Zhuang Autonomous Region* (廣西壯族自治區小額貸款公司組建工作指引) was issued by the Financial Affairs Office of Guangxi Zhuang Autonomous Region on October 25, 2012. Key contents are as follows:

- The Financial Affairs Office of Guangxi Zhuang Autonomous Region is the supervising authority of small loan companies in the whole region. The Financial Affairs Office of Guangxi Zhuang Autonomous Region will establish Joint Working Group on Examining and Approving Small Loan Companies in the Autonomous Region, the Administration for Industry and Commerce of Guangxi Zhuang Autonomous Region, Nanning Central Sub-branch of the PBOC, and the CBRC Guangxi Bureau shall participate in the group's activities. The Joint Working Group on Examining and Approving Small Loan Companies in the Autonomous Region shall take charge of examining, verifying and approving the establishment, change, termination and business scope of small loan companies.
- Legal entities, natural persons, and other organizations may legally establish a small loan company. However, the biggest shareholder of a small loan company must be a legal entity, which, together with its affiliated parties, owns less than 30% of the small loan company's registered capital; other individual shareholders and their affiliated parties may own up to 10% of the small loan company's registered capital.
- The funds of a small loan company mainly come from the capital contributed and funds donated by shareholders as well as the funds raised from up to two banking financial institutions. The funds obtained by a small loan company from banking financial institutions may not exceed 50% of its net capital.
- Any equity transfer among shareholders exceeding 5% of the total amount of capital must be reported to the Joint Working Group on Examining and Approving Small Loan Companies in the Autonomous Region for examination and approval after examination conducted by county (city) and district city supervising authorities.

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- A small loan company may apply for a capital increase six months after it commences business if it has an excellent record in regulatory compliance and outstanding risk control.
- If a small loan company increases its capital, depending on the percentage of the increase and the new shareholding structure (whether the new shares are offered to new investors other than the existing shareholders), the small loan company needs to obtain approvals from various supervising authorities at different levels.
- The following conditions shall be satisfied by the small loan companies to establish branches across counties and cities:
  - operating a small loan business for over one year;
  - having net capital of at least RMB100 million;
  - having no record of irregular and illegal operations in the preceding year;
  - maintaining its non-performing loan (“NPL”) ratio below 5%;
  - realizing profits for the preceding year; and
  - other conditions required by the Joint Working Group on Examining and Approving Small Loan Companies in the Autonomous Region.
- small loan companies must allocate at least RMB10 million as operating funds to each branch. The operating funds allocated to branches may not exceed 50% of the net capital of the company.
- The balance of loans of a single borrower may not exceed 5% of the net capital of a small loan company.
- The business scope of a small loan company is restricted to the following:
  - granting small loans;
  - consulting on the development, management and financial affairs of small enterprises; and
  - other businesses upon approval.

(5) *Tianjin*

The *Interim Measures of Tianjin Municipality for the Administration of Pilot Operation of Small Loan Companies* (天津市小額貸款公司試點暫行管理辦法) was jointly issued by the Financial Affairs Office of Tianjin Municipal People's Government, Tianjin Municipal Bureau of Finance, Tianjin Municipal Bureau of Industry and Commerce, the PBOC Tianjin Branch and CBRC Tianjin Office on September 1, 2008; the *Interim Measures of Tianjin Municipality for the Administration of Small Loan Companies* (天津市小額貸款公司管理暫行辦法) was issued by the General Office of Tianjin Municipal People's Government on June 23, 2011; the *Interim Rules for Examination, Approval and Supervision of Small Loan Companies of Tianjin* (天津市小額貸款公司審批監管暫行細則) was issued by the Financial Affairs Office of Tianjin Municipal People's Government on August 22, 2011. The key provisions of these regulations are set forth below:

- The Financial Affairs Office of Tianjin Municipal People's Government (Tianjin Municipal Finance Office) is the regulatory authority of small loan companies of Tianjin, and is mainly responsible for:
  - studying, formulating and executing an industrial development program and regulatory provisions of small loan companies in Tianjin;
  - examining and approving the access, withdrawal and changes of small loan companies in Tianjin;
  - organizing and carrying out relevant supervision on small loan companies, such as off-site regulation, on-site checks and annual comprehensive evaluation, so as to correct irregularities;
  - supervising financial supervisory authorities designated by the people's governments of districts/counties in daily supervision and risk prevention and disposal concerning small loan companies registered in Tianjin; and
  - providing guidance on the work of the Tianjin Association of Micro-credit.
- The financial supervisory authorities designated by the people's governments of districts/counties of Tianjin Municipality shall be responsible for daily supervision of small loan companies registered in Tianjin.
- Registered capital of small loan companies:
  - if it is a limited liability company, the registered capital must be at least RMB50 million and may not exceed RMB200 million; if it is a company limited by shares, the registered capital must be at least RMB100 million and may not exceed RMB300 million; and

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- contribution of substantial investors may not exceed 50% of the total registered capital of the company, and the contribution by a single natural person, legal entity, other economic organization or their respective affiliated parties may not exceed 20% of the total registered capital of the company and must be at least RMB5 million.
- The shares of a small loan company may be transferred. However, shares held by major promoter may not be transferred within three years after the date of incorporation of the company, and those held by other shareholders may not be transferred within two years. Shares held by directors, supervisors and senior executives of the company may not be transferred during their term of office.
- Upon approval, small loan companies may operate the following businesses:
  - small loan business;
  - bills discounting business;
  - loan transfer;
  - settlement under loans;
  - consulting services related to small loans; and
  - other approved businesses.
- Small loan companies may register the following changes only after obtaining approval from Tianjin Municipal Finance Office:
  - change of company name;
  - change of form of corporation;
  - change of registered capital;
  - change of domicile;
  - change of legal representative or general manager;
  - equity change;
  - amendment to the articles of association;
  - adjustment of business scope; and

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- other items that shall be subject to approval for change.
- A small loan company must use 70% of its capital to provide loans to single small borrowers whose loan balances are less than RMB0.5 million and shall use other working capital to provide loans to single borrowers whose loan balances do not exceed 5% of the company's net capital.
- A small loan company must have a stable place of business that has clear ownership and meets its business needs and security requirements. It must comply with the following laws and regulations:
  - abide by the national financial laws and regulations, and monetary and credit policies;
  - cooperate with regulators;
  - ensure authentic and legal sources of capital;
  - shareholders cannot provide guarantees for the liabilities of themselves or their affiliated parties with the equity they hold in the company;
  - the equity of the company may not be transferred within two years from the date of registration. The chairman of the board of directors or executive directors, as the case may be, the chief supervisor or executive supervisors, as the case may be, and the general manager may not transfer their equity during their term of office;
  - all of the company's businesses must relate to the management of its small loan businesses;
  - the company shall make authentic and accurate asset classifications and adequate provisions for depreciations and losses;
  - the working capital of a small loan company mainly comes from the capital contributed by the shareholders and donated funds it accepts, as well as the funds borrowed from no more than two banking financial institutions, which cannot exceed 50% of the net capital of the company;
  - the loan balance granted to a single borrower by a small loan company cannot exceed 10% of the net capital of the company, and the balance of the credit limit granted to a single client as a group enterprise cannot exceed 15% of the net capital of the small loan company;
  - a small loan company cannot charge interest in excess of four times, or lower than 0.9 times, the benchmark lending rate for the same-grade and same-term loan proclaimed by the PBOC; and

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- other provisions for prudent operations.
- A small loan company must keep a provision for asset losses adequacy ratio of above 100%.
- Any small loan company which meets the following conditions may, upon approval, set up branches within the jurisdiction of Tianjin:
  - registered capital of at least RMB200 million;
  - operational for at least one year having passed the annual inspection;
  - NPL ratio less than 2%; and
  - standardized operations and no record of major violation of laws and regulations.

(6) *Jilin Province (including Changchun City)*

*Interim Measures of Jilin Province for the Administration of Pilot Operation of Small Loan Companies* (吉林省小額貸款公司試點暫行管理辦法) and *Guidelines on Examination and Approval for the Establishment of Small Loan Companies in Jilin Province* (吉林省小額貸款公司組建審批工作指引) were issued by the Office of Financial Work Leading Group of Jilin Provincial General Office on September 16, 2008; the *Interim Measures of Jilin Province for the Supervision and Administration of Small Loan Companies* (吉林省小額貸款公司監督管理暫行辦法) were issued by the finance office of Jilin province, CBRC Jilin Bureau, Jilin Central Sub-branch of the PBOC, Financial Affairs Office of Jilin Province, Public Security Bureau of Jilin Province, Jilin Provincial Bureau of Industry and Commerce, Audit Office of Jilin Province, Jilin Provincial State Tax Bureau and Jilin Local Tax Bureau on September 16, 2013. Key contents are as follow:

- The office of financial work leading group of the Jilin Provincial Government will be responsible for organizing, coordinating and promoting the pilot operations of small loan companies across the province, and will be responsible for promulgating measures of supervision and administration for small loan companies with the eight relevant departments; examining and approving small loan companies and guiding local supervision and administration on risk prevention and disposal of small loan companies;
- The local supervising authorities will be responsible for examining and accepting applications for incorporation and operation, and then issuing examination opinions. The office of financial work leading group of the Jilin Provincial Government will be responsible for the examination and approval of small loan companies. The applicant must apply for approval to operate and obtain a business license;



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- The local government is responsible for the regulation, risk prevention and disposition of small loan companies; the local competent authority in charge of small loan companies is particularly responsible for daily supervision, risk prevention and disposition of small companies; the local relevant departments will cooperate with competent authority of local government within the scope of their duty;
- If the small loan company is a limited liability company, the registered capital must be at least RMB10 million; and if it is a company limited by shares, the registered capital must be at least RMB20 million. The shares held by major promoter may not exceed 20% of the total registered capital of the small loan company; and those held by a single natural person, legal entity, other social organization or their respective affiliated parties may not exceed 10% of the total registered capital of the small loan company;
- Shares may be transferred among shareholders in a small loan company and the company may increase its capital one year after its inception. Shares held by major promoter may not be transferred or pledged within three years after inception; those held by other shareholders may not be transferred or pledged within one year of inception; and those held by directors and the operational management may not be transferred or pledged during their term of office;
- According to relevant laws and regulations, the funds obtained by a small loan company from banking financial institutions may not exceed 50% of its net capital;
- The balance of loans of a single borrower shall not exceed 5% of the net capital of a small loan company. The company shall not grant loans to shareholders or conduct business across regions;
- The business scope of a small loan company is:
  - all small loan businesses;
  - consulting services on the development, management and financial affairs of small enterprises; and
  - other approved businesses;
- Small loan companies shall report the any of the following changes with Jilin Provincial Finance Office for examination and approval after receiving preliminary consent from competent authority of the local government:
  - change of name;
  - change of registered capital;

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- change of domicile;
- amendment to the articles of association; and
- change of directors and senior executives.

(7) *Shaanxi Province (including Xi'an)*

The General Office of the People's Government of Shaanxi Province promulgated the *Guiding Opinions of the General Office of the People's Government of Shaanxi Province On Expanding the Pilot Operation of Small-Sum Loan Companies* (陝西省人民政府辦公廳關於擴大我省小額貸款公司試點的指導意見) on September 26, 2008; the Financial Affairs Office of Shaanxi Province, Industry and Commerce Administration of Shaanxi Province, PBOC Shaanxi Branch, and CBRC Shaanxi jointly issued the *Interim Regulation on Small-loan Company Trial Operations in Shaanxi Province (Trial)* (陝西省小額貸款公司試點管理辦法 (試行)) on October 11, 2008; the Financial Affairs Office of Shaanxi Province, Industry and Commerce Administration of Shaanxi Province, PBOC Xi'an Branch, and CBRC Shaanxi jointly issued the *Interim Measures for the Regulation of Small Loan Companies in Shaanxi (Trial)* (陝西省小額貸款公司監督管理暫行辦法 (試行)) on September 30, 2009; the Shaanxi Financial Affairs Office promulgated the *Rules and Regulations on the Financial Management of Small-loan Companies in Shaanxi Province* (陝西省小額貸款公司財務制度 (試行)) on December 1, 2011; the Shaanxi Financial Affairs Office promulgated the *Trial Measures for Capital Increase of Small-loan Company in Shaanxi Province* (陝西省小額貸款公司增資擴股辦法 (試行)) on September 4, 2012. Key contents of these regulations are set forth as follows:

- The Shaanxi Financial Affairs Office ("Shaanxi Financial Affairs Office") is the competent authority for small loan companies in Shaanxi Province. The Shaanxi Financial Affairs Office, Industry and Commerce Administration of Shaanxi Province, PBOC Xi'an Branch, Shaanxi CBRC and other departments together form the office for pilot operation of small loan companies in Shaanxi Province, and are responsible for providing guidance on the pilot operation of small loan companies in Shaanxi Province. The people's government at each of the respective county, prefecture and administrative committee of the development zone (equal to county with extended power) is the entity responsible for conducting supervision and risk management for small loan companies.
- The source of registered capital of small loan companies must be genuine and lawful and fully paid-up in one lump sum. The registered capital of a limited liability company may not be less than RMB30 million while that for a company limited by shares may not be less than RMB60 million. The maximum registered capital for a small loan company may not exceed RMB300 million.
- Senior management personnel of a small loan company must have at least two years of banking experience, with no criminal or bad credit record. They must pass the appointment qualification examination for senior management held by the financial affairs office of the province.

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- The small loan company must identify a bank within Shaanxi Province as its cooperation partner by entering into a cooperation agreement, which it must file with the regulatory authority for small loan companies within the relevant county, prefecture and the administrative committee of the development zone. The cooperation bank of the small loan company is responsible for monitoring the capital flows of the small loan company as well as for providing relevant data and information for the respective regulatory authority of the people's government at the county and prefecture level and administrative committee of the development zone, as and when required.
- For a small loan company with a registered capital of RMB80 million or more which records a profit for two consecutive years and a return on assets of over 5%, it may open branches outside its registered place of business upon approval. A small loan company without prior approval shall not conduct small loan lending business outside its prescribed areas.
- The percentage of shareholding of the major capital contributor of a small loan company may not exceed 35% in principle, while each of the remaining single contributors may not contribute less than RMB2 million. Small loan companies are encouraged to maintain a diversified shareholding structure.
- The shares of a small loan company may be transferred according to law. However, shares held by the major capital contributor may not be transferred within three years after the company's inception, and those held by other shareholders may not be transferred within two years. Directors, supervisors and senior executives of the company may not transfer their shares during their term of office.
- The source of funds of small loan company must be paid-up capital from the shareholders, endowment and financing from not more than two banking financial institutions. A small loan company cannot raise funds internally or externally, and may not take public deposits, or take public deposits in a disguised form. The funds obtained by a small loan company from banking financial institutions may not exceed 50% of its net capital.
- A small loan company must ensure that its adequacy ratio of provisions for asset losses remains above 100%.
- The interest rate of a small loan company shall not exceed the rate set by the judiciary department and cannot be less than 0.9 times the benchmark interest rate announced by the PBOC. The specific floating range will be determined by the small loan company based on market-oriented principles.
- The balance of loans of a single borrower may not exceed 5% of the net capital of a small loan company. A single loan means: not more than RMB400,000 with a registered capital of less than RMB50 million; not more than RMB600,000 with a registered capital from RMB50 million to RMB100 million; not more than RMB1 million with a registered capital of at least RMB100 million.

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(8) *Yunnan Province (including Kunming)*

*Measures for the Administration of Small Loan Companies of Yunnan* (雲南省小額貸款公司管理辦法) was issued by the General Office of People's Government of Yunnan Province on June 21, 2011; *Notice of Financial Affairs Office of Yunnan Province on Further Accelerating and Regulating the Development of Small Loan Companies* (雲南省金融辦關於進一步加快和規範發展小額貸款公司的通知) was issued by the Financial Affairs Office of People's Government of Yunnan Province on June 27, 2013; *Opinions of People's Government of Yunnan on Supporting the Finance for Development of Private Business* (雲南省人民政府關於金融支持民營經濟發展的意見) was issued by the General Office of People's Government of Yunnan Province on May 17, 2012. Key contents of the above regulatory policies are as follows:

- The Financial Affairs Office of People's Government of Yunnan Province ("Yunnan Provincial Finance Office") is the competent administrative authority at provincial level in charge of small loan companies, responsible for the administration, organization, supervision and coordination of all small loan companies in Yunnan province.
- Registered capital, equity structure and lock-up period:
  - (a) Registered capital shall comply with regulations. If a company is a limited liability company, its registered capital shall be not less than RMB10 million. If the limited liability company is set up in the key county with national or provincial support to relieve its poverty and promote its economy, its registered capital shall be not less than RMB5 million. If it is a company limited by shares, its registered capital shall be not less than RMB20 million. If the company limited by shares is set up in the key county with national or provincial support to relieve its poverty and promote its economy, its registered capital shall be not less than RMB10 million. The above registered amounts of capital is all fully paid-up in one lump sum by the capital contributor and promoter into the cooperative bank and withdrawal of capital during the operation period is forbidden.
  - (b) The share held by promoters and any affiliates in aggregate shall not exceed 30% of the total registered capital, while the share held by single natural person, legal entity, other social organizations and their respective affiliated parties in aggregate shall not exceed 10% of the total registered capital. If share held by a single shareholder has to exceed the ceiling as necessary, the company shall report the case to Yunnan Provincial Finance Office for examination and decision.

A well-operating small loan company that complies with the law and tightly controls the risk since its inception can increase their capital and shares.

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- (c) The equity of the small loan company can be transferred, inherited and endowed in accordance with the law, while the equity held by promoter shall not be transferred within three years after the company's inception and shares by other shareholders may not be transferred within two years. Directors, supervisors and senior executives of the company may not transfer or pledge their equity during their term of office.
- Small loan companies shall not engage in other businesses other than those which have been approved.
  - The balance of funds raised by a small loan company from the banking financial institutions may not exceed 50% of its net capital. A small loan company cannot raise funds internally or externally, and may not take public deposits, or take public deposits in a disguised form.
  - The small loan company shall insist on the principle of serving “Three Rural Issues” to provide loans for supporting farmers, agriculture and economic development of rural areas as well as the development of local competitive and distinctive industries. The loans granted to “Three Rural Issues” shall not be less than 50% of the total loans.
  - The small loan companies shall stick to the “Small and Diverse” principle. The balance of loans of a single borrower may not exceed 5% of the net capital of a small loan company. Loans shall not be provided to its shareholders, directors, supervisors, senior managers and their perspective affiliates.
  - The small loan companies shall select one bank which has signed the cooperation contract with Yunnan Provincial Finance Office to open an account one week before its official operation and deposit their registered capital into the bank which is mainly used to grant small loans and shall not be used for other purpose. The account opening bank should closely cooperate with Yunnan Provincial Finance Office to enhance the supervision over fund transfers of the small loan company. If the account opening bank does not fulfill its responsibility, Yunnan Provincial Finance Office can deprive it of its qualification as a cooperative bank.
  - During its period of existence, if the small loan company has breached any regulations, Yunnan Provincial Finance Office or the authorized competent administration body of the province (municipal) will interview with the company and order it to make corrections within a specific time; if the cases are particularly significant, Yunnan Provincial Finance Office will report to the administrative department for industry and commerce and other relevant departments to take action against the company in accordance with the applicable law. Where a crime is committed, criminal liability will be investigated.

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## REGULATORY ENVIRONMENT

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### LAWS AND REGULATIONS IN RELATION TO FEES CHARGED BY FINANCING GUARANTEE COMPANIES AND SMALL LOAN COMPANIES

#### Laws and regulations in relation to fees charged by financing guarantee companies

Laws and Regulations	Brief Description
<b>(A) National</b>	
Interim Measures for the Administration of Financing Guarantee Companies (融資性擔保公司管理暫行辦法)	Depending on the degree of risk of a project, the guarantee fee charged by the financing guarantee companies can be determined through negotiation between the financing guarantee company and the guaranteed company of their own accord, which shall not violate relevant regulations of the state.
Tentative Measures of the Ministry of Finance of the People's Republic of China on the Risk Management for SME Financing Guarantee Institutions (中小企業融資擔保機構風險管理暫行辦法)	The guarantee institutions can implement floating premium according to the degree of risk of a project to be guaranteed, which is generally controlled within 50% of the bank lending rate in the same period to reduce the burden on SMEs. No related responsibilities for exceeding the upper limit of the guarantee rate are stipulated by the Measures.
Opinions on Strengthening the Construction of SME Credit Guarantee System (關於加強中小企業信用擔保體系建設意見)	To promote the sustainable development of guarantee institutions, the guarantee rate will be linked up with the operating risk costs for guarantee institutions mainly engaged in SME loan guarantee. The standard rate of guarantee can be implemented as 50% of the bank lending rate in the same period. A specific guarantee rate can float up or down the standard rate depending on the risk degree of a project, and can also be decided through consultation by the two parties involved. No related responsibilities for exceeding the upper limit of the guarantee rate are stipulated by the Opinions.

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### Laws and Regulations

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### Brief Description

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#### (B) Local

Tianjin –

Guiding Opinions of Tianjin Finance Bureau on the Establishment of SME Loan Guarantee System in Tianjin (天津市財政局關於建立我市中小企業貸款擔保體系的指導意見)

- Payment of guarantee fee. The guarantee institution must charge the guaranteed enterprise certain fees on a compensatory basis. The charging standards of SME loan guarantee institutions funded and established by the government are generally determined within 50% of the lending rate of the People's Bank of China in the same period; and the charging standards of commercial guarantee institutions on engaging in guarantee business float on this basis with approval of the municipal price department.
- The administrative and supervisory authorities for SME loan guarantee institutions will increase the supervision and inspection of the SME loan guarantee institutions, and the municipal finance department will reinforce the performance tracing and evaluation as well as supervision and verification of the usage of financial risk compensation funds of the government-funded SME loan guarantee institutions. The industry management department and financial regulation department of the SME loan guarantee institutions will inspect the normalization of guarantee businesses on a regular basis, handle problems in time, and promptly report to the municipal government in case of major problems.



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Laws and Regulations	Brief Description
<p>Chongqing –</p> <p>Supplementary Notification of Chongqing Municipal Committees and Chongqing Municipal Bureau of Finance on Financial Aid for Working Capital Loans of SMEs in Chongqing (重慶市經濟委員會、重慶市財政局關於對《重慶市中小企業流動資金貸擔財政支持政策方案》的補充通知)</p>	<p>The guarantee institutions may obtained financial aid if they meet the following conditions:</p> <ul style="list-style-type: none"> <li>the guarantee institutions cannot charge a guarantee rate exceeding 2.5% (inclusive) for enterprises.</li> <li>the guarantee institutions cannot charge annual security deposits that is more than 5% (inclusive) of the guarantee limit for such enterprises.</li> <li>the guarantee shall be for working capital for production and operation of SMEs and shall not be used in fixed assets investment or for other purposes.</li> </ul> <p>The financial aid will be at less than 1% of guarantee limit of the eligible loans granted by guarantee institutions in that year.</p>
<p>Sichuan –</p> <p>Notification of Sichuan SME Bureau on Guarantee Supporting Expanding Domestic Demands and Promoting Steady Development of Small and Medium-Sized Enterprises (四川省中小企業局關於擔保支持擴大內需促進中小企業穩步發展的通知)</p>	<p>Reduce guarantee rate and lower financing costs. After PBOC reduced the benchmark interest rate, the guarantee institutions cannot charge more than 50% of the benchmark interest rate of the state for SME loan guarantee. The guarantee institutions are encouraged, according to the actual conditions of the enterprise, to lower the guarantee rate on such basis for SMEs featuring strong growth, high credibility and great market prospects and in line with the national industrial policy to reduce the financing costs of the enterprise. No related responsibilities for exceeding the upper limit of the guarantee rate are stipulated by the Notification.</p>

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## REGULATORY ENVIRONMENT

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### Laws and Regulations

### Brief Description

Sichuan –

Interim Measures of Sichuan Province for the Administration of Financing Guarantee Companies (四川省融資性擔保公司管理暫行辦法)

- Depending on the degree of risk of a project, the guarantee fee charged by financing guarantee companies can be determined through negotiation between the financing guarantee company and the guaranteed company of their own accord, which would not violate the relevant state regulations.
- A financing guarantee company acting in violation of the law, regulations or this interim measures may be punished in accordance with the penalty provisions of relevant laws and regulations; if there are no such provisions prescribed by relevant laws and regulations, the company may be liable under the relevant provisions of the Interim Measures. If the case constitutes a criminal, the company will be investigated its violation according to law.

Beijing –

Interim Measures of Beijing Municipality for the Administration of Financing Guarantee Companies (北京市融資性擔保公司管理暫行辦法)

- Depending on the degree of risk of a project, the guarantee fee charged by the financing guarantee companies can be determined through negotiation between the financing guarantee company and the guaranteed company of their own accord, which would not violate relevant regulations of the state.
- A financing guarantee company acting in violation of the provisions as prescribed by laws, regulations or this interim measures may be liable in accordance with the relevant penalty provisions. If the case constitutes a criminal, the company will be investigated by juridical authority for criminal responsibility according to law.

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### Laws and Regulations

### Brief Description

Shenzhen –

Implementation Rules of Shenzhen Municipality for the Interim Measures for the Administration of Financing Guarantee Companies (深圳市<融資性擔保公司管理暫行辦法>實施細則)

- Depending on the degree of risk of a project, the guarantee fee charged by the financing guarantee companies can be determined through negotiation between the financing guarantee company and the guaranteed company of their own accord, which would not violate relevant regulations of the state.
- A financing guarantee company acting in violation of the law, regulations, the Interim Measures and this implementation rules may be punished in accordance with the penalty provisions of relevant laws and regulations; if there are no such provisions prescribed by relevant laws and regulations, the Science, Industry, Trade and Information Technology Commission of Shenzhen Municipality shall issue an order for remedial action in accordance with relevant provisions of the Interim Measures, such as giving a warning or imposing a fine; if the case constitutes a crime, the company will be investigated by a judiciary authority for criminal responsibility according to law.

Liaoning –

Interim Measures of Liaoning Province for the Administration of Financing Guarantee Companies (遼寧省融資性擔保機構管理暫行辦法)

- Depending on the degree of risk of a project, the guarantee fee charged by the guarantee companies can be determined through negotiation between the financing guarantee company and the guaranteed company of their own accord, which would not violate relevant regulations. If the guarantee rate is remarkably above or below the average level in the market, the guarantee institution will provide an explanation to the Financial Service Office of the Municipal Government.
- A financing guarantee the company acting in violation of the law, regulations and this interim measures may be punished in accordance with the penalty provisions of relevant laws and regulations; if there are no such provisions prescribed by relevant laws and regulations, the Financial Service Office of Liaoning Province will issue an order for remedial action and give a warning or impose a fine in accordance with relevant provisions; if the case constitutes a crime, the company will be investigated for criminal responsibility according to law.

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## REGULATORY ENVIRONMENT

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### Laws and regulations in relation to fees charged by small loan companies

Laws and Regulations	Brief Description
<b>(A) National</b>	
Certain Opinions on the Court's Trial for Lending Cases (關於人民法院審理借貸案件的若干意見)	<p>The lending interest rate of private lending may be greater than a bank's interest rate, but it cannot exceed four times the interest rate of a bank for a loan of a similar credit and tenor. If the rate exceeds this ceiling, the excess interest will not be protected by law. This proposal does not provide for the relevant legal liability for exceeding the upper limit of guaranteed rates.</p>
Guiding Opinions on Small-loan Company Trial Operations by CBRC and PBOC (中國銀行業監督管理委員會、中國人民銀行關於小額貸款公司試點的指導意見)	<ul style="list-style-type: none"><li>• Small loan companies operate on the basis of market-oriented principles. The loan interest rate is unspecified, but it cannot exceed the prescribed ceiling of the justice department. The lowest threshold is 0.9 times the benchmark lending rate proclaimed by the PBOC.</li></ul> <p>The specific floating rate should be determined independently in accordance with the market-oriented principles. Loan period, repayment terms and other provisions of the contract should be negotiated by both lender and borrower.</p> <ul style="list-style-type: none"><li>• Guiding Opinions on Small-loan Company Trial Operations do not provide for the related legal liability of small loan companies if their loans exceed the ceiling of the justice department.</li></ul>

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## REGULATORY ENVIRONMENT

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### Laws and Regulations

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### Brief Description

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#### (B) Local

Guangxi –

Administrative Measures for Small-loan Companies in Guangxi Zhuang Autonomous Region (廣西壯族自治區小額貸款公司管理辦法)

- The loan interest rate of a small loan company cannot exceed the prescribed limit of the justice department. The lowest limit is 0.9 times the benchmark lending rate of PBOC's similar loan interest rate during the same period.
- If any small loan company violates the regulations in the Administrative Measures for Small-loan Companies in Guangxi Zhuang Autonomous Region, the public security departments at different levels, the industrial and commercial administration departments, the People's Bank branches and banking supervision departments and other units should take the necessary measures and order it to make corrections within a certain time limit.

Jilin –

Interim Regulations on Small-loan Company Trial Operations in Jilin Province (吉林省小額貸款公司試點暫行管理辦法)

- Small loan companies operate on the basis of market-oriented principles. The loan interest rate is unspecified, but it cannot exceed the prescribed limit of the justice department. The lowest limit is 0.9 times the benchmark lending rate proclaimed by PBOC. The specific floating rate should be determined independently in accordance with the market-oriented principles. Loan period, repayment terms and other provisions of the contract should be negotiated by both lender and borrower.
- If any small loan company violates the regulations in Interim Regulations on Small-loan Company Trial Operations in Jilin Province, the local authorities should take measures such as issue a risk warning, arrange a meeting with senior management or initiate regulatory inquiries; if the violation is significant, the authorities should report it to the provincial financial office and procure a warrant to order the company to suspend its business, abrogate the vocational qualification of its senior management, and urge them to timely correct their wrongdoings and prevent asset risk.

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## REGULATORY ENVIRONMENT

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Laws and Regulations	Brief Description
<p>Liaoning –</p> <p>Interim Regulations on Small-loan Company Trial Operations in Liaoning Province (遼寧省小額貸款公司試點暫行管理辦法)</p>	<ul style="list-style-type: none"> <li>• The loan interest rate of a small loan company cannot exceed the prescribed ceiling of the justice department. The lowest rate is 0.9 times the benchmark lending rate proclaimed by PBOC.</li> <li>• For those small loan companies that violate the relevant provisions in Interim Regulations on Small-loan Company Trial Operations in Liaoning Province, the provincial finance office will consider specific circumstances in giving suggestions or warnings, or order them to suspend their business, abrogate the vocational qualifications of their senior management, and urge them to timely correct any wrongdoing; if the violation is significant, the provincial finance office may determine that the company is not qualified to carry on its business, and inform the administrative departments for industry and commerce that it should revoke the company's business license.</li> </ul>
<p>Sichuan –</p> <p>Interim Administrative Measures for Small Loan Companies in Sichuan Province (四川省小額貸款公司管理暫行辦法)</p>	<ul style="list-style-type: none"> <li>• Small loan companies operate on the basis of market-oriented principles. The loan interest rate cannot exceed the prescribed ceiling set by the justice department; and the minimum rate is 0.9 times the benchmark lending rate proclaimed by PBOC. Therefore, the specific floating rate within those parameters may be determined independently in accordance with the market-oriented principles. Usury is prohibited. Loan period, repayment terms and other provisions of the contract should be negotiated by both lender and borrower.</li> <li>• For those small loan companies that violate the relevant provisions in Interim Administrative Measures for Small-loan Companies in Sichuan Province, the competent authorities designated by the city (town) government and county (city, district) government have the authority to take measures such as issue a risk warning, arrange a meeting with their directors or senior management, initiate regulatory inquiries or order them to suspend their business and urge them to timely correct their wrongdoing, so as to prevent asset risk; if the violation is significant, the relevant government sector should revoke the company's business license according to the relevant law.</li> </ul>

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## REGULATORY ENVIRONMENT

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Laws and Regulations	Brief Description
Tianjin –  Interim Regulations on Small-loan Company Approval and Supervision Process in Tianjin (天津市小額貸款公司審批監管暫行細則)	<ul style="list-style-type: none"><li>• Its highest limit is four times that of the benchmark lending rate of PBOC's similar loan interest rate during the same period; and the lowest limit is 0.9 times the benchmark lending rate.</li><li>• If any small loan company violates the regulations, the city finance office has the authority to take measures such as issue a risk warning, arrange a meeting with its senior management, initiate regulatory inquiries and urge it to timely correct its wrongdoing, and, according to law and based on the specific situation, to make decisions such as invalidating its preferential policies, suspending certain parts of its business, temporarily restricting its shareholders to receiving dividends, reassigning the company's directors, supervisors and senior management, closing all business operations and abolishing its qualification for conducting a business. For illegal actions such as alleged illegal fund-raising, illegally taking or disguisedly taking public savings, if verified, the case will be transferred to relevant department for administrative sanction. Violations of the Interim Regulations on Small-loan Company Approval and Supervision Process include: (1) violations of the relevant regulations on origin of operational capital; (2) opening a bank account and conducting lending business outside the city's administrative area; and (3) violating interest rate regulations.</li></ul>



## REGULATORY ENVIRONMENT

Laws and Regulations	Brief Description
<p>Chongqing –</p> <p>Interim Regulations on Small-loan Company Trial Operations in Chongqing (重慶市小額貸款公司試點管理暫行辦法)</p>	<ul style="list-style-type: none"> <li>• Small loan companies operate on the basis of market-oriented principles. The loan interest rate is not specified, but the maximum is four times the benchmark lending rate published by PBOC, and the minimum is 0.9 times that. The specific floating rate is determined independently in accordance with the market-oriented principles.</li> <li>• During the operational process of a small loan company, under any of the following circumstances, the city finance office will order the company to make corrections; if the violation is significant, the city finance office will submit it to the industrial and commercial administration department and other relevant departments to impose fines on the company, order it to suspend business for rectification or revoke its business license according to law; if the violation is a crime, the company will be liable for criminal responsibilities: (1) for establishing a branch without the authority's approval; (2) for unauthorized alteration or termination of its operation; (3) for exceeding the approved business scope and engaging in unauthorized operating activities that need to be authorized by the relevant laws, administrative regulations or the State Council; or (4) for violating interest rate policy.</li> </ul>
<p>Chongqing –</p> <p>A Notice about Further Strengthening the Regulation on Small Loan Company's Loan Interest Rate by Chongqing Municipal Finance Office (重慶市金融工作辦公室關於進一步加強小額貸款公司貸款利率管理的通知)</p>	<p>Strictly comply with the regulations on interest rates. The company's lending rates of its proprietary and mandatory service should be strictly controlled within four times the benchmark lending rate published by PBOC in the same period. If a company charges its clients for the loans both the interest and expenses (referred to as interest fee below), the sum of interest and expenses shall not exceed four times the benchmark lending rate published by PBOC in the same period. However, the Regulation does not further provide specific legal liabilities if the loan interest rate of a small loan company exceeds four times that of the benchmark lending rate published by PBOC in the same period.</p>

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### ANTI-MONEY LAUNDERING LAWS IN CHINA

Financial institutions established within the territory of the PRC must comply with the requirements related to anti-money laundering stipulated in the *Anti-money Laundering Law of the People's Republic of China* (中華人民共和國反洗錢法) (the “AML Law”), the *Provisions on Anti-money Laundering of Financial Institutions* (金融機構反洗錢規定), which were promulgated by the PBOC and were effective from January 1, 2007, and the *Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions* (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法), which were jointly promulgated by the PBOC, the CBRC, the CSRC and the CIRC and were effective from August 1, 2007.

We are not subject to the anti-money laundering regime in the PRC, as confirmed by our PRC legal advisors, due to the following:

According to the AML Law, financial institutions established within the territory of the PRC and special non-financial institutions that are required by relevant regulations to perform obligations of anti-money laundering are under the anti-money laundering regime. Under the AML Law, financial institutions include policy banks, commercial banks, credit cooperatives, postal savings and remittance institutions, trust investment companies, securities companies, futures brokerage companies and insurance companies in China that are established according to PRC law to engage in financial-related business, as well as other institutions that are determined and made known as such by the administrative department in charge of anti-money laundering under the State Council to engage in financial business. Under the AML Law, the scope of special non-financial institutions that shall perform obligations of anti-money laundering, and the said obligation shall be defined, the specific measures for supervision over such institutions shall be formulated, by the administrative department in charge of anti-money laundering under the State Council in conjunction with other competent authorities under the State Council.

According to the *Detailed Rules for Anti-money Laundering Investigations (for Trial Implementation)* (中國人民銀行反洗錢調查實施細則 (試行)), *Notice of the People's Bank of China on Issuing the Off-site Anti-money Laundering Supervision Measures (for Trial Implementation)* (中國人民銀行關於印發《反洗錢非現場監管辦法 (試行)》的通知) and the *Notice of the People's Bank of China on Issuing the Administrative Measures for the On-site Inspections for Anti-money Laundering (for Trial Implementation)* (中國人民銀行關於印發《反洗錢現場檢查管理辦法 (試行)》的通知), when the PBOC formulated relevant specific supervision measures, we and other institutions engaged in the credit financing and micro and small loan businesses were not defined as financial institutions or special non-financial institutions that are required to comply with the anti-money laundering regulations.

The PBOC has not yet formulated, in conjunction with other competent authorities under the State Council, the scope of special non-financial institutions that are required to perform the obligations of anti-money laundering.

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## REGULATORY ENVIRONMENT

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### OTHER REGULATORY RULES RELEVANT TO OUR GROUP'S BUSINESS

In 2013, we commenced offering guarantees for capital preservation public funds. Below sets out certain regulatory environment of capital preservation public funds in the PRC.

Capital preservation public funds are typically managed by sizeable and/or well-known fund management firms. The issue of capital preservation public funds is highly regulated by the CSRC, and each issuance of public funds must be approved by and registered with the CSRC. As of November 2013, only 89 fund managing firms were approved by the CSRC, as published on the CSRC official website, which include certain qualified domestic institutional investors (or “QDII”) well-known both in China and in Hong Kong. We therefore consider the risks of guaranteeing capital preservation public funds issued by such fund management firms to be relatively low.

*Criteria for the capital preservation public funds manager:* in order to be eligible to issue capital preservation public funds, one has to meet the strict requirements stipulated in various regulatory rules.

- Pursuant to the *Guidance Opinions on Capital Preservation Funds* (關於保本基金的指導意見) issued by the CSRC on October 26, 2010, a fund management firm can apply for the issuance of capital preservation public funds if, among other things, the aggregate amount of capital preservation public funds (both managed and applied for by the fund management firm) guaranteed by guarantors and capital preservation obligors does not exceed 30 times the net assets of the fund managing firm as shown in its last audited annual financial report.
- Pursuant to the *Securities Investment Fund Law of the PRC* (中華人民共和國證券投資基金法) promulgated on December 28, 2012, and effective on June 1, 2013, fund managers of public funds should be fund management firms or other institutions approved by the CSRC. To establish a fund management firm for public funds, one is required to 1) meet certain requirements, including, among others, having a registered capital of at least RMB100 million, being fully paid up, and 2) obtain the CSRC's approval. Being approved as a fund manager for public funds is subject to stringent scrutiny by the CSRC. For example, the appointment or change of each of the legal representative, key senior management for the operation and the chief officer for the regulatory compliance of these fund managers must be approved by the CSRC.

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*Criteria for issuing capital preservation public funds:* the issue and management of any public fund in China are governed by a stringent legal and regulatory framework. For example, each issue of public funds must be approved by and registered with the CSRC. Moreover, each capital preservation guarantee fund must have a guarantor or a capital preservation obligor in place to share the joint and several liabilities with the issuer for the return of principal at maturity, or have such alternative capital preservation mechanism in place as is approved by the CSRC.

*Criteria for the capital preservation public funds guarantors/capital preservation obligors:* the *Guidance Opinions on Capital Preservation Funds* provide detailed and strict requirements on guarantors/capital preservation obligors, including, among other things, that non-financial institutions willing to be a guarantor or obligor must have a net asset of above RMB2,000 million as shown in their last audited annual financial report, and a registered capital of at least RMB1,000 million.