OVERVIEW

We are a leading, integrated, credit-based guarantee and SME financing solutions provider in China with an exclusive focus on SMEs and microenterprises across China. Leveraging our extensive business platform, strong brand recognition and sound credit ratings, we offer a variety of credit-based financial solutions to service the financing and business needs of SMEs and microenterprises. We principally operate in the following two business lines:

- *Credit Guarantee:* We guarantee SMEs' ability to repay financing or perform certain obligations through our credit guarantee network. We primarily offer the following products and services:

Financing Guarantee	Non-financing Guarantee
Bank financing guarantees	Contract bonds
Non-bank financing guarantees	Attachment bonds

- *SME Lending:* We principally offer unsecured loans to micro and small enterprises, individual entrepreneurs and individuals through our micro and small loan network. We also engage in entrusted loan arrangements in which we deposit funds with an intermediary bank which on-lends the money to borrowers we select.

As of May 31, 2013, we were the largest credit guarantee company in terms of the number of provinces covered by our credit guarantee network, and the second-largest lender of micro and small loans in China in terms of the number of provincial-level cities covered by our micro and small loan network; and we ranked fourth and third, respectively, in the industry by the respective paid-in capital of our credit guarantee business and micro and small loan business, according to Euromonitor.

Credit Guarantee

In our financing guarantee business, we make financing from banks and other financial institutions more accessible to SMEs we choose by providing a guarantee to the lenders that we will repay the debt if the borrowers we guarantee default. We also guarantee bond offerings and repurchase transactions to enhance their credit standing and make them more attractive to investors. To complement our financing guarantee business, we also provide consulting services to improve the financing planning and cash flow management of our customers.

In addition, we currently offer two types of non-financing guarantee. We provide contract bonds to guarantee that a general contractor will perform its obligations under a contract. We also issue attachment bonds in legal proceedings to guarantee a party's ability to indemnify the counterparty against damages caused by a wrongful or false attachment.

As of December 31, 2010, 2011 and 2012 and October 31, 2013, our outstanding financing guarantees totaled RMB6,873.8 million, RMB12,193.7 million, RMB13,399.1 million and RMB18,282.5 million, respectively, and our outstanding non-financing guarantees totaled RMB1,924.9 million, RMB2,018.8 million, RMB1,287.1 million and RMB1,127.9 million, respectively. In 2010, 2011 and 2012 and the ten months ended October 31, 2012 and 2013, segment revenue from our credit guarantee business amounted to RMB124.7 million, RMB467.2 million, RMB807.8 million, RMB636.3 million and RMB784.5 million, respectively.

SME Lending

As an integrated financial services provider for SMEs and microenterprises in China, we also provide easily-accessible micro and small loans in an expedient manner to ensure our customers' uninterrupted liquidity throughout their operating cycles. Our micro and small loan business addresses the needs of micro and small enterprises (as well as those of individual entrepreneurs) for quick access to funds. We focus on micro and small loans of between RMB50,000 and RMB3 million based on our risk assessment and return requirements.

We also provide entrusted loans to satisfy SMEs' needs for short-term financing and for loans of a relatively larger amount, principally between RMB0.5 million and RMB30 million.

As of December 31, 2010, 2011, 2012 and October 31, 2013, our total outstanding loans and advances to customers totaled RMB945.7 million, RMB1,665.3 million, RMB2,045.6 million and RMB3,888.7 million, respectively. In 2010, 2011 and 2012 and the ten months ended October 31, 2012 and 2013, segment revenue from our SME lending business amounted to RMB197.2 million, RMB403.1 million, RMB335.5 million, RMB289.5 million and RMB462.3 million, respectively.

As of October 31, 2013, 51.4% of our outstanding guarantees, 90.1% of our outstanding micro and small loans and 39.0% of our entrusted loans were not secured with collateral. As a majority of SMEs and microenterprises in China have significant financing needs that have been largely underserved by the banking industry, our ability to provide credit-based financing solutions differentiates us from many traditional commercial banks in China, which are typically geared towards asset-based lending.

Based on our extensive experience in serving the SME and microenterprise sector, we have developed a credit evaluation system, with a primary focus on comprehensive customer due diligence and segregation of credit approvals, instead of relying on collateral, to determine the credit limit of each individual customer. By doing so, we aim to maintain an optimized business portfolio that maximizes returns while minimizing risks.

OUR STRENGTHS

We pride ourselves on our ability and proven track record in facilitating and providing financial solutions to SMEs and microenterprises that we consider creditworthy but are otherwise unable to obtain financing from traditional commercial banks independently. We believe that the following competitive strengths have contributed to our success and distinguished us from our competitors:

A leading integrated financial services company in China with national presence

We are the only privately owned vice-chairman entity of the China National Credit Guarantee Association (中國擔保協會) and the China Microfinance Institution Association (中國小額信貸機構聯席會), the two most influential self-governing associations in our industry. We have also participated in various nationwide conferences to set national standards for the credit guarantee industry in China.

We have established one of the most extensive branch networks. According to Euromonitor, as of May 31, 2013, we were the largest credit guarantee company in China in terms of the number of provinces covered by our credit guarantee network; and the second largest micro and small loan company in China in terms of the number of provincial-level cities covered by our micro and small loan network.

Our national presence has given us the following key competitive advantages:

- **Extensive network coverage difficult for competitors to match:** As of the Latest Practicable Date, our credit guarantee network covered 19 provinces and our micro and small loan network covered eight provincial-level cities in China. Our success in expanding our branch network across major economic regions in China is premised upon our ability to quickly replicate our industry experience gained from established regions with locally adapted implementation, supported by centralized risk management and information systems, streamlined business processes and standardized local management structure. We believe that our integrated and extensive nationwide network is difficult for our competitors to match.

- **Close relationship with commercial banks in China:** Effective cooperation with commercial banks is key to our bank financing guarantee business. Our established track record, strong financial and operational strength and strong brand name have gained us confidence from various commercial banks in China and allowed us to develop close business relationships with them. As of October 31, 2013, we had entered into cooperation agreements with 65 commercial banks in China which had agreed to extend in aggregate over RMB38 billion of credit lines to borrowers we guarantee.

- **Great potential in expanding cooperation with non-bank financial institutions:** During the Track Record Period, we partnered with non-bank financial institutions, such as trust companies, financial leasing companies, the Chongqing Financial Assets Exchange and insurance companies, for providing non-bank financing guarantees. In addition, we received an "AA" long-term corporate rating with positive outlook from Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. in 2013 and an "AA" long-term corporate rating from Pengyuan Credit Rating Co., Ltd. in 2013, which enable us to guarantee corporate bond offerings in China, further enhancing our ability to cooperate with non-bank business partners. As of October 31, 2013, our outstanding non-bank financing guarantees increased to RMB3,533.8 million, compared to RMB1,478.9 million as of December 31, 2012.

- **A diverse customer base:** We believe that the strategic and extensive coverage of our branch network enables us to provide our geographically distributed and diverse groups of customers with customized, expedient and service-oriented services, which further enhance our brand recognition and customer loyalty. In the ten months ended October 31, 2013, we serviced approximately 3,400 guarantee customers and 10,400 micro and small loan customers.

Focusing exclusively on the financing needs of SMEs and microenterprises in China

We have focused exclusively on providing financing solutions to SMEs and microenterprises in China since 2004 and have established a strong market reputation. We have received various awards and honors in recognition of our successful business record, including, most recently:

- "Famous Trademark in China" by the SAIC in 2011, the first among all Chongqing-based financial services companies;

- "Top 50 Privately-owned Enterprises in Chongqing" by the Chongqing government in 2012; and

- "The Most Credible SME Credit Guarantee Company" in 2012 by Conference of National SME Credit Guarantee and Re-Guarantee Entities Association (全國中小企業信用擔保再擔保機構負責人聯席會議).

We believe that our exclusive focus on meeting the financing needs of SMEs and microenterprises has:

- given us specialized insight into the needs and behaviors of SMEs and microenterprises in China, the complexities of providing financing solutions to these customers and issues specific to the financial services industry for SMEs and microenterprises in general, thereby enabling us to better understand the financing needs of SMEs and microenterprises in China as well as the business and credit environment they face;

- enabled us to build a strong brand reputation as a preferred partner for (i) SMEs and microenterprises seeking financing solutions in China and (ii) commercial banks and other financial institutions which intend to increase their exposure to the SME and microenterprise industry in China;

- enabled us to utilize our industry knowledge and expertise to better meet the diverse financing needs of SMEs and microenterprises by developing and offering customized, credit-based financing solutions that are more flexible and efficient compared to those offered by traditional commercial banks; and

- allowed us to build long-term and enduring relationships with our SME and microenterprise customers.

Focusing on credit-based financing solutions with effective risk management system

Leveraging our over nine years of operating history in serving the financing needs of SMEs and microenterprises across China as well as our specialized insight into the business and credit environment they face, we have been able to provide various financing solutions based primarily on the creditworthiness of our customers, differentiating us from many traditional commercial banks in China. As of October 31, 2013, 51.4% of our outstanding financing guarantees, 90.1% of our outstanding micro and small loans and 39.0% of our entrusted loans were unsecured by collateral. As a majority of SMEs and microenterprises in China may lack acceptable collateral that traditional commercial banks often require but have significant financing needs that have been largely underserved by the banking industry in China, our credit-based financing solutions help bridge the “credit gap” between creditworthy SMEs/microenterprises and traditional commercial banks.

We pride ourselves on our credit evaluation and risk management system which was developed based on our extensive experience in serving the SME and microenterprise sector and allows us to effectively conduct our guarantee and SME lending business based primarily on credit, rather than collateral. We believe that we have sufficiently demonstrated the effectiveness of our credit evaluation and risk management system through our success in growing from a regional credit guarantee company serving the Chongqing region to a leading financial services company with national presence in China. In our over nine years of operating history, we have successfully navigated through various regulatory reforms in the SME financial services industry and withstood major economic cycles and unfavorable economic and political conditions, including the global financial crisis in 2008 and the most recent global economic downturn, the credit tightening and the slowdown in growth of bank loans in 2012 mainly caused by the increasing deposit reserve ratio imposed by the PBOC, and the resulting deterioration in borrowers’ financial condition and repayment ability in the Yangtze River Delta as well as the collapse of a number of credit guarantee companies in 2012.

Through our effective credit evaluation and risk management system, together with our ability to maintain a guarantee and loan portfolio with (i) a highly diverse customer base across China, (ii) manageable transaction sizes and (iii) a relatively short maturity period, we have been effective in minimizing our credit and concentration risks. The default rate was 0.4%, 0.4%, 1.2% and 1.4%, respectively, in our credit guarantee business and the impaired loan ratio was 4.9%, 4.2%, 3.1% and 2.4%, respectively, in our SME lending business, in 2010, 2011 and 2012 and the ten months ended October 31, 2013.

Experienced and motivated management team

Our success is attributable to our highly experienced and motivated management team, including our Directors and senior management.

- **Experience and expertise:** A majority of our senior management team has over 15 years of experience in the banking, securities, accounting or legal industries. Some of our senior management also possess extensive working experience in well-reputed national or multinational financial institutions, who bring in valuable industry awareness and risk management skills to enhance our management capability. In addition, a majority of our senior management team has served our Company for an average of seven years and gained extensive experience in servicing SMEs and microenterprises. Our management is committed to establishing a capable and motivated leadership team that cultivates a market-oriented corporate culture, encourages innovation and operating efficiency and focuses on staying sensitive to changing conditions in the SME and microenterprise sector and regulatory developments in the financial services industry.

- **Reputation:** Our senior management is highly regarded in the industry. In particular, our president, Mr. Zhang Guoxiang, was awarded "The Leader for the PRC SME Credit Guarantee Companies" in 2009 and "Person of the Year (2011) in the micro-credit industry" in 2012 and "Top ten economic figures in Chongqing" in 2011.

- **Professional workforce:** We have a highly-diligent and professional workforce. As of October 31, 2013, 79.5% of our employees had a bachelor's or higher degree in finance, accounting, law, management and other related studies. We have a relatively stable group of employees who have gained valuable insight in the SME and microenterprise sector and the credit environment in the different regions that they serve.

- **Aligned with shareholder interests:** Most members of our senior management team hold equity stakes in our Company, sharing the same interests as our shareholders. Our executive share incentive scheme further incentivizes our senior management to achieve better performance.

- **Performance-driven culture:** Our employees are properly trained on a regular basis. We have a performance-based and career-driven corporate culture, which provides greater personal autonomy to our employees and encourages sales and marketing staff to source and service their customers as if it were their own personal business. We believe our ability to retain professional and motivated employees has contributed to our success by maintaining and improving upon the strict standards of our risk management system, as well as by providing trustworthy and professional financing solutions to our customers.

Strong financial and operational strength

We believe that our strong financial and operational strength has provided, and will continue to provide us with a solid platform to fund and support our business expansion and product innovation.

Strong financial strength:

- **Substantial capital base:** We have one of the largest capital bases in the industry. As of May 31, 2013, we ranked fourth and third, respectively, in the industry by our paid-in capital for credit guarantee business and micro and small loan business in China, according to Euromonitor.

- **Strong financial performance:** We have a strong track record of revenue and profit growth, together with an attractive return on equity. Our net fee and interest income grew from RMB321.9 million in 2010 to RMB1,143.3 million in 2012 and our profit has grown from RMB90.0 million in 2010 to RMB517.8 million in 2012, representing a CAGR of 88.5% and 139.9%, respectively. Our return on average equity (equal profit divided by the average balance of total equity as of the beginning and end of a period) was 9.0%, 29.2% and 22.9% in 2010, 2011 and 2012, respectively. In the ten months ended October 31, 2013, our net fee and interest income increased by 34.7% to RMB1,246.8 million from RMB925.8 million in the same period in 2012, respectively.

Strong operational strength:

- **Efficiency ratio:** We believe we have established a lean and efficient operating platform, which allows us to enjoy high operating leverage and remain competitive on product pricing. Our cost/income ratio (equal administrative expenses divided by the net fee and interest income) was 38.5%, 28.7%, 31.2% and 45.1% in 2010, 2011 and 2012 and the ten months ended October 31, 2013, respectively. The significant increase in cost/income ratio in the ten months ended October 31, 2013 was primarily due to a non-cash share-based payment expense of RMB117.3 million as a result of our newly-implemented share incentive scheme in June 2013.

- **Solid ratings:** Based on our strong capital base, effective risk management measures and proven business growth, we received an "AA" long-term corporate rating with positive outlook from Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. in 2013 and an "AA" long-term corporate rating from Pengyuan Credit Rating Co., Ltd. in 2013. We also received an "AAA-" credit rating from China Lianhe Credit Rating Co., Ltd. in 2012.

OUR STRATEGIES

Our goal is to become a premier diversified and integrated financial services company in China, focusing on meeting the diverse financing and business needs of SMEs and microenterprises with a comprehensive offering of credit-based financial services.

We operate a credit-based business. As such, we believe that our success is founded not only on the creditworthiness of our customers, but also our own creditworthiness, which we consider to be the cornerstone for achieving our goal. As SMEs and microenterprises in China generally lack the ability to demonstrate their creditworthiness and obtain financing from traditional commercial banks independently, our long-term success in servicing the diverse financing and business needs of SMEs and microenterprises would ultimately rest upon our ability to bridge the "credit-gap" between creditworthy SMEs and microenterprises and financial institutions.

We focus our strategy on further improving our capability to bridge the "credit-gap" so as to better facilitate creditworthy SMEs and microenterprises to access a wider variety of financing solutions and improve their business efficiency. We also aim to further cultivate our brand name to become not only a national credit-based financial services company, but also a trustworthy and reliable credit partner for financial institutions and SMEs and microenterprises across China. We believe our ability to ultimately capitalize on this intrinsic credit value associated with our brand will further enhance our capability to innovate and offer a greater variety of credit-based financing solutions to satisfy the diverse financing and business needs of SMEs and microenterprises in China.

To achieve our strategic goal, we intend to further leverage our existing competitive strengths and pursue the following business strategies:

Strategic expansion of our branch network

We believe that an extensive branch network is critical to our continuous success. It helps us effectively mitigate concentration and local economic risks as we continue to grow our customer base, expand our business scale and strive for greater economies of scale. We also believe that continued network expansion will serve our strategic purpose of fostering our brand name and positioning as a reliable credit partner among financial institutions, SMEs and microenterprises across China.

We intend to actively and strategically expand our branch network. Our expansion strategy is to gradually cover all major provinces in China through a prudent and two-stage process. We generally approach a selected region through establishing a regional representative office in the major city to establish market presence, recruit local staff, become familiar with the local regulatory requirements and gradually adapt to the local business and credit environment before we further expand our business scope in each region. By doing so, we will be able to replicate our localized experience and know-how and gradually expand our reach to other neighboring cities. In general, we will prioritize the branch network expansion in regions where we are licensed to operate both the credit guarantee and micro and small loan businesses to create synergies between our two business lines.

Depending on market conditions and our ability to obtain regulatory approvals and to recruit qualified local staff, we plan to further expand our presence in the existing 19 provinces by gradually opening more subsidiaries or branch offices to cover a majority of provinces and provincial-level cities across China within the next three years. In particular:

- for our SME lending business, we intend to enter new regions in China, such as Beijing, Gansu, Guizhou, Hubei, Hunan, Shanxi and Shanghai; and

- for our credit guarantee business, we intend to enter new regions in China, such as Hunan and Shanxi.

Introducing and expanding capital efficient products and services to improve our return on equity

We believe that SMEs and microenterprises have been underserved not only in terms of the limited financing support from traditional financial institutions, but the availability of products and services that are tailored to their needs. This presents us with ample opportunities as China's financial market and regulatory environment continue to mature and open up. We also believe that as we continue to enhance our brand name from a nationwide credit-based financial services company to a trustworthy and reliable credit partner for financial institutions, SMEs and microenterprises across China, we will be able to capitalize better on the intrinsic credit value associated with our brand to further develop and offer a greater variety of credit-based financial solutions for SMEs and microenterprises. In order to reduce our reliance on capital base and improve our return on equity, we intend to offer and expand the following capital efficient products and services which typically require significantly less capital to operate compared to our other products and services:

- ***Non-bank financing guarantee:*** Historically, we have achieved market leadership in our bank financing guarantee and micro and small loan segments and expanded into the emerging non-bank financing guarantee products, such as bond insurance, repurchase transaction guarantees, guarantee insurance, trust loan guarantees and finance lease guarantees. We believe non-bank financial institutions will play an increasingly important role in China's financial market as it continues to mature and open up, offering a greater variety of financing alternatives to support the business growth of SMEs in China. We intend to strengthen our cooperation with corporate bond issuers and non-bank financial institutions, such as trust companies, financial leasing companies, factoring firms, securities firms and asset management firms to further expand our non-bank financing guarantee business.

- ***Commercial contract bonds:*** A well-recognized brand name that is associated with credit assurance and credit reliability is critical to the successful offering of capital efficient and non-financing guarantee products. As we continue to gain greater nationwide brand recognition as a reliable credit partner among financial institutions, SMEs and microenterprises, we intend to leverage our established experience in offering contract bonds to expand into the development and offering of commercial contract bonds to guarantee SMEs' and microenterprises' performance of their commercial obligations.

Our PRC legal advisors have advised that the current PRC legal regime does not prevent us from offering such capital efficient products and services as mentioned above in China.

The non-bank financing guarantees and commercial contract bonds that we intend to introduce or expand primarily involve credit risks of the SME segment which are part of our current risk profile. As such, we do not expect to see a substantial change in our risk profile by offering such credit efficient products. For our management of credit risks, see "Risk Management — Credit Risk Management." For additional risks related to introducing commercial contract bonds, see "Risk Factors — Risks Relating to Our Business and Industry — We may not be familiar with new regions or markets we enter and not be successful in expanding our branch network or offering new products and services."

In the future, if regulatory requirements were to ease, we may selectively expand into the direct offering of other capital-based financing solutions, such as factoring and financial leasing as and when we consider appropriate and further achieve our goal of becoming a premier diversified and integrated financial services company with a comprehensive product and service offering.

Continuing to strengthen our risk management systems, internal controls and information technology capabilities

An effective and robust risk management system and internal controls are essential to a long-term, sustainable development and growth of our business. We plan to further strengthen our risk management, internal controls and regulatory compliance by implementing the following strategies:

- developing customized and multi-phased risk management systems to capture a more comprehensive coverage over our business processes and accommodate a more specified business and product delineation;

- enhancing our risk management tools through the incorporation of additional quantifiable metrics, such as VaR, to perform risk analysis and determine the risk exposure in our asset portfolio; and

- developing a real-time risk monitoring and alert system.

We also recognize the importance of a well-integrated information technology system for providing a standardized, centralized and secure services platform to support our business expansion. We will continue to devote more resources to our new information technology system with the aim to further enhancing its functionalities and integrating it with a more extended scope of our business operations.

We believe that our new integrated information technology system will further enhance our ability to monitor our loan portfolio and credit exposure on a real-time and firm-wide basis, thereby improving our risk management capability, reducing our transaction costs and increasing our ability on credit evaluation through more expedient data collection and analysis.

Exploring new sales and marketing channels

An effective sales and marketing channel is critical for our ability to continue serving our existing customers and capture new customers. Leveraging our large-scale customer database and extensive experience in serving SMEs and microenterprises, we intend to develop and launch an Internet-based business platform to improve the service experience of our customers by providing more convenient access to our products and services as and when the regulatory and market conditions mature. This Internet-based business platform "tong.hanhua.com" will serve as an online customer services platform for our customers to send business requests for our approval and granting of financing, such as submitting online applications for loans, check transactional information, such as repayment schedules and input customers' information to facilitate business requests. We will then follow our standard business processes to handle customers' requests and information received online. As advised by our PRC legal advisors, our Internet platform has been duly registered and, under the current applicable PRC laws and regulations, we are not required to obtain any administrative approval or complete any registration process for providing the services on our Internet platform we anticipated. In addition, our PRC legal advisors advised us that the current PRC legal regime does not prevent us from offering our products and services as mentioned above to our customers through the Internet-based business platform. We expect to continue to enhance the services offering on our Internet-based business platform development in 2014. We believe that we are well positioned to achieve success in extending our reach on the provision of SME and microenterprise financing solutions through the use of an Internet-based platform. We consider the provision of financial services and products to SMEs and microenterprises not only requires specific knowledge and experience in credit risk evaluation and management, but also specialized insight into the complexities and dynamics of the financing needs of SMEs and microenterprises. Leveraging our extensive experience and demonstrated success in serving SMEs and microenterprises, we believe we are well prepared to utilize the Internet as an extended, efficient distribution channel to further our product and service reach.

Attracting, retaining, motivating and developing talented and experienced professionals

As a result of the rapid growth of the credit guarantee and micro and small loan industries in recent years, demand for talented and experienced professionals has remained high. In addition, due to the unique operating environment and financing needs of SMEs and microenterprises, industry professionals are required to have specialized knowledge and expertise in credit management as well as insights into the SME industry in order to design and develop products that are tailored to the needs of SMEs and microenterprises, while managing the risks associated with this industry.

We believe that a key to our continued success is our ability to recruit, retain, motivate and develop talented and experienced professionals. We intend to continue to:

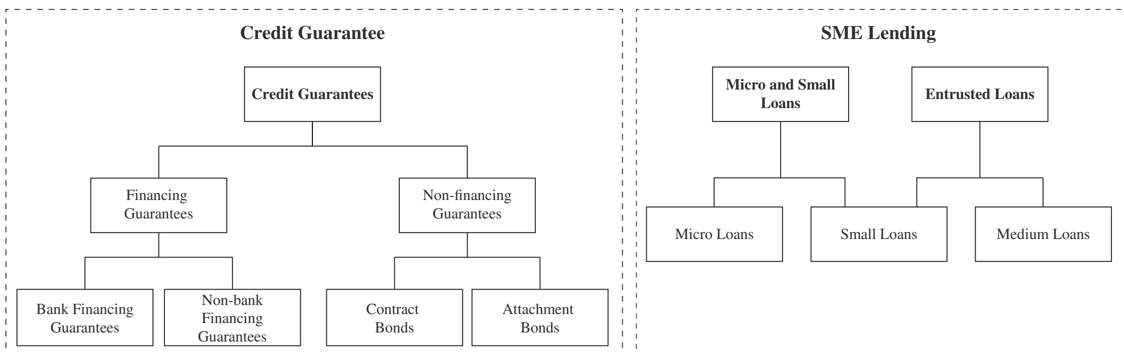
- enhance our human resources management to meet our growth plans and our business needs;

- focus on attracting and retaining qualified professionals by offering a performance-based and market-driven compensation structure that rewards performance and results, and implement an employee share incentive scheme to incentivize existing employees, subject to applicable regulations; and

- continue to focus on the cultivation of a high-quality and professional workforce, provide training and development programs for our employees to enhance their professional knowledge and capabilities, and create a culture that promotes our employees' personal and professional development by adopting a transparent appraisal system for all our employees seeking career advancement across different business departments.

PRODUCTS AND SERVICES

Through our two business lines, we principally offer three types of financial products and services to SMEs and microenterprises: (i) credit guarantees; (ii) micro and small loans; and (iii) entrusted loans. Our products and services are summarized in the following diagram:



The following table shows the segment revenue from each of our two business lines and their respective percentages of our net fee and interest income for the period indicated:

	Year ended December 31,						Ten months ended October 31,			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)									
Credit Guarantee										
Net guarantee and consulting fee income	123.2	38.3%	452.7	52.0%	784.5	68.6%	615.1	66.4%	740.7	59.4%
Net interest and handling fee income(1)	1.5	0.4	14.5	1.7	23.3	2.1	21.2	2.3	43.8	3.5
	124.7	38.7	467.2	53.7	807.8	70.7	636.3	68.7	784.5	62.9
SME Lending										
Net interest and handling fee income	197.2	61.3	403.1	46.3	335.5	29.3	289.5	31.3	462.3	37.1
Total	**321.9**	**100.0%**	**870.3**	**100.0%**	**1,143.3**	**100.0%**	**925.8**	**100.0%**	**1,246.8**	**100.0%**

(1) Net interest and handling fee income in our credit guarantee business consists of our interest income from restricted bank deposits and cash at banks in our credit guarantee business.

Credit Guarantee

In our credit guarantee business, we primarily earn guarantee and consulting fee income in return for our provision of the following products and services:

- *Financing guarantees:* bank financing guarantees and non-bank financing guarantees; and

- *Non-financing guarantees:* contract bonds and attachment bonds.

Segment revenue from our credit guarantee business totaled RMB124.7 million, RMB467.2 million, RMB807.8 million, RMB636.3 million and RMB784.5 million in 2010, 2011 and 2012 and the ten months ended October 31, 2012 and 2013, respectively, representing 38.7%, 53.7%, 70.7%, 68.7% and 62.9% of our net fee and interest income, respectively.

Financing Guarantee

To make various forms of financing more accessible to SMEs and generate guarantee and consulting fee income, we guarantee the lenders that we will repay the debt in the event of the borrowers we guarantee default. We select SME customers through our credit evaluation system whom we determine to be creditworthy but lack the necessary credit histories or collateral to obtain financing independently.

We primarily offer two types of financing guarantees:

- *Bank financing guarantees*: we guarantee bank financing, principally bank loans; and

- *Non-bank financing guarantees*: we guarantee: (i) bond offerings and repurchase transactions; (ii) micro and small loans; (iii) third-party guarantors, primarily insurance companies; (iv) financing from non-bank financial institutions, such as trust loans or finance leases; and (v) capital preservation public funds.

As we increased the capital base in our credit guarantee business during the Track Record Period, our financing guarantee business also achieved a steady growth. The following table presents the growth of the net assets of our credit guarantee business and the resulting increase in our outstanding financing guarantees as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
Net assets of credit guarantee business (RMB in millions)	1,328.1	2,514.7	2,849.8	3,465.4
Balance of outstanding financing guarantees (RMB in millions)	6,873.8	12,193.7	13,399.1	18,282.5
Leverage ratio[1]	5.2	4.8	4.7	5.3

(1) The balance of outstanding financing guarantees divided by net assets of our credit guarantee business.

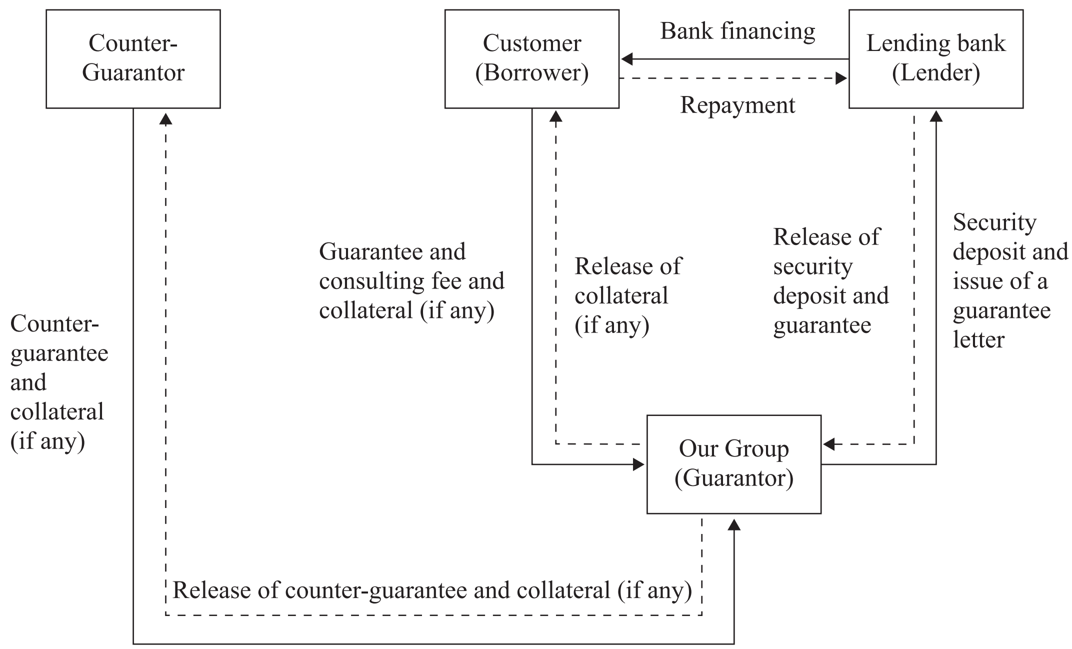
To complement our financing guarantee services, we offer consulting services by assessing a customer's business size, financial condition, amount of financing required and the intended use of financing to recommend a suitable financing solution to our customers and recommend them to our cooperating banks and financial institutions where they are more likely to obtain financing. We also provide advice on financing planning and cash flow management to better align our customers' cash generation activities with their required repayment schedule, thereby improving their liquidity and reducing their default risk.

Bank financing guarantee

Bank financing guarantee is the core of our credit guarantee business. As of December 31, 2010, 2011 and 2012 and October 31, 2013, our bank financing guarantees totaled RMB6,801.5 million, RMB11,881.4 million, RMB11,920.2 million and RMB14,748.8 million, respectively, representing 98.9%, 97.4%, 89.0% and 80.7% of our total financing guarantees, respectively. During the same periods, fee income from our bank financing guarantees accounted for 34.9%, 50.2%, 65.2% and 54.4% of our total net fee and interest income. The continued increase in our bank financing guarantees during the Track Record Period was primarily due to our increased capital base and expanded credit guarantee network across China.

Bank financing guarantee refers to the guarantees we provide to banks for our customers to obtain various bank financing, principally bank loans. We primarily guarantee bank financing ranging from RMB3.0 million to RMB30.0 million based on our risk assessment and return requirements. Most of the bank financing we guarantee has a term of not more than one year.

The work flow of a typical bank financing guarantee transaction is summarized below:



We will be released from our guarantee obligation after the customer has fully repaid the principal, interest and other fees on the loan we guarantee. However, once the customer defaults and the lending bank elects to call upon our guarantee, we will repay the financing on the default customer's behalf and become subrogated to the lender's claims against the borrower.

As one of our credit risk management measures, we require each guarantee customer to provide one or more personal guarantors, which we refer to as "counter-guarantors," so that they are jointly and severally liable for the repayment of the financing we guaranteed with the borrower. Our counter-guarantors generally include the following categories:

- business owners and controlling persons of the borrower;
- persons having substantial influence over the borrower's business, usually its management team, such as the chief executive officer and chief financial officer; and
- other third parties closely related to the foregoing persons, such as their spouses, children or relatives and other affiliates.

In addition, depending on the results of our evaluation of the borrower's credit, we may require the borrower and/or counter-guarantors to post collateral to us, primarily land use rights and building ownership and to a lesser extent, accounts receivable and equity interests.

Different from asset-based collateral, a counter-guarantee is a form of a credit-based security measure which we consider to be an effective risk management measure as it imposes additional costs of default on a personal level and creates a positive pressure on the borrower to honor its repayment obligations.

When we act as a guarantor for a bank financing, the lending bank generally requires us to deposit a certain amount of cash, usually equivalent to 5% to 15% of the financing guaranteed, in a segregated account, as a form of security. Such security deposits will be returned to us with interest upon the release of our guarantee obligation. If the borrower defaults on the loan, the lending bank will withdraw our security deposits to set off a portion of the default amount. Before April 2012, we collected the same amount of cash from the borrowers to meet the security deposit requirements from banks. Pursuant to the 2012 Notice published by the CBRC on April 5, 2012, which encouraged credit guarantee companies like us to discontinue the practice of taking customers' cash to satisfy the security deposits required from banks, we have generally ceased to collect such deposits from new customers following the official circulation of the 2012 Notice to us by Chongqing Finance Bureau around the end of May 2012. To comply with the 2012 Notice, we have, with effect from July 1, 2012, implemented an internal guideline on taking, holding and refunding of our customer pledged deposits, pursuant to which we have: (i) generally ceased taking customer pledged deposits and, in certain isolated cases where the customer pledged deposits are required for risk management purposes, kept such customer pledged deposits segregated bank accounts; (ii) gradually returned the deposits to our customers; and (iii) by June 2013, transferred and maintained any remaining customer pledged deposits in segregated bank accounts. As advised by the PRC legal advisors, on the basis of the compliance confirmations issued by, and the enquiries made with, the competent authorities in China, the authorities have confirmed our compliance with the 2012 Notice.

In general, a lending bank will approve the request for a loan expeditiously if it is fully backed by cash. In addition to our standard bank financing guarantees described above, we recently launched fully secured bank financing guarantees, a short-term guarantee product whereby we pledge our cash deposit or certificate of deposit to fully secure a bank financing in order to expedite the loan approval process for our customers in return for a higher fee.

The following table shows the average balances of our bank financing guarantees by product as of the dates indicated:

	Year ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	(RMB in millions)				
Standard bank financing guarantees	4,385.0	9,900.8	11,879.9	12,026.3	13,536.6
Fully secured bank financing guarantees	18.9	383.4	1,234.8	1,251.6	848.1
Total	**4,403.9**	**10,284.2**	**13,114.7**	**13,277.9**	**14,384.7**

Cooperation with commercial banks in China is key to our bank financing guarantee business. See "Risk Factors — Risks Relating to Our Business and Industry — We rely heavily on cooperation with commercial banks." Before we establish a cooperation arrangement with a bank, we are generally required to provide key business, financial and legal documents to the bank for review, including, among other: (i) basic corporate information; (ii) latest financial statements; (iii) credit rating reports; (iv) details of our bank accounts; (v) our internal operation and risk management guidelines; (vi) operating data on our existing credit guarantee business; and (vii) information about our cooperation with other banks. If the bank is satisfied with our business, financial and risk management performance, it will consider partnering with us. A cooperation arrangement generally constitutes a framework agreement under which we are permitted to guarantee up to a specified maximum amount of credit lines provided by the banks. Our cooperating banks will also approve each guarantee we provide to customers on an individual basis subject to the terms and conditions of the framework agreements.

Our framework agreements with banks usually include the following key provisions:

Key Term	Summary
Term of cooperation	Usually one year and renewable upon expiration.
Total guarantee amount	The maximum amount of financing we can guarantee depends on our track record, credit standing and capital base. Normally, the maximum amount is set out in the framework agreement at a fixed amount. At times, the maximum amount is set at an amount multiplying the security deposits placed with the relevant bank.
Security deposits	Usually 5% to 15% of the bank financing amount we guarantee, to be deposited with the banks before the bank financing is released to our guarantee customers. In general, the proportion of the security deposits relative to the amount we guarantee depends on our business relationship and track record with them.
Operating covenants	The bank may normally require us to comply with certain operating covenants as follows: (i) aggregate amount guaranteed must not exceeding six to ten times our net assets; (ii) the amount of guarantee for a single customer must not exceed 10% of our net assets; and (iii) the amount of guarantee for a single customer and its affiliates must not exceed 15% of our net assets. Except as disclosed in "— Legal Proceedings and Compliance — Non-compliance Incidents," our Directors confirmed that we have not breached these operating covenants during the Track Record Period.

Key Term	Summary
Consequences of breaching the operating covenants	In the event of breaching the operating covenants, the bank may take the following actions: • terminate the framework agreements prior to the termination date; • refuse to approve new loan applications guaranteed by us; • deduct the amounts due to the banks directly from our settlement accounts or security deposit accounts with the relevant bank; • downgrade our credit rating with the bank; • decrease the total guarantee amounts granted to us; or • request for more security deposits or other type of collateral from us.
Default payment arrangements	We would normally assist the banks in collecting the outstanding amount guaranteed by us and, once the borrower defaults on the loan, the bank may consider granting a grace period to the borrower or call upon our guarantee directly, in which case we will repay the defaulted payment on the borrower's behalf.
Renewal/termination clause	Normally, the framework agreements may be renewed or terminated as agreed by both parties.
Maximum total outstanding guarantee amount provided by us	Usually ten times our net assets.
Maximum guarantee amount provided by us to a single customer	Usually 10% of our net assets.
Fee arrangements	We do not pay any fees to, or receive any income from, our cooperating banks under the framework agreements. We earn guarantee and consulting fee income directly from our customers.

We maintained good relationships with commercial banks. The number of our cooperating banks increased steadily from 29 as of December 31, 2010 to 49 as of December 31, 2011 and 59 as of December 31, 2012 and this further increased to 65 as of October 31, 2013. During the Track Record Period and up to the Latest Practicable Date, none of our cooperating banks has terminated its business relationship with us, and none of them has tightened their cooperating terms with us. In addition, in 2010, 2011 and 2012 and the ten months ended October 31, 2013, the security deposits required by our cooperating banks generally ranged from 5 to 15% of amounts guaranteed, and averaged 9.6%, 9.1%, 8.8% and 7.9%, respectively, indicating a decreasing trend as a result of our enhanced bargaining power and improved recognition from our cooperating banks. During the Track Record Period, our cooperation agreement with one cooperating bank was not renewed after it expired in 2011, as we considered that cooperating bank may not properly satisfy our customers' needs due to its relatively long loan approval process and strict requirements on granting loans. In 2011, our maximum outstanding guarantees with such cooperating bank were approximately RMB200 million, which only accounted for approximately 1.4% of our total outstanding guarantees as of December 31, 2011.

Non-bank financing guarantee

In our non-bank financing guarantee business, we primarily offer guarantees in relation to: (i) bond offerings and repurchase transactions; (ii) micro and small loans; (iii) third-party guarantors; (iv) financings from non-bank financial institutions such as trust loans or finance leases; and (v) capital preservation public funds. The following table shows the balances of our outstanding non-bank financing guarantees by product as of the dates indicated:

	As of December 31,			As of October 31,
	2010	**2011**	**2012**	**2013**
		(RMB in millions)		
Repurchase transaction guarantees	–	229.0	499.0	790.0
Capital preservation public fund guarantees	–	–	–	1,000.0
Bond insurance	–	–	370.0	480.0
Micro and small loans guarantees	51.3	6.0	290.8	388.0
Guarantee insurance	6.0	42.2	253.3	687.9
Trust loan guarantees and finance lease guarantees	15.0	35.1	65.8	187.9
Total	**72.3**	**312.3**	**1,478.9**	**3,533.8**

As part of our strategy to expand our product and service offering and diversify our revenue source, we have increased our cooperation with non-bank financial institutions and expanded our guarantees to direct financing activities. As a result, our outstanding non-bank financing guarantees increased substantially from RMB72.3 million as of December 31, 2010, to RMB1,478.9 million as of December 31, 2012, and further increased to RMB3,533.8 million as of October 31, 2013.

- *Repurchase transaction guarantees*

Since 2011, we have started to act as the guarantor for repurchase transactions involving loan receivables, commonly known as "repos," to enhance the credit rating of these transactions. A seller, usually a third-party micro and small loan company, sells certain of its loan receivables to investors under repurchase agreements and agrees to repurchase such receivables at a predetermined price within a specified period of time. We guarantee to the investors that if the seller defaults by failing to repurchase the receivables sold at the agreed time or price, we will purchase them on the default seller's behalf.

Taking advantage of the increasing market acceptance of structured transactions, we have guaranteed an aggregate of 94 repurchase transactions that were traded on the Chongqing Financial Assets Exchange as of October 31, 2013. As of October 31, 2013, our repurchase transaction guarantees amounted to RMB790.0 million. The term of these repurchase transactions typically ranges from 6 to 12 months.

As part of our strategy of expanding our non-bank financing guarantee business, we intend to actively seek cooperation with third-party micro and small loan companies and increase our offering of repurchase transaction guarantees.

Our agreements with these third-party micro and small loan companies usually include the following key provisions:

Key Term	Summary
Term of guarantee	Usually one year, which is the normal term of the repo transaction.
Guarantee scope	Usually covers both the principal amount and interest.
Guarantee fee rate	Usually is calculated with reference to the principal amount, annual guarantee fee rate and the term of the guarantee.
Collateral	We may request a certain percentage of the principal, usually from 50% to 80%, as collateral.
Amendment/termination clause	The guarantee agreement can be amended or terminated with mutual agreement of both parties. We can terminate the agreement without any liability if the guarantee customers fail to pay the guarantee fee or to provide counter-guarantees or collateral, or breach their representations and warranties in the agreement.

- *Capital preservation public fund guarantees*

In 2013, we started to offer guarantees for capital preservation public funds. Capital preservation public funds are fund products offered for public subscription which guarantee the return of principal at the maturity date and are managed through various capital preservation investment strategies. Under this new guarantee product, we typically guarantee the payment of any shortfall between the net asset value of a particular capital preservation public fund at its maturity date and its principal value when initially launched.

In December 2013, we entered into a guarantee agreement with Essence Fund Management Co., Ltd. (“Essence”) for a capital preservation public bond fund (“Fund”) issued by Essence. Essence is one of the 89 fund managing firms in China approved by the CSRC. According to Essence, it managed 11 funds with a net asset of RMB4,684.9 million in aggregate as of December 31, 2013. The Fund is a two-year bond fund with an initial principal amount of RMB1,000.0 million (the “Principal Amount”).

Under the guarantee arrangement between us and Essence, the key terms below are listed out:

Key Term	**Summary**
Guarantee scope	We guarantee, jointly and severally, the payment of the shortfall, if any, between the Principal Amount and the net asset value of the Fund on the maturity date, for a six-month period after the maturity date of the Fund.
Capital preservation arrangement	When the net asset value of the Fund reaches 95% or below of its Principal Amount, we are entitled to compel Essence to preserve the capital of the Fund, including by reducing or disposing of all assets at risk (meaning bonds with credit ratings below "AA"), refraining from repos, and holding bonds with credit ratings above "AA" which will mature before the Fund.
Guarantee released	If Essence fails to follow the agreed investment strategies or the fixed investment portfolio threshold for its own reasons, or the Fund suffers loss due to *force majeure* or other conditions stipulated in the guarantee agreement, we will be released from our guarantee.
Indemnification	We are entitled to be indemnified for the guarantee payments we may make under the Fund, as well as any associated expenses, damages and interests.
Fee	Essence pays a guarantee fee to us.

• *Bond insurance*

In 2012, we started to guarantee bonds issued by SMEs in China, whereby we guarantee the scheduled payments of interest and principal on the bonds in the event of a default by the issuer. Bond insurance is a form of "credit enhancement", which generally increases the credit rating of the bonds issued and makes them more appealing to investors. We had guaranteed five bond offerings, with an aggregate principal amount guaranteed of RMB480.0 million, as of October 31, 2013. These bonds will mature within one to five years.

The level of credit enhancement we provide to bond offerings usually depends on our own credit rating. We received an "AA" long-term corporate rating with positive outlook from Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. in 2013 and an "AA" long-term corporate rating from Pengyuan Credit Rating Co., Ltd. in 2013. Although long-term corporate ratings are not mandatory for conducting the financing guarantee business, they enable us to guarantee certain publicly-offered bonds, such as corporate bonds, and thereby expanding our service and product coverage. We may receive corporate ratings from different rating agencies in different bond offerings as selected by the corporate bond issues and other participants. Such credit ratings will be assessed annually as long as we continue to provide guarantees for the corporate bonds rated by the above agencies. We intend to leverage our credit rating to further expand our bond insurance business by actively seeking cooperation with SMEs that contemplate issuing corporate bonds in China.

Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. is a national credit rating agency specializing in credit rating, credit management consultation and other credit-related services. It is recognized by the PBOC, NDRC, CIRC and CSRC. Pengyuan Credit Rating Co., Ltd. is one of the earliest credit rating agencies in China and offers credit rating services across China. It is recognized by the PBOC, CSRC and NDRC. Each of these government authorities applies strict requirements on granting the qualifications and licenses for credit rating agencies. In particular, the CSRC only recognized five rating agencies in China, including Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. and Pengyuan Credit Rating Co., Ltd. Rating agencies so recognized are considered reputable in China.

Our agreements with the bond issuers that we guarantee usually include the following key provisions:

Key Term	Summary
Term of guarantee	Usually, our guarantee remains effective during the term of the bonds, typically ranging from one to five years.
Guarantee scope	Principal amount of the bonds, interest, and penalties, damages and other fees incurred.
Guarantee fee	The guarantee fee is typically calculated with reference to the principal amount of the bonds issued, the term of the bonds and an annual guarantee fee rate.
Disclosure obligations	The CSRC, provincial securities supervisory authorities, and bonds holders and their representatives are entitled to monitor our financial conditions and require periodical financial disclosure, such as our financial reports.
Amendment/termination clause	Normally, the guarantee cannot be amended or withdrawn during the term of the guarantee.

• *Micro and small loans guarantees*

Since 2011, we have also engaged in micro and small loans guarantees whereby we principally guarantee loans granted by our micro and small loan subsidiaries. In these transactions, our guarantee subsidiaries will ordinarily perform credit evaluation on the borrowers in accordance with their credit and risk management policies, while our micro and small loan subsidiaries would provide loans to the borrowers relying on the credit decisions made and guarantees provided by our guarantee subsidiaries. We charge both guarantee fees for our guarantee services and interest and handling fees on our loans. In the event of a customer default, our guarantee subsidiaries would repay our relevant micro and small loan subsidiaries as guarantors, and assume all the credit risks.

As of December 31, 2011 and 2012 and October 31, 2013, our micro and small loans guaranteed by our guarantee subsidiaries were RMB6.0 million, RMB125.0 million and RMB239.8 million, representing 0.04%, 0.9% and 1.2% of our total guarantees outstanding, respectively, and 0.5%, 7.2%, and 8.2% of our outstanding micro and small loans, respectively. For our micro and small loans guaranteed by our credit guarantee subsidiaries, we generated RMB0.3 million, RMB5.7 million and RMB17.5 million in guarantee fees and RMB1.6 million, RMB9.7 million and RMB35.9 million in interest and handling fees in 2011 and 2012 and the ten months ended October 31, 2013, respectively. During the Track Record Period, substantially all of our micro and small loans guaranteed by our guarantee subsidiaries were repaid when due. The default rate of these micro and small loan guarantees was nil, 1.2% and 1.2% as of December 31, 2011 and 2012 and October 31, 2013, respectively.

- *Guarantee insurance*

We also share credit risks of third-party guarantors, usually insurance companies, who provide guarantee insurance for borrowers' financing. We indemnify these third-party guarantors if they repay the financing on behalf of the borrowers. We generally perform comprehensive due diligence on the borrower based on our risk management policies.

Our outstanding guarantees provided to third-party guarantors increased to RMB687.9 million as of October 31, 2013 compared to RMB253.3 million as of December 31, 2012.

Our agreements with third-party guarantors usually include the following key provisions:

Key Term	**Summary**
Term of cooperation	Typically one year
Guarantee scope	A total guarantee amount agreed by both parties, with a maximum limit on each single guarantee
Guarantee fee	No guarantee fee arrangement is made between us and the third-party guarantors. The borrowers pay insurance fees to the third-party guarantor and guarantee fees to us.
Termination clause	In general, third-party guarantors can terminate the cooperation with us under the following circumstances: • occurrence of three incidents in a year where we fail to make repayment to the third-party guarantor within 30 days such repayment becomes due; or • our refusal to make repayment.
Amendment clause	The agreements can be amended from parties in writing.

- *Trust loan guarantees and finance lease guarantees*

We guarantee financings, such as trust loans or finance leases, from non-bank financial institutions whereby we guarantee the scheduled payments of principal and interest or lease rentals in the event of a default.

Typically, the framework agreements with these non-bank financial institutions provide that we can recommend potential customers to and the non-bank financial institutions will decide on their own whether to accept any such customers. Usually, these framework agreements are not on an exclusive basis and have an indefinite term unless they are terminated as agreed by both parties. In addition, they typically do not include any fee arrangements between us and the non-bank financial institutions.

Non-financing Guarantee

We offer non-financing guarantees in our credit guarantee business whereby we act as guarantor to promise to pay one party, the obligee, a certain amount if a second party, the principal, fails to meet certain obligations, such as fulfilling the terms of a contract. To reduce our credit risks, we require business owners or controlling persons of the principal to post counter-guarantees, which make them jointly and severally liable with the principal in the event of a loss.

We consider the offering of non-financing guarantees as capital efficient as such business is not subject to any net assets leverage ratio requirements in our financing guarantee business. During the Track Record Period, we primarily offer two types of non-financing guarantee: contract bonds and attachment bonds.

Contract bonds

Contract bonds, mainly used in the construction industry, are three-party instruments by which we guarantee a project owner that a general contractor will perform its obligations under a contract. We choose qualified contractors that we determine to be creditworthy and able to perform their contractual obligations. If the contractor fails to perform its obligations and the project owner elects to call upon our contract bonds, we will pay a certain agreed amount to the project owner and become entitled to the owner's claims against the contractor.

Our principal products included in this category are:

- *performance bond*: a guarantee that a contractor will perform the work as specified by the contract;

- *bid bond*: a guarantee that a contractor will enter into a contract if awarded the bid;

- *prepayment bond*: a guarantee that a contractor will use the funds prepaid by the project owner for permitted purposes only; and

- *maintenance bond*: a guarantee that a contractor will provide repair and maintenance of a completed project for a specified period of time after completion.

As of December 31, 2010, 2011 and 2012 and October 31, 2013, our outstanding contract bonds amounted to RMB571.5 million, RMB900.4 million, RMB492.7 million and RMB349.6 million, respectively.

As part of our business strategy, we plan to offer commercial contract bonds, in which we guarantee a party's performance of its contractual obligations in connection with a commercial transaction, such as supply of goods and prepayment for goods.

Attachment bonds

A party to a legal proceeding in China can apply for an attachment with the court to prohibit the other party from disposing of, or concealing, certain assets. The court may require the first party to post an attachment bond to guarantee its ability to indemnify the counterparty in the event of a wrongful or false attachment and that counterparty suffering damages as a result.

As of December 31, 2010, 2011 and 2012 and October 31, 2013, our outstanding attachment bonds amounted to RMB1,353.4 million, RMB1,118.4 million, RMB794.4 million and RMB778.3 million, respectively. Due to the lower margin of this product, we reduced the offering of attachment bonds over the Track Record Period to focus more on guarantee products with higher margins, such as financing guarantees.

Guarantee and Consulting Fees

In return for our guarantee and consulting services, our customers pay us guarantee and consulting fees, which are generally payable upon the execution of a guarantee contract. The guarantee and consulting fees charge depends on a number of factors, such as the type of guarantee, the creditworthiness and industry of the customer, prevailing market conditions, the quality of the counter-guarantee, the type and quality of the collateral, and the amount and term of the financing. As advised by our PRC legal advisors, there are currently no PRC laws or regulations that impose a maximum limit on guarantee and consulting fees for credit guarantees.

The table below sets forth our average guarantee and consulting fee rates during the Track Record Period:

	Year ended December 31,			Ten months ended October 31,	
	2010	**2011**	**2012**	**2012**	**2013**
			(%)		
Financing guarantees	**2.65%**	**4.22%**	**5.55%**	**5.23%**	**5.26%**
Bank financing guarantees	2.55	4.24	5.69	5.32	5.66
– *Bank financing guarantees (excluding fully secured bank financing guarantees)*	2.48	3.57	4.06	3.78	4.64
– *Fully secured bank financing guarantees* [(1)]	18.99	21.50	21.34	21.62	21.80
Non-bank financing guarantees	10.06	3.08	3.45	3.40	2.86
Non-financing guarantees	**0.36%**	**0.72%**	**0.63%**	**0.46%**	**0.35%**

(1) To compensate for our cost of funds to expedite the loan approval process, we charge a higher fee rate for this product compared with other financing guarantees.

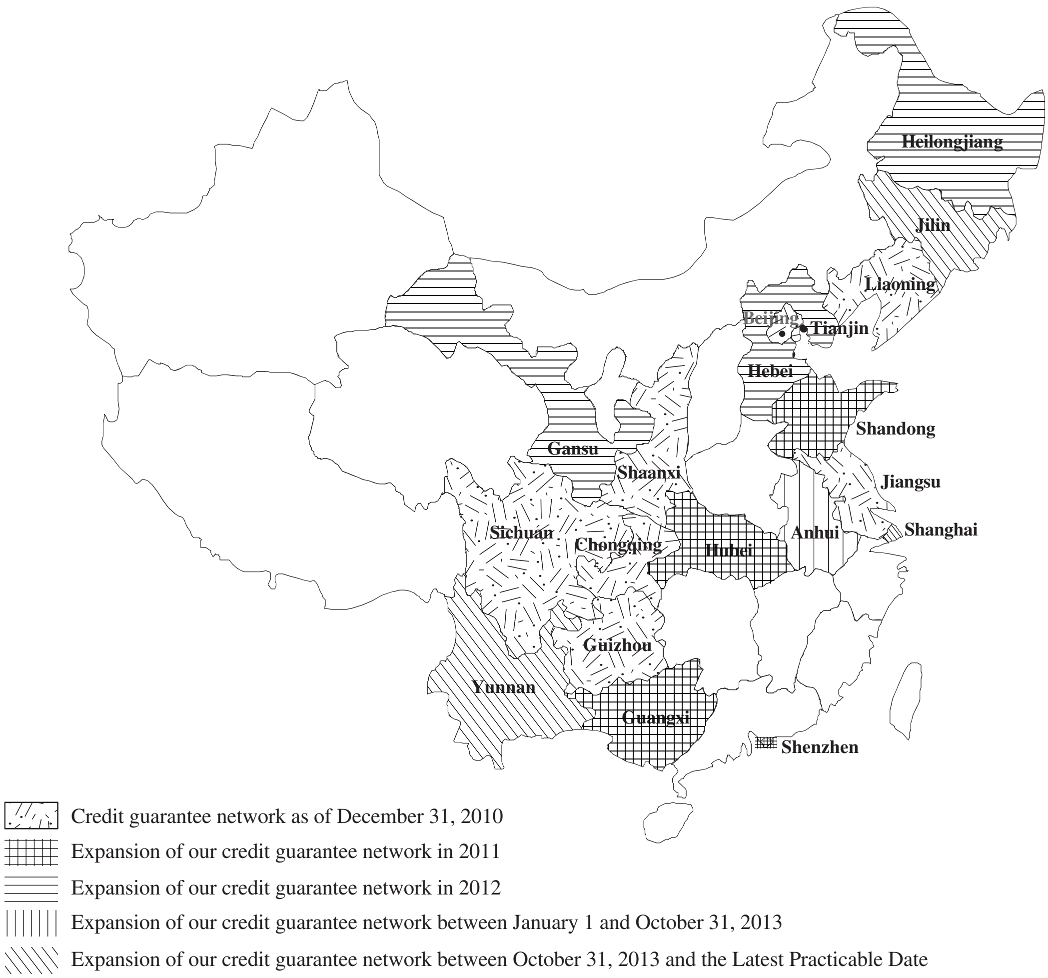
Our average guarantee and consulting fee rate for bank financing guarantees increased from 2.55% in 2010 to 4.24% in 2011 due to our increased offering of fully secured bank financing guarantees in 2011, for which we charge a higher fee rate, and our ability to raise the fee rate on certain guarantee customers. Such fee rate increased to 5.69% in 2012 and to 5.66% in the ten months ended October 31, 2013, mainly because we raised our fee rate to compensate for a greater risk exposure and the cost of cash we placed with banks on the customer's behalf after we discontinued our practice of taking customer deposits in 2012 according to the 2012 Notice.

We charged a relatively higher fee rate for our non-bank financing guarantees in 2010 to compensate for the greater credit risk tolerance we allowed for this service during the year, resulting in a significantly higher average guarantee and consulting fee rate of 10.06% compared with the subsequent years. Following a one-off default payment of RMB8.0 million in 2010, we lowered our risk tolerance by entering into more conservative guarantee agreements whereby we only charged a lower fee rate for our non-bank financing guarantees. The average guarantee and consulting fee rate of our non-bank financing guarantees decreased from 3.45% in 2012 to 2.86% in the ten months ended October 31, 2013, due primarily to our offering of capital preservation public fund guarantees in 2013 for which we charge a lower fee rate for their lower risk profile.

Our non-financing guarantee business typically involves a wider range of guarantee and consulting fee rates depending on the repayment ability of customers and the risks of the underlying projects guaranteed. Therefore, our average guarantee and consulting fee rates may fluctuate, subject to the type of non-financing guarantees, customers base and the underlying projects guaranteed during those periods. Our average guarantee and consulting fee rate for non-financing guarantees was 0.36%, 0.72%, 0.63% and 0.35% in 2010, 2011 and 2012 and the ten months ended October 31, 2013, respectively. The increase in this average fee rate from 2010 to 2011 was due to our increased offering of contract bonds that carried a higher fee rate than attachment bonds. The decreases in our average fee rate in 2012 and the ten months ended October 31, 2013 were a result of cautious selection of customers with stronger repayment ability and consequently lower fee rates.

Branch Network

As of the Latest Practicable Date, we operated our credit guarantee business through our credit guarantee network consisting of four credit guarantee subsidiaries and 22 credit guarantee branch offices in 19 provinces in China. The following map shows the expansion of our credit guarantee network from December 31, 2010 to the Latest Practicable Date:



As of the Latest Practicable Date, we had established offices in Hunan Province in preparation for applying for the relevant operating licenses in that region. Historically, it has taken approximately two to four years for our newly established guarantee subsidiaries in a new region to establish market share in that region, following the recruitment and training of local staff and the sourcing of local customers.

Customers and Guarantee Contracts

By leveraging our extensive credit guarantee network, we have increased the number of our guarantee customers. The numbers of our guarantee customers we serviced were approximately 1,600, 2,500, 2,800 and 3,400 in 2010, 2011, 2012 and the ten months ended October 31, 2013.

The following table shows the number of our guarantee contracts by size for the periods indicated:

	Year ended December 31,						Ten months ended October 31,	
	2010		2011		2012		2013	
	(number of contracts)	% of total	(number of contracts)	% of total	(number of contracts)	% of total	(number of contracts)	% of total
Up to RMB3 million.	1,061	55.1%	1,515	49.9%	1,840	51.6%	2,034	50.0%
Over RMB3 to RMB5 million. . .	379	19.7	694	22.9	807	22.6	968	23.8
Over RMB5 to RMB10 million . .	333	17.3	550	18.1	566	15.9	693	17.0
Over RMB10 to RMB30 million . .	130	6.7	246	8.1	323	9.1	350	8.6
Over RMB30 million	23	1.2	30	1.0	29	0.8	26	0.6
Total	**1,926**	**100.0%**	**3,035**	**100.0%**	**3,565**	**100.0%**	**4,071**	**100.0%**

Guarantee Portfolio

Our total outstanding guarantee portfolio increased from RMB8,798.7 million as of December 31, 2010 to RMB14,686.2 million as of December 31, 2012, and to RMB19,410.4 million as of October 31, 2013, due primarily to our increased capital base and expanded branch network during the Track Record Period. The following table presents the balances of our outstanding guarantees by product type as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Financing guarantees				
Bank financing guarantees	6,801.5	11,881.4	11,920.2	14,748.7
Non-bank financing guarantees[(1)] .	72.3	312.3	1,478.9	3,533.8
Subtotal.	6,873.8	12,193.7	13,399.1	18,282.5
Non-financing guarantees				
Contract bonds	571.5	900.4	492.7	349.6
Attachment bonds.	1,353.4	1,118.4	794.4	778.3
Subtotal.	1,924.9	2,018.8	1,287.1	1,127.9
Total	**8,798.7**	**14,212.5**	**14,686.2**	**19,410.4**

(1) Starting from 2011, certain of our micro and small loans have guaranteed by our credit guarantee subsidiaries. For the years ended December 31, 2011 and 2012 and the ten months ended October 31, 2013, the guarantee for such micro and small loans accounted for 0.04%, 0.9% and 1.2%, respectively, of our total outstanding guarantees.

Average balances of guarantees

The following table presents the average month end balances of our outstanding guarantees by product type for the periods indicated:

	Year ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	(RMB in millions)				
Financing guarantees					
Bank financing guarantees	4,403.9	10,284.2	13,114.7	13,277.9	14,384.7
Non-bank financing guarantees	58.2	156.5	839.8	683.6	2,443.0
	4,462.1	10,440.7	13,954.5	13,961.5	16,827.7
Non-financing guarantees					
Contract bonds	558.5	696.7	538.2	605.3	341.0
Attachment bonds	885.2	1,353.2	1,333.9	1,333.0	1,186.0
	1,443.7	2,049.9	1,872.1	1,938.3	1,527.0
Total	**5,905.8**	**12,490.6**	**15,826.6**	**15,899.8**	**18,354.7**

Distribution of guarantees by geographical region

The following table presents the distribution of the balances of our outstanding guarantees portfolio by geographical region as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Chongqing	6,034.0	68.6%	8,163.7	57.4%	7,646.2	52.1%	7,673.3	39.6%
Sichuan	1,197.6	13.6	1,917.4	13.5	2,502.0	17.0	3,805.5	19.6
Beijing	211.9	2.4	979.4	6.9	715.2	4.9	2,299.8	11.8
Liaoning	651.6	7.4	1,288.3	9.1	1,209.3	8.2	1,398.8	7.2
Others	703.6	8.0	1,863.7	13.1	2,613.5	17.8	4,233.0	21.8
Total	**8,798.7**	**100.0%**	**14,212.5**	**100.0%**	**14,686.2**	**100.0%**	**19,410.4**	**100.0%**

As a percentage of the total balance of our outstanding guarantees, our guarantees originating in Chongqing decreased from 68.6% in 2010 to 52.1% in 2012 and further to 39.6% as of October 31, 2013, due to the expansion and growth of our credit guarantee business in other regions across China.

Our credit guarantee business grew rapidly in 2013. Our outstanding credit guarantees increased by 32.1% to RMB19,410.4 million as of October 31, 2013 from RMB14,686.2 million as of December 31, 2012. This increase was primarily attributable to approximately 1,700 new customers we sourced during 2013, a majority of whom are located in Chongqing, Sichuan, Beijing and Liaoning.

Distribution of guarantees by collateral

During the Track Record Period, we required each of our guarantee customers to provide counter-guarantees. Based on whether collateral is provided, we classify our guarantees into the following two categories:

- *Unsecured guarantee*s: counter-guaranteed but not secured by collateral.

- *Secured guarantees*: both counter-guaranteed and fully or partially secured by collateral. We generally register our security interest in the collateral with the relevant government authority in China.

The following table presents the distribution of our outstanding guarantees by collateral as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Unsecured guarantees(1)	6,574.1	74.7%	7,383.6	52.0%	7,524.9	51.2%	9,969.8	51.4%
Secured guarantees(2)								
– Land and buildings	1,816.8	20.6	4,549.0	32.0	5,215.0	35.5	7,995.4	41.2
– Accounts receivable and equity interest	407.8	4.7	2,279.9	16.0	1,946.3	13.3	1,445.2	7.4
Subtotal	2,224.6	25.3	6,828.9	48.0	7,161.3	48.8	9,440.6	48.6
Total	**8,798.7**	**100.0%**	**14,212.5**	**100.0%**	**14,686.2**	**100.0%**	**19,410.4**	**100.0%**

(1) As of December 31, 2010, 2011 and 2012 and October 31, 2013, we had 1,534, 2,175, 2,485 and 3,042 guarantees that were counter-guaranteed, respectively. In 2010, 2011 and 2012 and the ten months ended October 31, 2013, unsecured guarantees involving customers' defaults accounted for 0.4%, 0.5%, 0.7% and 0.6%, respectively, of our total outstanding unsecured guarantees during those periods.

(2) In 2010, 2011 and 2012 and the ten months ended October 31, 2013, secured guarantees involving customers' defaults accounted for 0.4%, 1.6%, 1.8% and 1.5%, respectively, of our total outstanding secured guarantees during those periods. As of December 31, 2010, 2011, 2012 and October 31, 2013, the loan-to-value ratio (outstanding guarantees secured by land and buildings divided by the value of collateral of land and buildings) of our secured guarantees was 93.3%, 97.5%, 67.7% and 76.9%, respectively.

During the Track Record Period, the proportion of our secured financing guarantees increased relative to our unsecured portion, due primarily to the increased financing demand from our guarantee customers and the resulting increase in collateral provided by them to secure additional financing.

The following table presents the registration status of our outstanding guarantees secured by land use rights and building ownership as of October 31, 2013:

	(RMB in millions)
Secured by land use rights and building ownership	
– *Registered as primary beneficiary*	7,511.8
– *Registered as subordinated beneficiary*	483.6
Total	**7,995.4**

Distribution of guarantees by industry

The following table presents the distribution of our outstanding guarantees by industry as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Manufacturing and processing	2,609.2	29.7%	4,193.3	29.5%	4,187.9	28.5%	5,480.1	28.2%
Construction	2,161.9	24.6	3,828.2	26.9	3,443.8	23.5	4,406.3	22.7
Commercial services	1,990.7	22.6	3,611.3	25.4	3,712.5	25.3	5,836.2	30.1
Household goods	1,127.6	12.8	1,318.7	9.3	1,515.1	10.3	1,903.9	9.8
Others	909.3	10.3	1,261.0	8.9	1,826.9	12.4	1,783.9	9.2
Total	**8,798.7**	**100.0%**	**14,212.5**	**100.0%**	**14,686.2**	**100.0%**	**19,410.4**	**100.0%**

Most of our guarantee customers were operating in the manufacturing and processing, construction and commercial services industries as of December 31, 2010, 2011 and 2012 and October 31, 2013.

The substantial increase in our outstanding credit guarantees during the ten months ended October 31, 2013 was primarily attributable to the addition of approximately 1,700 new customers in 2013, a majority of whom are from the commercial services industry and manufacturing and processing industry.

Maturity profile of guarantee portfolio

The following table presents the maturity profile of our outstanding guarantees as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Due less than six months	2,916.5	33.1%	6,727.6	47.3%	7,349.3	50.0%	7,859.2	40.5%
Due over six months up to 12 months	3,594.4	40.9	5,509.5	38.8	5,785.6	39.4	9,009.0	46.4
Due over 12 months up to 18 months	602.6	6.8	529.7	3.7	275.4	1.9	362.1	1.9
Due over 18 months	1,685.2	19.2	1,445.7	10.2	1,275.9	8.7	2,180.1	11.2
Total	**8,798.7**	**100.0%**	**14,212.5**	**100.0%**	**14,686.2**	**100.0%**	**19,410.4**	**100.0%**

We focus on providing short-term guarantees to minimize our risk exposure and, as a result, a substantial majority of our outstanding guarantees to customers have a maturity of not more than one year.

Distribution of guarantees by exposure size

The following table presents the distribution of the balances of our outstanding guarantees by exposure size as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Up to RMB3 million	1,470.8	16.7%	2,505.9	17.6%	2,494.9	17.0%	2,838.5	14.6%
Over RMB3 to RMB5 million	1,583.2	18.0	2,893.8	20.4	3,125.2	21.3	3,914.3	20.2
Over RMB5 to RMB10 million	2,478.5	28.2	4,057.1	28.5	3,831.7	26.1	5,224.4	26.9
Over RMB10 to RMB30 million	2,065.0	23.5	3,654.8	25.7	4,094.0	27.9	5,377.2	27.7
Over RMB30 million	1,201.2	13.6	1,100.9	7.8	1,140.4	7.7	2,056.0	10.6
Total	**8,798.7**	**100.0%**	**14,212.5**	**100.0%**	**14,686.2**	**100.0%**	**19,410.4**	**100.0%**

Micro and Small Loans

As an integrated financial services provider for SMEs and microenterprises in China, we also provide easily-accessible micro and small loans in an expedient manner to ensure our customers' uninterrupted liquidity throughout their operating cycles.

We offer direct loans to micro and small enterprises as well as individuals through our micro and small loan network to address their need for quick access to funds. We focus on micro and small loans ranging from RMB0.5 million to RMB3.0 million based on our risk tolerance and return requirements. Most of our micro and small loans have a term of not more than one year.

Due to the substantially increased capital base and gradually relaxing capital requirements in our micro and small loan business, our total outstanding micro and small loans increased substantially from RMB575.5 million as of December 31, 2010 to RMB1,736.9 million as of December 31, 2012 and to RMB2,956.8 million as of October 31, 2013. The following table presents the increase in the paid-in capital of our micro and small loan subsidiaries and the resulting increase in our outstanding micro and small loans as of the dates indicated:

	As of December 31,			As of October 31,
	2010	**2011**	**2012**	**2013**
Paid-in capital of our SME lending business (RMB in millions)	300.0	540.0	800.0	2,000.0
Balance of outstanding micro and small loans (RMB in millions)	575.5	1,185.9	1,736.9	2,956.8
Leverage ratio(1)	1.9	2.2	2.2	1.5

(1) The balance of outstanding micro and small loans divided by paid-in capital of our SME lending business.

Depending on our loan size and customer group, we classify our micro and small loan products into two categories:

- *Micro loans:* loans we principally made to microenterprises and individuals which range from RMB50,000 to RMB500,000; and

- *Small loans:* loans we principally made to small enterprises which range from RMB0.5 million to RMB3.0 million.

We offer various micro and small loan products with different and flexible terms that suit different customer groups. Our principal micro and small loan products include the following:

- *Chuangfu loan (創富貸):* a type of unsecured micro loan product we offer to individual entrepreneurs and microenterprises which have a stable business income but need working capital to expand their business. Typically, the principal amount of this loan product is between RMB50,000 and RMB1.0 million with a maturity of between 3 and 12 months.

- *Zhanye loan (展業貸):* a type of unsecured small loan or credit line product we offer to small enterprises which have a more established track record and need working capital to expand their business. Typically, the principal amount of this loan product is between RMB0.5 million and RMB3.0 million with a maturity of between 3 and 12 months.

- *Fangyi loan (房易貸):* a type of secured small loan product we offer to individuals, individual entrepreneurs, microenterprises and small enterprises which are able to post real property as collateral to increase their working capital. Typically, the principal amount of this loan product is between RMB1.0 million and RMB3.0 million with a maturity of between 12 and 36 months.

- *Gongxin loan (工薪貸):* a type of micro loan product we offer to individuals who have stable salary income but need increased liquidity. Typically, the principal amount of this loan product is between RMB50,000 and RMB300,000 with a maturity of between 3 and 12 months.

Similar to our credit guarantee business, we generally require the business owner or controlling person of the borrower to act as a guarantor by providing a personal guarantee. The borrowers and their guarantors are jointly and severally liable for the repayment of the loan and the interest accrued. In addition, depending on the results of our credit evaluation, we may require the borrowers or guarantors to post acceptable collateral, such as land use rights and building ownership, for granting a lower interest rate, longer maturity or greater principal amount.

For our micro loan borrowers who are individuals or individual entrepreneurs and applying for relatively small loans for working capital purposes, typically with a principal amount less than RMB0.5 million and due within 12 months, we generally require the borrower's spouse to act as the joint borrower instead of providing a guarantor or collateral to us. We refer to any loans that are neither secured by collateral nor backed by any guarantor as credit loans. Borrowers of our credit loans are mainly businesses in the wholesale and retail industry, such as grocery stores, general merchandisers, apparel stores, auto-parts dealers and small restaurants, which are associated with daily necessities and not directly affected by the changes in economic conditions. See "— Micro and Small Loan Portfolio — Distribution of loans by industry." Although these borrowers usually lack suitable collaterals, such as land and properties, either because such customers do not own them and operate their business on leased premises, or their assets are already mortgaged for other borrowings, we may consider granting credit loans to these potential borrowers if their businesses have stable revenue streams and relatively low gearing ratios (among other parameters considered by us during our credit review and approval process) based on our due diligence. However, we are subject to increased credit risks as our recourse is limited if such borrowers default. See "Risk Factors — Risks Relating to Our Business and Industry — We largely rely on the creditworthiness of each individual customer and/or its counter-guarantors rather than collateral."

Interest and Handling Fee Rate

The interest rate we charge on a micro and small loan depends on a number of factors, including the credit and type of the borrower, whether the loan is secured or unsecured, the quality of guarantee, and the term of the loan. We also charge a certain percentage of management and handling fees, usually 0.25% to 0.6% of the principal amount of the loan per month, depending on the type and maturity period of the loan.

Our average interest and handling fee rate for micro and small loans largely remain stable during the Track Record Period, being 21.63%, 22.74%, 22.81% and 22.99%, respectively, in 2010, 2011 and 2012 and the ten months ended October 31, 2013.

Pursuant 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) promulgated by the CBRC and PBOC and with reference to the Certain Opinions on the Court's Trial for Lending Cases (關於人民法院常理借貸案件的若干意見) issued by the Supreme People's Court of the PRC, the interest rates charged for private lending may not exceed four times the interest charged by commercial banks for comparable loans, which is generally comparable to the prevailing interest rate announced by the PBOC. The courts in China will not uphold any claims for the portion of interest exceeding such limit. Any claims for interest within the limit will be protected by the PRC law. In addition, certain local regulatory authorities in China, such as Chongqing Finance Bureau, further require that interest together with handling fees charged on a micro and small loan shall not exceed four times the prevailing interest rate announced by the PBOC.

During the Track Record Period, the terms prescribing the interest and handling fees we charged for each loan made by our micro and small loan subsidiaries were below the four-time threshold of the applicable interest rates announced by the PBOC. Our PRC legal advisors confirmed that, based on the written confirmation of the relevant competent authorities, our micro and small loan companies had complied with the relevant laws, regulations and regulatory rules and were not subject to any regulatory actions during the Track Record Period.

Branch Network

As of October 31, 2013 and the Latest Practicable Date, we operated our micro and small loan business in seven and eight, respectively, provincial-level cities in China. Our licensed loan subsidiaries are generally allowed to originate loans to borrowers only located within the permitted area, usually a city. As a result, the expansion of our branch network will generally increase our customer base and loan balance.

The following table presents our micro and small loan network as of the dates indicated:

	As of December 31,			As of October 31,	As of the Latest Practicable Date
	2010	2011	2012	2013	
Number of licensed loan subsidiaries	2	5	5	7	8
Network coverage	Chongqing and Chengdu	Chongqing, Chengdu, Tianjin, Shenyang and Nanning	Chongqing, Chengdu, Tianjin, Shenyang and Nanning	Chongqing, Chengdu, Tianjin, Shenyang, Nanning, Changchun and Xi'an	Chongqing, Chengdu, Tianjin, Shenyang, Nanning, Changchun, Xi'an and Kunming

Customer Base

Corresponding with our expanding micro and small loan network, the number of loan customers we serviced has been increasing during the Track Record Period. In 2010, 2011 and 2012 and the ten months ended October 31, 2013, we serviced approximately 1,900, 4,800, 8,600 and 10,400 micro and small loan customers.

The following table presents the number of our micro and small loans by size for the periods indicated:

	Year ended December 31,						Ten months ended October 31,	
	2010		2011		2012		2013	
	(Number of loans)	% of total	(Number of loans)	% of total	(Number of loans)	% of total	(Number of loans)	% of total
Up to RMB100,000	1,007	35.0%	2,690	42.8%	5,569	48.5%	5,191	40.7%
Over RMB100,000 to RMB500,000	1,312	45.7	2,548	40.6	4,562	39.7	5,779	45.3
Over RMB500,000 to RMB1 million	299	10.4	603	9.6	782	6.8	976	7.7
Over RMB1 million to RMB3 million	199	6.9	396	6.3	524	4.6	679	5.3
Over RMB3 million	57	2.0	41	0.7	57	0.4	130	1.0
Total	**2,874**	**100.0%**	**6,278**	**100.0%**	**11,494**	**100.0%**	**12,755**	**100.0%**

Micro and Small Loan Portfolio

Our outstanding micro and small loans increased significantly during the Track Record Period, due primarily to our increased capital base and expanded micro and small loan network. The following table presents the balances of our outstanding micro and small loans as of the dates indicated:

	As of December 31,			As of October 31,
	2010	**2011**	**2012**	**2013**
	(RMB in millions)			
Micro and small loans				
– Micro loans	172.1	372.3	689.0	1,334.0
– Small loans	403.4	813.6	1,047.9	1,622.8
Total	**575.5**	**1,185.9**	**1,736.9**	**2,956.8**

The average balances of our outstanding micro and small loans were RMB320.9 million, RMB820.1 million, RMB1,227.8 million and RMB1,960.7 million in 2010, 2011, 2012 and ten months ended October 31, 2013, respectively.

Distribution of loans by geographical region

We classify our micro and small loans geographically based on the location of the micro and small loan subsidiary originating the loan. The following table presents the distribution of the balances of our outstanding micro and small loans by geographical region as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		**2011**		**2012**		**2013**	
	Amount	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
	(RMB in millions, except percentages)							
Chongqing	296.1	51.4%	571.0	48.1%	915.6	52.7%	1,410.7	47.7%
Chengdu	279.4	48.6	507.0	42.8	516.5	29.7	662.0	22.4
Shenyang	–	–	50.5	4.3	148.3	8.6	371.0	12.5
Tianjin	–	–	50.9	4.3	55.9	3.2	122.2	4.1
Nanning	–	–	6.5	0.5	100.6	5.8	177.8	6.0
Jilin	–	–	–	–	–	–	93.0	3.1
Shaanxi	–	–	–	–	–	–	120.1	4.2
Total	**575.5**	**100.0%**	**1,185.9**	**100.0%**	**1,736.9**	**100.0%**	**2,956.8**	**100.0%**

Our micro and small loan business increased significantly by 70.2% to RMB2,956.8 million as of October 31, 2013 from RMB1,736.9 million as of December 31, 2012. This increase was primarily attributable to the addition of approximately 3,500 new customers in 2013, a majority of whom are located in Chongqing, Chengdu and Nanning.

Distribution of loans by collateral

Depending on whether a guarantor or collateral is provided, we classify our micro and small loans into the following three categories:

- *Credit loans*: neither secured by collateral nor backed by any guarantor;
- *Guaranteed loans*: backed by guarantors but not secured by collateral; and
- *Secured loans*: secured in whole or in part by collateral, primarily land use rights or building ownership, and which may or may not be backed by guarantors. Prior to funding a secured loan, we register our security interest in the collateral with the relevant government authority.

The following table presents the distribution of our micro and small loan portfolio by collateral as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Credit loans[(1)]	121.4	21.1%	294.4	24.9%	489.3	28.2%	1,201.3	40.6%
Guaranteed loans[(2)]	452.8	78.7	868.6	73.2	1,108.8	63.8	1,462.1	49.4
– guaranteed by intra-group guarantors[(3)]	–	–	6.0	0.5	125.0	7.2	239.8	8.1
– guaranteed by third-party counter-guarantors	–	–	862.6	72.7	983.8	56.6	1,222.3	41.3
Secured loans[(4)]	1.3	0.2	22.9	1.9	138.8	8.0	293.4	10.0
Total	**575.5**	**100.0%**	**1,185.9**	**100.0%**	**1,736.9**	**100.0%**	**2,956.8**	**100.0%**

(1) As of December 31, 2010, 2011 and 2012 and October 31, 2013, we had 713, 2,394, 4,834 and 5,384 credit loans, respectively. In 2010, 2011 and 2012 and the ten months ended October 31, 2013, approximately 0.2%, 0.2%, 0.9% and 1.3%, respectively, of our outstanding credit micro and small loans were in default. The accumulated impairment losses recognized on these credit loans were RMB0.4 million, RMB1.5 million, RMB3.0 million and RMB8.4 million as of December 31, 2010, 2011 and 2012 and October 31, 2013, respectively.

(2) As of December 31, 2010, 2011 and 2012 and October 31, 2013, we had 1,209, 2,325, 2,955 and 3,647 guaranteed loans, respectively. In 2010, 2011 and 2012 and the ten months ended October 31, 2013, approximately 0.7%, 0.3%, 1.0% and 0.7%, respectively, of our outstanding guaranteed micro and small loans were in default during those periods.

(3) Starting in 2011, certain of our micro and small loans have been increasingly guaranteed by our credit guarantee companies, primarily due to (i) the increasingly favorable feedback from our guarantee customers on the convenient access to additional micro and small loans to service their financing needs as featured in the said intra-group arrangement; and (ii) the increase of size and scope of our credit guarantee services, which enabled us to offer intra-group guaranteed micro and small loans to a larger group of customers and in more transactions.

(4) In 2010, 2011 and 2012 and the ten months ended October 31, 2013, approximately nil, nil, 1.1% and nil, respectively, of our outstanding secured micro and small loans during those periods were in default. During the Track Record Period, only a small portion of our micro and small loans was secured by collateral and the average amount of our loans is generally small. As such, our valuation of the collateral for our micro and small loan transactions is primarily limited to the basic information procured during the due diligence process, and accordingly we are not able to provide a meaningful loan-to-value ratio for the collaterals of our micro and small loans.

We focus on providing unsecured loans and, as a result, substantially all of our micro and small loans were not secured with collateral during the Track Record Period.

Distribution of loans by industry

The following table presents the distribution of the balances of our outstanding micro and small loans by industry as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Wholesale and retail	258.0	44.8%	608.1	51.3%	867.0	49.9%	1,420.6	48.0%
Manufacturing and processing	74.4	12.9	142.4	12.0	298.1	17.2	745.6	25.2
Household goods	12.6	2.2	35.4	3.0	139.7	8.0	140.3	4.7
Construction	22.9	4.0	72.1	6.1	64.1	3.7	162.0	5.5
Agricultural	7.3	1.3	13.9	1.1	43.6	2.5	103.3	3.5
Others	200.3	34.8	314.0	26.5	324.4	18.7	385.0	13.1
Total	**575.5**	**100.0%**	**1,185.9**	**100.0%**	**1,736.9**	**100.0%**	**2,956.8**	**100.0%**

Our customers for micro and small loan business primarily operate in the wholesale and retail, and manufacturing and processing industries, which accounted for a majority of our micro and small loan business during the Track Record Period.

The significant increase in our outstanding micro and small loans in the ten months ended October 31, 2013 was primarily attributable to the additions of approximately 3,500 new customers in 2013, majority of whom are from the wholesale and retail industry.

The following table presents the distribution of the balances of our outstanding credit loans by industry as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentage)							
Wholesale and retail	96.2	79.3%	206.4	70.1%	311.6	63.7%	552.4	46.0%
Manufacturing	2.5	2.1	15.4	5.2	50.1	10.2	388.0	32.3
Household goods	2.7	2.2	17.8	6.0	55.7	11.4	56.8	4.7
Construction	2.3	1.9	11.5	3.9	11.9	2.4	56.7	4.7
Others	17.7	14.5	43.3	14.8	60.0	12.3	147.4	12.3
Total	**121.4**	**100.0%**	**294.4**	**100.0%**	**489.3**	**100.0%**	**1,201.3**	**100.0%**

Maturity profile of loans portfolio

The following table shows the maturity profile of our micro and small loans as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Due within three months	203.5	35.4%	324.0	27.3%	486.2	28.0%	1,038.8	35.1%
Due between three months and six months	171.6	29.8	379.7	32.0	556.9	32.1	674.4	22.8
Due between six months and one year	173.1	30.0	460.4	38.8	672.4	38.7	1,154.4	39.0
Due greater than a year	27.3	4.8	21.8	1.9	21.4	1.2	89.2	3.1
Total	**575.5**	**100.0%**	**1,185.9**	**100.0%**	**1,736.9**	**100.0%**	**2,956.8**	**100.0%**

We focus on providing short-term loans to minimize our risk exposure and, as a result, a substantial majority of our micro and small loans to customers have a maturity of not more than one year.

Distribution of loans by exposure size

The following table presents the distribution of the balances of our outstanding loan exposure to borrowers by size as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)							
Up to RMB100,000 . . .	45.2	7.9%	135.2	11.4%	219.8	12.6%	223.6	7.6%
Over RMB100,000 to RMB500,000 .	183.1	31.8	342.1	28.9	576.6	33.2	763.2	25.8
Over RMB500,000 to RMB1 million.	113.6	19.7	271.7	22.9	262.0	15.1	472.3	16.0
Over RMB1 million to RMB3 million.	144.3	25.1	317.0	26.7	430.5	24.8	750.7	25.4
Over RMB3 million	89.3	15.5	119.9	10.1	248.0	14.3	747.0	25.2
Total	**575.5**	**100.0%**	**1,185.9**	**100.0%**	**1,736.9**	**100.0%**	**2,956.8**	**100.0%**

During the Track Record Period, most of our micro and small loans had a value of between RMB100,000 and RMB3.0 million.

Entrusted Loans

We also provide entrusted loans to satisfy our customers' needs for quick access to short-term financing and for loans of relatively larger amounts, principally medium and small loans from RMB0.5 million to RMB30.0 million.

While our entrusted loan business forms part of our SME lending business and is classified under the SME lending segment, it is conducted through our guarantee subsidiaries using their own funds. In addition, our entrusted loan business is also part of our liquidity management measures as we can actively manage our available funds through adjusting the size of our entrusted loan portfolio.

We act as principal in entrusted loan arrangements in which we deposit our own funds with an intermediary bank which will on-lend the money to the ultimate borrowers. Upon receipt of the principal and interest on the loan, the intermediary bank will transfer such amount to us.

Under an entrusted loan arrangement, we select and approve borrowers and apply our credit policies and preferred interest rates. The intermediary bank follows our instructions when releasing our funds to our selected borrowers and does not bear the credit risks on repayment by such borrowers. In general, our entrusted loans have a term ranging from three to six months. We collect interest on a monthly basis and repayment of principal of our entrusted loans upon maturity of the loan. As advised by our PRC legal advisors, there are no PRC laws and regulations which impose a maximum limit on interest rates on entrusted loans. Our PRC legal advisors further advised that our entrusted loan business is not prohibited under the Interim Measures and we are allowed to conduct such entrusted loan business under the current PRC legal regime.

Entrusted Loan Portfolio

The following table presents the key operating data of our entrusted loans operations:

	As of or for the year ended December 31,			As of or for the ten months ended October 31,
	2010	2011	2012	2013
	(RMB in millions, except percentages)			
Outstanding balance	370.1	479.4	308.7[(2)]	931.9[(3)]
Average balance[(1)]	467.4	1,031.8	424.0	854.1
Average interest and handling fee rate	29.46%	25.26%	24.67%	23.81%

(1) The average month end balance of our entrusted loans during a given period.

(2) As of December 31, 2012, 35.0% of our outstanding entrusted loans was secured by collateral and the loan-to-value ratio (outstanding secured entrusted loans divided by the value of collateral of land and buildings) of these loans was 69.9%. In 2012, none of our secured entrusted loans and approximately 1.0% of our unsecured entrusted loans were in default, respectively.

(3) As of October 31, 2013, 61.0% of our outstanding entrusted loans were secured by collateral and the loan-to-value ratio (outstanding secured entrusted loans divided by the value of collateral of land and buildings) of these loans was 57.3%. In the ten months ended October 31, 2013, none of our secured entrusted loans and approximately 1.0% of our unsecured entrusted loans were in default, respectively.

Maturity profile of loans portfolio

The following table presents the profile of the remaining maturity of our entrusted loans as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentage)							
Due within three months	258.8	69.9%	280.4	58.5%	130.1	42.2%	354.8	38.1%
Due between three months and six months	85.0	23.0	174.4	36.4	117.1	37.9	294.7	31.6
Due between six months and one year	23.8	6.4	22.6	4.7	56.5	18.3	160.4	17.2
Due greater than a year	2.5	0.7	2.0	0.4	5.0	1.6	122.0	13.1
Total	370.1	100.0%	479.4	100.0%	308.7	100.0%	931.9	100.0%

We focus on providing short-term entrusted loans to minimize our risk exposure and, as a result, substantially all of our entrusted loans have a maturity of less than one year.

Distribution of loans by exposure size

The following table presents the distribution of our entrusted loan exposure by size as of the dates indicated:

	As of December 31,						As of October 31,	
	2010		2011		2012		2013	
	Outstanding loan balance	% of total	Outstanding loan balance	% of total	Outstanding loan balance	% of total	Outstanding loan balance	% of total
	(RMB in millions, except percentage)							
Up to RMB100,000	–	–	0.3	0.1%	–	–	0.1	–
Over RMB100,000 to RMB500,000	–	–	7.8	1.6	1.2	0.4%	5.3	0.6%
Over RMB500,000 to RMB1 million	13.8	3.7%	20.8	4.3	12.2	4.0	15.4	1.7
Over RMB1 million to RMB3 million	58.0	15.7	91.9	19.2	37.9	12.3	93.0	10.0
Over RMB3 million	298.3	80.6	358.6	74.8	257.4	83.3	818.1	87.7
Total	370.1	100.0%	479.4	100.0%	308.7	100.0%	931.9	100.0%

Due to changes in available funds in our credit guarantee subsidiaries and in our product strategy from time to time, the total balances and average balances of our entrusted loans fluctuated during the Track Record Period. As of December 31, 2010, 2011 and 2012 and

October 31, 2013, our outstanding entrusted loans totaled RMB370.1 million, RMB479.4 million, RMB308.7 million and RMB931.9 million, respectively. The average balance of our outstanding entrusted loans increased substantially to RMB1,031.8 million in 2011 compared with RMB467.4 million in 2010 due to more available funds we had during the first half of 2011. Such average balance decreased to RMB424.0 million in 2012 due to our product strategy of promoting and increasing fully secured bank financing guarantees while reducing entrusted loans in 2012. During the ten months ended October 31, 2013, our available funds increased following the equity contributions from our shareholders and other investors and therefore we increased the offering of entrusted loans, with an average balance of RMB854.1 million, during the same period. In 2010, 2011, 2012 and the ten months ended October 31, 2013, we entered into entrusted loan arrangements with 66, 112, 56, 134 customers, respectively.

Given that an entrusted loan usually has a larger principal amount compared with our micro and small loans, the interest and handling fee rate on each entrusted loan is subject to our negotiations with individual customers and may differ substantially based on the actual credit and type of the borrower. Our average interest and handling fee rate for entrusted loans decreased from 29.46% in 2010 to 25.26% in 2011 and further decreased to 24.67% in 2012, reflecting market competition and a reduction in negotiated interest rate. Our average interest and handling fee rate for entrusted loans was 23.81% in the ten months ended October 31, 2013.

SALES AND MARKETING

We source our customers principally through our sales and marketing team, and through referrals from banks and other financial institutions, as well as referrals from existing customers.

Our Sales and Marketing Team

Our sales and marketing team consists primarily of our project managers who work on an incentive basis. As of October 31, 2013, we had over 970 sales and marketing employees. Our sales team conducts client development activities primarily through direct on-site marketing, phone calls and sales campaigns. In addition, our product advertisements and website are also important sales and marketing channels.

To ensure high-quality and professional customer services, we provide regular training and assessment programs to our sales and marketing employees focusing on product awareness, risk management and professional ethics. We also organize internal examinations to evaluate our new employees' skills and knowledge. As part of our risk management policy, we generally defer 10% to 20% of the commission payable to our sales and marketing employees until the guarantees or loans we provided are released or repaid.

Referrals from Banks and Other Financial Institutions

Referrals from cooperating banks are a key source for our bank financing guarantee business. As of October 31, 2013, we had entered into cooperation arrangements with 65 commercial banks in China, including national commercial banks, local commercial banks, policy banks and rural banks, which had agreed to extend in aggregate over RMB38 billion of credit lines to borrowers we guarantee.

Industry associations in China and other financial institutions, such as trust companies, financial leasing companies, insurance companies and rating agencies, also provide customer referrals to us.

Referrals from Existing Customers

We value our customers and strive to build long-term and enduring relationships with them. During the Track Record Period, customer referrals and repeat customers also constituted an important source for our business.

KEY BUSINESS PROCESS

We have a standard business process for reviewing, processing and approving a guarantee or loan application. See "Risk Management."

Application Acceptance: We will consider whether to accept a customer's application for a guarantee or loan based on an initial assessment of the customer's background and purpose of the request.

Due Diligence: We will collect business and financial information from the customer and conduct on-site visits and interviews with relevant third parties. Our evaluation of our customer is comprehensive, including obtaining information on the customer's corporate culture, family relationships among controlling persons, and educational background, working experience and lifestyle. We also assess the quality and quantity of security measures to be provided, including counter-guarantee or guarantee, and collateral. Based upon the results of the due diligence review, our project manager will prepare and submit a credit evaluation report for internal review and approval.

Review and Approval: Our independent risk management committee is responsible for reviewing the credit evaluation report and approving the request for a medium transaction with a value exceeding RMB5.0 million, while our loan approval officers have the right to approve a small or micro transaction principally with a value below RMB5.0 million based on their respective credit approval levels. We determine the terms and conditions of a guarantee or loan contract during the approval process, such as pricing, principal amount, duration, and payment terms. It typically takes us less than five days to complete the review and approval process for a medium transaction application and one to three days for a small or micro transaction application.

Most financing requests that cannot meet our basic customer eligibility requirements are screened out by our project managers in the initial customer acceptance process, and will not be further processed. The following table shows the rejection rate in our business during the review and approval process for the periods indicated:

	Year ended December 31,			Ten months ended October 31,
	2010	2011	2012	2013
Credit Guarantees				
Number of applications received . . .	1,177	4,084	3,603	3,353
Declined applications after review . .	104	455	511	352
Rejection rate.	8.8%	11.1%	14.2%	10.5%
Micro and Small Loans				
Number of applications received . . .	5,230	6,319	13,198	14,783
Declined applications after review .	2,337	1,577	1,817	1,372
Rejection rate[(1)]	44.7%	25.0%	13.8%	9.3%

(1) The rejection rate of our micro and small loan business decreased during the Track Record Period as our ability to pre-screen creditworthy customers gradually improved over time. Compared with 2010, we believe that pre-screening conducted by our project managers are more effective and focused, and that the credit applications are of better quality. As a result, the rejection rate decreased to 9.3% in the ten months ended October 31, 2013.

Signing and Closing*:* We will proceed with signing and closing once internal approval is received. If any collateral is posted by the customer, we will register our security interest in such collateral with the relevant government authorities before we issue the letter of guarantee to banks or make our funds available for drawdown.

Portfolio Management*:* In our credit guarantee business, in cases where heightened risk is detected, such as material changes to the customer's business or difficulties in repaying the financing we guaranteed, our risk management team will step in and participate in communicating with our customer. If a customer defaults, we will proceed with the collection process, through which we seek repayment of any default payment receivables or impaired loans we granted.

In our SME lending business, we conduct periodical and *ad hoc* review of our loan portfolio and make visits or hold client interviews with our loan customers.

Collection: We have a standard collection procedure in our credit guarantee and SME lending businesses.

We initiate the collection process when we make default payments or a customer defaults on the loans we granted. Our business team and risk management team will negotiate the terms of a repayment plan with the default customer and enter into a repayment agreement with such default customer.

If the default customer fails to make full repayment according to the repayment plan or we are unable to reach an agreement with the default customer regarding the repayment plan, we will approach the third-party counter-guarantors regarding the repayment of the loan (including default payment receivables) or, upon approval from the Risk Management Department at the group level, may take necessary legal actions, including legal proceedings against the default customer and counter-guarantors, and enforcement actions, such as attaching their assets, freezing their bank accounts, or through court's sale of the collateral by auction. Upon approval from the Risk Management Department at the group level, we may also engage law firms or other professionals to assist in the collection process.

If we reach an agreement with a default customer regarding a repayment plan and such repayment plan is duly fulfilled, for default credit guarantee customers and entrusted loan customers we normally recover the default payment within six months after making such payments; and for default micro and small loan customers, we normally recover the default payments within one month after default. As advised by our PRC legal advisors, where we bring an action in a court in the PRC for the disposal of collateral or attached assets, the court will normally conclude the case within one year from the date of acceptance, and the parties normally finish the enforcement process within six months from the date when the court accepts the enforcement application. The entire recovery process may take approximately 18 months or longer.

PROVISIONING POLICIES AND ASSET QUALITY

Provisioning for Guarantee Loss and Impairment Losses on Default Payment Receivables

According to the Interim Measures, a financing guarantee company must set aside 50% of its guarantee fee income for a period as provisions for outstanding guarantees and not less than 1% of its total outstanding guarantees at the end of the year as provisions for guarantee loss. In addition, according to the accounting standards promulgated by the Ministry of Finance, a financing guarantee company must apply the applicable accounting policies which it adopts regarding the recognition of guarantee income and provisioning for guarantee losses. In light of the different requirements for making provisions, the Company has consulted with the CBRC, which confirmed that, while a financing guarantee company shall apply the applicable accounting policies for recognizing guarantee fee income and assessing the provisions for guarantee losses when preparing its financial statements, the total amount of provisions made pursuant to the accounting rules shall not be less than those that need to be made under the Interim Measures. During the Track Record Period, we had complied with the Interim Measures because the total provisions made by our guarantee subsidiaries, which were assessed based on applicable accounting policies, were higher than the amount of provisions for outstanding guarantees and for guarantee loss required to be made under the Interim Measures.

According to our provisioning policy, we assess our outstanding guarantees on a quarterly basis to make a reasonable estimate of the level of provisions necessary to cover probable losses. If it is determined that we have a legal or constructive obligation arising as a result of past events and if it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made, we will recognize a provision for guarantee losses in our income statement. We determine the provisions by making individual and collective assessments of our outstanding guarantees as of the end of the relevant reporting period.

For the purpose of determining our provision for guarantee losses, we consider factors including the historical default rate, loss ratio and economic cycle. The default rate is the rate at which guarantee customers default on the guaranteed loan amounts that they owe. The loss ratio indicates the level of estimated loss for our default payment receivables. We use default rate and loss ratio to determine the provision ratio for our credit guarantee business. In addition, we make adjustments to provision ratios by taking into account changes in a number of economic indexes, such as the GDP growth rate and the macro-economic climate index, to reflect the prevailing macro-economic conditions into the estimated loss ratio of our credit guarantee business. For example, in light of the credit tightening and the collapse of certain guarantee companies in China in 2012, we have increased our provision ratio from 1.6% as of December 31, 2011 to 1.9% as of December 31, 2012.

In 2010, 2011 and 2012 and the ten months ended October 31, 2013, we made default payments of RMB13.1 million, RMB32.0 million, RMB198.5 million and RMB190.4 million, respectively, while the balance of provisions we made for guarantee losses as of December 31, 2010, 2011 and 2012 and October 31, 2013 amounted to RMB104.6 million, RMB228.6 million, RMB280.2 million and RMB383.2 million, respectively. We consider this indicates that we have made sufficient provisioning in our credit guarantee business throughout the Track Record Period. As such, our Directors believe that our provisions for guarantee losses were adequate.

Once the borrower defaults and we repay the financing on its behalf, we record the relevant payment as default payment receivables on our statement of financial position. For each of our default payment receivables, we normally assess, on an individual basis, the on-going business operations of the borrowers and cost for disposing of the collateral provided (if any) as well as other factors to determine the reasonable amount of provisions for probable losses, and recognize the related provisions using the concept of impairment under Hong Kong Accounting Standard 39 (“HKAS 39”). According to our accounting policies, if there is objective evidence that indicates the cash flow for a default payment is expected to decrease and the amount can be estimated, we impair such default payment and recognize a relevant amount of impairment loss.

The following table shows the key default and loss ratios in our credit guarantee business.

	As of or for the year ended December 31,			As of or for the ten months ended October 31,
	2010	2011	2012	2013
	(RMB in millions, except percentage)			
Default rate[1]	0.4%	0.4%	1.2%	1.4%
Default payment	13.1	32.0	198.5	190.4
Guarantees released	2,937.1	8,489.5	15,954.2	13,537.6
Provision ratio[2]	1.2%	1.6%	1.9%	2.0%
Provisions for guarantee losses	104.6	228.6	280.2	383.2
Total balance of our outstanding guarantees	8,798.7	14,212.5	14,686.2	19,410.4
Loss ratio[3]	0.3%	0.2%	0.6%	1.1%
Impairment losses on default payment receivables	8.0	16.5	90.2	147.6
Guarantees released	2,937.1	8,489.5	15,954.2	13,537.6
Loss/revenue ratio[4]	6.4%	3.5%	11.2%	18.8%
Impairment losses on default payment receivables	8.0	16.5	90.2	147.6
Revenue from our credit guarantee business	124.7	467.2	807.8	784.5
Recovered amount[5]	5.1	16.0	58.1	18.3
Recovery ratio[6]	38.9%	50.0%	29.3%	9.6%

(1) Default payment divided by guarantees released. Default rate indicates the quality of our guarantee portfolio. We use the amount of guarantees released to calculate our default rate because such method is recommended by the CBRC in its notice published in September 2010. We believe that a comparison of default payments against our guarantees released during the same period provides a better representation of our default rate since a guarantee will be released upon full repayment of borrowings by our customer or our default payments. By dividing the default payment by the amount of guarantees released, we can properly present the default payment as a percentage of the aggregate amount of guarantees released.

(2) Provisions for guarantee losses at a period end divided by the balance of the outstanding guarantees. The provision ratio indicates the level of reserve we set aside for our guarantee portfolio.

(3) Impairment losses on default payment receivables divided by guarantees released. Loss ratio indicates the level of estimated loss for our default payments receivables. Similar to the calculation of our default rate, we believe a comparison of the amount of impairment losses on default payment receivables against our guarantees released during the same period provides a better representation of our loss ratio.

(4) Impairment losses on default payment receivables divided by segment revenue from our credit guarantee business. Loss/revenue ratio is a benchmark that our management uses to monitor our financial results in relation to impairment loss incurred for a given period.

(5) Amount we recovered from default customers as of December 31, 2013 against the default payments we made in the period indicated. Potential investors should note that our recovered amounts may increase over time as our collection and recovery process may take 18 months or more on average.

(6) "Recovered amount" for the period indicated divided by default payment during the same period.

We measure the quality of our guarantee portfolio by monitoring the fluctuations in our default rate, which indicates the percentage of how much customer default we have recorded and the corresponding amount of guarantee contracts being released in a given period. Assuming the amount of guarantees released from our credit guarantee business remains unchanged during a given period, the occurrence of one additional guarantee default during such period will cause our default payment and therefore the default rate to increase. After we make a default payment, we will proceed to collect such outstanding amount directly from the default customer. The probability of such collection is measured by the loss ratio, which indicates how much provision for the cumulative outstanding receivables that we deem to be unrecoverable or the level of estimated loss for default payment receivables at each period end. Such provision for impairment losses on default payment receivables is then used by our management to monitor the overall financial performance of our credit guarantee business, as measured by the loss/revenue ratio. Generally speaking, the lower the loss/revenue ratio, the better our credit guarantee business has performed financially in a given period. Therefore, if there is any objective evidence that indicates that any portion of our default payment receivables is unrecoverable, we will increase the provision for impairment losses on default payment receivables, in which case our loss ratio and loss/revenue ratio will also increase.

The provision ratio does not measure the actual level of default in our guarantee portfolio but the level of reserve we set aside for potential losses based on our total outstanding guarantee balance as of each period end. When making provision on our guarantee portfolio, we consider factors including historical default rate, loss ratio and prevailing macro-economic conditions.

Our overall default rate was 0.4%, 0.4%, 1.2% and 1.4% in 2010, 2011 and 2012 and the ten months ended October 31, 2013, respectively. For our financing guarantee business, the default rate was 0.5%, 0.3%, 1.3% and 1.4% in 2010, 2011 and 2012 and the ten months ended October 31, 2013, respectively. This default rate decreased from 0.5% in 2010 to 0.3% in 2011 due to the effect of a one-off default payment of RMB8.0 million in 2010. Due primarily to the rapid growth of our financing guarantee business in 2011 and the effect of the unfavorable overall market and industry conditions in China, particularly the Yangtze River Delta, since 2012 the default rate in our financing guarantee business increased from 0.3% in 2011 to 1.3% in 2012. In the ten months ended October 31, 2013, the increase in our default rate to 1.4% was primarily due to a default in repayment of RMB40.7 million by one of our non-bank financing customers.

In our non-financing guarantee business, we did not experience any defaults in 2010 and 2012. In 2011, a court in Chongqing enforced an attachment bond we issued, resulting in a one-off default rate of 0.6% in our non-financing guarantee business in 2011. Given the lower fee rate we charge for attachment bonds compared with other guarantee products and services, we have gradually reduced our offering of attachment bonds in 2012 to mitigate potential risk exposure.

In line with the changes in our default rate during the Track Record Period, our loss ratio was 0.3%, 0.2%, 0.6% and 1.1% in 2010, 2011 and 2012 and the ten months ended October 31, 2013, respectively.

In addition, our management also uses loss/revenue ratio to monitor the financial results in relation to the impairment loss incurred in our credit guarantee business. The loss/revenue ratio in our credit guarantee business was 6.4%, 3.5%, 11.2% and 18.8% in 2010, 2011 and 2012 and the ten months ended October 31, 2013, respectively. The substantial increases in our loss/revenue ratio in 2012 and the ten months ended October 31, 2013 were due to the combination of the following:

- the significant growth in our average outstanding balance of financing guarantees since 2011, which increased from RMB4,462.1 million in 2010 to RMB10,440.7 million in 2011, and further to RMB13,954.5 million in 2012 and RMB16,827.7 million in the first ten months of 2013. As most of our guarantee contracts have a maturity period of up to 12 months, they may fall due during the year following the date the contracts were initially entered into. As a result, the significant increase in our average balance of guarantees in 2011 also led to a significant increase in guarantees released in 2012, contributing to the relatively significant increase in our default payments and accordingly in our default payment receivables, which in turn contributed to the increase in impairment losses we provided for on such receivables;

- the unfavorable overall market and industry conditions in China which contributed to increasing customer defaults on the financing we guaranteed that became due in 2012 and 2013, thereby increasing our guarantee default rate from 0.4% in both 2010 and 2011 to 1.2% in 2012 and 1.4% during the ten months ended October 31, 2013 and, as a result, an increase in the level of impairment losses we provided for our default payment receivables; and

- an increase in our loss ratio from 0.2% in 2011 to 0.6% in 2012 and 1.1% in the ten months ended October 31, 2013, which was a result of the more conservative provisioning policies we adopted in 2012 and 2013 in light of the deteriorating general credit and economic conditions in China as well as the historical recovery rate of our default payment receivables.

Up to December 31, 2013, RMB5.1 million, RMB16.0 million, RMB58.1 million and RMB18.3 million, respectively, of our default payments in 2010, 2011, 2012 and the ten months ended October 31, 2013, respectively, were subsequently recovered by us, representing a recovery ratio of 38.9%, 50.0%, 29.3% and 9.6%, respectively. As our collection and recovery process may take 18 months or more on average, our recovered amount and recovery ratio typically improve over time. As of October 31, 2013, the balance of our impairment losses on default payment receivables represented 73.6% of our outstanding default payment receivables, which reflects the cumulative portion of default payment receivables that we estimated to be unrecoverable, or conversely 26.4% of our cumulative default payment receivables were estimated to be recoverable. Given the average recovery ratio of our default payment receivables was 39.4% in 2010, 2011 and 2012, we believe the impairment losses we provided on default payment receivables were adequate.

Notwithstanding the foregoing increase in our loss/revenue ratio, as our credit guarantee business consistently maintained a pre-tax segment margin (before provision and impairment loss) of above 50% throughout the Track Record Period, our Directors consider that our loss/revenue ratios remained acceptable.

In 2010, 2011 and 2012 and the ten months ended October 31, 2013, the segment margin before taxation (calculated based on our reportable segment profit before taxation adding back provisions for guarantee losses and impairment loss, and dividing the sum by our reportable segment revenue) for our credit guarantee business was 50.6%, 78.0%, 75.3% and 64.6%, respectively. The lower margin reported in 2010 was primarily due to increases in staff costs, business tax and surcharges, operating lease charges and other miscellaneous expenses incurred in 2010 as we prepared to utilize our expanded capital base to expand our credit guarantee business. The scale of our credit guarantee business increased significantly in 2011, with the balance of our outstanding financing guarantee increased from RMB6.9 billion as of December 31, 2010 to RMB12.2 billion as of December 31, 2011. Our pre-tax segment margin (before provision and provision loss) exhibited a general downward trend after 2011, mainly due to the increase in administrative expenses, including staff costs, traveling, operating lease charges and other costs, as a result of establishing new branches.

The following table shows a breakdown of our default payment in the ten months ended October 31, 2013:

Industry	**Number of customers**	**Amount**
		(RMB in millions)
Wholesale and retail	14	68.3
Manufacturing	17	67.4
Energy	2	10.5
Others	5	44.2
Total	**38**	**190.4**

During the Track Record Period, the difficulties in collecting default payments from the counter-guarantors of the relevant default customers principally involve locating the counter-guarantors and/or collecting full repayment from them. See "Risk Factors — Risks Relating to Our Business and Industry — We largely rely on the creditworthiness of each individual customer and/or its counter-guarantors rather than collateral." The following table presents a summary on our collection of repayment from relevant counter-guarantors during the Track Record Period where we experienced difficulties in collecting full repayment as of October 31, 2013:

	Year ended December 31,						**Ten months ended October 31, 2013**	
	2010		**2011**		**2012**			
	number/ amount	**percentage**	**number/ amount**	**percentage**	**number/ amount**	**percentage**	**number/ amount**	**percentage**
Number of defaults (cannot locate counter-guarantors)(3)	1	1.0%(1)	1	1.0%(1)	4	4.0%(1)	1	1.0%(1)
Shortfall amounts (cannot locate counter-guarantors)(3) (RMB in millions)	8.0	2.2%(2)	1.0	0.3%(2)	35.3	9.9%(2)	0.9	0.3%(2)
Number of defaults (counter-guarantors defaults)(4)	–	–(1)	2	2.0%(1)	11	10.9%(1)	11	10.9%(1)
Shortfall amounts (counter-guarantors defaults)(4) (RMB in millions)	–	–(2)	5.3	1.5%(2)	39.1	11.0%(2)	34.2	9.6%(2)

(1) The number of defaults during the period indicated where we were unable to locate counter-guarantors or the counter-guarantors remained unable to make full payments, as the case may be, as of October 31, 2013 divided by the number of defaults with default payment receivable as of October 31, 2013.
(2) The shortfall amounts divided by the total default payment receivable as of October 31, 2013.
(3) The number of defaults or the shortfall amounts of defaults, as the case may be, during the period indicated where we were unable to locate any of the counter-guarantors for our default customers as of October 31, 2013.
(4) The number of defaults or the shortfall amounts of defaults, as the case may be, during the period indicated where the counter-guarantors were located but unable to make full repayment to us as of October 31, 2013.

As of December 31, 2013, for the transactions in November and December 2013 where we made default payments and sought repayment from the relevant counter-guarantors, we were able to locate all of the relevant counter-guarantors; while there are seven transactions (representing 6.0% of the number of defaults with default payment receivables as of December 31, 2013) where the counter-guarantors were unable to make full repayment to us, involving a shortfall amount of RMB12.7 million as of December 31, 2013 (representing 3.1% of the total default payment receivable as of the same date).

Provisions for Loan Loss

In our SME lending business, we adopt a loan classification approach to manage our loan portfolio risk. We categorize our loans by reference to the "Five-Tier Principle" set forth in "The Guidance on Provisioning for Loan Losses" issued by the PBOC. We make provision for the anticipated level of loan loss after categorizing the loan according to the "Five-Tier Principle." According to the "Five-Tier Principle," our loans are categorized as "normal," "special-mention," "substandard," "doubtful" or "loss" according to their levels of risk. We consider our "substandard," "doubtful" and "loss" loans as impaired loans.

The definition of each category of loans is set forth below:

Normal: Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special-Mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.

Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

We assess impairment loss either collectively or individually as appropriate. We assess our loans for impairment on a quarterly basis, determine a level of allowance for impairment losses, and recognize any related provisions using the concept of impairment under HKAS 39. See "Financial Information — Critical Accounting Policies, Judgments and Estimates — Critical Accounting Policies — Financial Instruments" and Section B (note 1) to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus.

According to our accounting policies, if there is objective evidence that indicates the cash flow for a particular loan is expected to decrease, and the amount can be estimated, we record the loan as an impaired loan and recognize a relevant amount of impairment loss.

The following table shows the key default and loss ratios in our SME lending business:

	As of or for the years ended December 31,			As of or for the ten months ended October 31,
	2010	2011	2012	2013
	(RMB in millions, except percentage)			
Impaired loan ratio[(1)]	**4.9%**	**4.2%**	**3.1%**	**2.4%**
Micro and small loans	0.7%	0.7%	2.0%	2.6%
Entrusted loans	11.5%	12.8%	9.4%	1.8%
Balance of impaired loans	46.5	69.5	63.8	94.3
Micro and small loans	3.9	8.1	34.7	77.9
Entrusted loans	42.6	61.4	29.1	16.4
Balance of outstanding loans	945.7	1,665.3	2,045.6	3,888.7
Micro and small loans	575.5	1,185.9	1,736.9	2,956.8
Entrusted loans	370.2	479.4	308.7	931.9
Allowance coverage ratio[(2)]	**50.1%**	**69.7%**	**131.6%**	**168.3%**
Micro and small loans	269.2%	293.8%	180.4%	156.6%
Entrusted loans	30.0%	40.1%	73.5%	223.8%
Allowance for impairment losses[(3)]	23.3	48.4	84.0	158.7
Micro and small loans	10.5	23.8	62.6	122.0
Entrusted loans	12.8	24.6	21.4	36.7
Balance of impaired loans	46.5	69.5	63.8	94.3
Micro and small loans	3.9	8.1	34.7	77.9
Entrusted loans	42.6	61.4	29.1	16.4
Provision for impairment losses ratio[(5)]	**2.5%**	**2.9%**	**4.1%**	**4.1%**
Loss/revenue ratio[(4)]	**8.7%**	**6.7%**	**11.9%**	**16.6%**
Impairment losses on loans	17.1	27.0	39.8	76.8
Revenue from our SME lending business	197.2	403.1	335.5	462.3

(1) The balance of impaired loans divided by the balance of the outstanding loans. Impaired loan ratio indicates the quality of our loan portfolio.

(2) Allowance for impairment loss for all loans (including allowances provided for performing loans which are assessed collectively, and allowances provided for impaired loans which are assessed collectively or individually) divided by the balance of impaired loans. Allowance coverage ratio indicates the level of allowance we set aside to cover probable loss in our loan portfolio.

(3) Allowance for impairment losses reflects our management's estimate of the probable loss in our loan portfolio.

(4) Impairment loss on loans divided by segment revenue from our SME lending business. Loss/revenue ratio is a benchmark which our management uses to monitor our financial results in relation to impairment loss incurred.

(5) Allowance for impairment losses divided by the balance of outstanding loans. Provision for impairment losses ratio measures the cumulative level of provisions.

Our impaired micro and small loans increased from RMB3.9 million as of December 31, 2010 to RMB34.7 million as of December 31, 2012 and further to RMB77.9 million as of October 31, 2013, generally in line with the substantial increase in the total balance of our outstanding micro and small loans in the Track Record Period. Our impaired micro and small loan ratio increased from 0.7% in 2011 to 2.0% in 2012 due primarily to the effect of the unfavorable overall market and industry conditions in China during 2012. Such adverse effect continued to impact our impaired micro and small loan ratio in 2013, which further increased to 2.6% in the ten months ended October 31, 2013.

Our impaired entrusted loans increased from RMB42.6 million as of December 31, 2010 to RMB61.4 million as of December 31, 2011, due primarily to the substantial increase in the average balance of our entrusted loans in 2011. As we disposed of RMB27.3 million of impaired entrusted loans to a related party in 2012, the balance of our impaired entrusted loans decreased to RMB29.1 million as of December 31, 2012 and our impaired entrusted loan ratio decreased from 12.8% in 2011 to 9.4% in 2012. In the ten months ended October 31, 2013, our impaired entrusted loans decreased to RMB16.4 million and our impaired entrusted loan ratio decreased to 1.8% due to our recovery of certain impaired entrusted loans during the period and the increased balance of entrusted loans to RMB931.9 million as of October 31, 2013.

As the size of each entrusted loan is generally larger than a micro or small loan and we generally have a smaller number of entrusted loan customers compared with our micro and small loan business, we assess our entrusted loans for impairment on an individual basis.

Our allowance coverage ratio increased from 50.1% as of December 31, 2010 to 131.6% as of December 31, 2012 and further increased to 168.3% as of October 31, 2013. This trend is generally consistent with the increases of allowance to loan ratios reported by some sizeable commercial banks in China in recent years. As such, we believe that our provisions for impairment losses were adequate.

Our allowance coverage ratio for entrusted loans increased substantially from 73.5% as of December 31, 2012 to 223.8% as of October 31, 2013, due to an increase in allowance for impairment loss on entrusted loans and a decrease in our impaired entrusted loans. Our allowance for impairment loss on entrusted loans increased from RMB21.4 million as of December 31, 2012 to RMB36.7 million as of October 31, 2013, as a result of an increase in entrusted loans from RMB308.7 million as of December 31, 2012 to RMB931.9 million as of October 31, 2013. Our impaired entrusted loans decreased from RMB29.1 million as of December 31, 2012 to RMB16.4 million as of October 31, 2013, due to a recovery of defaulted entrusted loans of RMB15.5 million in the first ten months of 2013.

In addition, our management also uses a loss/revenue ratio to monitor our financial results in relation to the impairment loss incurred in our SME lending business. The increase in our loss/revenue ratio in 2012 and the first ten months of 2013 was due to the combination of the following:

- the substantial increase in our average loan balance during the Track Record Period, resulting in an increase in our general provisions for impairment losses collectively assessed;
- unfavorable overall market and industry conditions in China and the resulting increase in customer defaults on our loans that became due in 2012 and 2013; and
- an increase in our provision for impairment losses ratio from 2.9% in 2011 to 4.1% in 2012 and 4.1% in the ten months ended October 31, 2013, which resulted from the more conservative provisioning policies we adopted in 2012 and 2013 in light of the deteriorating general credit and economic conditions in China as well as our historical recovery rate.

Despite the foregoing increase in loss/revenue ratio, as our SME lending business consistently maintained a segment margin before taxation (before impairment loss) of over 60% throughout the Track Record Period, our Directors consider that our loss/revenue ratios remained acceptable.

During the Track Record Period, the segment margin before taxation (calculated based on our reportable segment profit before taxation adding back impairment loss, and dividing the sum by our reportable segment revenue) for our SME lending business was 73.9%, 71.9%, 62.5% and 71.9%, respectively. Generally, the segment margin before taxation (before provision and impairment loss) for our SME lending business remained consistently over 70% during the Track Record Period except for 2012, in which year it was 62.5%, due primarily to the reduced average balance of our entrusted loans in 2012, which carried a higher interest rate than our micro and small loans.

The following table shows a breakdown of our impaired loans by industry as of October 31, 2013:

Industry	Number of customers	Amount of impaired loans
		(RMB in millions)
Wholesale and retail	126	29.4
Manufacturing and processing	40	24.1
Household goods	15	1.2
Construction	3	5.2
Agricultural	5	3.3
Others	31	31.1
Total	**220**	**94.3**

During the Track Record Period, the difficulties in collecting default payments from the counter-guarantors of the relevant default customers principally involve locating the counter-guarantors and/or collecting full repayment from them. See "Risk Factors — Risks Relating to Our Business and Industry — We largely rely on the creditworthiness of each individual customer and/or its counter-guarantors rather than collateral." The following table presents a summary on our collection of repayment from relevant counter-guarantors during the Track Record Period where we experienced difficulties in collecting full repayment as of October 31, 2013:

	For the year ended December 31,						For the ten months ended October 31, 2013	
	2010		2011		2012			
	number/ amount	percentage	number/ amount	percentage	number/ amount	percentage	number/ amount	percentage
Number of defaults (cannot locate counter-guarantors)(3)	1	0.9%(1)	4	3.4%(1)	33	28.2%(1)	17	14.5%(1)
Shortfall amounts (cannot locate counter-guarantors)(3) (RMB in millions)	0.03	0.03%(2)	5.2	5.5%(2)	4.8	5.1%(2)	3.1	3.3%(2)
Number of defaults (counter-guarantors defaulted)(4)	2	1.7%(1)	11	9.4%(1)	61	52.1%(1)	59	50.4%(1)
Shortfall amounts (counter-guarantors defaulted)(4) (RMB in millions)	0.1	0.1%(2)	4.0	4.2%(2)	5.1	5.4%(2)	15.7	16.7%(2)

(1) The number of defaults during the period indicated where we were unable to locate counter-guarantors or the counter-guarantors remained unable to make full payments, as the case may be, as of October 31, 2013 divided by the number of defaults with unrecovered loan amounts as of October 31, 2013.
(2) The shortfall amounts divided by the balance of the default loan amount as of October 31, 2013.
(3) The number of defaults or the shortfall amounts of defaults, as the case may be, during the period indicated where we were unable to locate any of the counter-guarantors of default customers as of October 31, 2013.
(4) The number of defaults or the shortfall amounts of defaults, as the case may be, during the period indicated where the counter-guarantors were located but were unable to make full repayment to us as of October 31, 2013.

As of December 31, 2013, for the transactions in November and December 2013 where the borrowers defaulted in making timely repayment and we sought repayment from the relevant counter-guarantors, we were unable to locate the relevant counter-guarantors in 18 transactions (representing 6.3% of the number of defaults with unrecovered loan default amounts as of December 31, 2013), involving a shortfall amount of RMB2.5 million as of December 31, 2013 (representing 2.0% of balance of loan default amount as of the same date); while there were 29 transactions where the counter-guarantors which we were able to locate but unable to make full repayment (representing 10.2% of the number of defaults with unrecovered loan default amounts as of December 31, 2013), involving a shortfall amount of RMB3.8 million as of December 31, 2013 (representing 3.1% of the balance of loan default amount as of the same date).

TOP FIVE CUSTOMERS AND COOPERATING BANKS

Our customers primarily include SMEs, microenterprises and individuals. In 2010, 2011 and 2012 and the ten months ended October 31, 2013, revenue derived from our five largest customers accounted for less than 30% of our total net fee and interest income during those periods.

In 2010, 2011 and 2012 and the ten months ended October 31, 2013, our five largest cooperating banks provided 75.5%, 65.8%, 53.0% and 51.7%, respectively, of the total bank financing we guaranteed, while the largest cooperating bank provided 29.8%, 30.0%, 16.9% and 18.3%, respectively, of the total bank financing we guaranteed for the same periods. As of October 31, 2013, we guaranteed a total financing of RMB7,625.1 million provided by our top five cooperating banks. We have no major suppliers due to the nature of our business.

None of our Directors, nor any of their respective associates, nor any Shareholder who, to the knowledge of our Directors, held more than 5% of our issued Shares, had any interest in our five largest customers during the Track Record Period.

COMPETITION

Competition across our two business lines is intense as the numbers of both credit guarantee companies and micro and small loan companies are rapidly increasing. According to Euromonitor, there were approximately 8,590 financing guarantee companies and 6,080 micro and small loan companies in China as of December 31, 2012.

In our credit guarantee business, our major competitors include regional-based state-owned or foreign-invested guarantee companies which have a strong presence in the 19 provinces in which we operate. According to Euromonitor, starting from 2011, due to the more stringent regulations for the financial guarantee industry and reduced credit line from banks, many small guarantee companies were adversely affected and certain small and unqualified guarantee companies were forced out of business. Meanwhile, a small number of medium-sized and large-sized guarantee companies, including us, with proven capital base and effective risk management, have successfully weathered regulatory and market changes and experienced further growth. Our largest competitors in this business line include China United SME Guarantee Corporation, Hebei Financing Investment Holding Group Co., Ltd. and China National Investment & Guarantee Co., Ltd. We compete primarily on the basis of:

- capital base;
- relationships with cooperating banks;
- customer service;
- pricing and terms; and
- brand name.

In our SME lending business, our main competitors include local micro and small loan companies, private money lenders, wealthy individuals and rural banks which lend to micro and small businesses. Our largest competitors in this business line include United Asia Finance and Alibaba Small-loan Co., Ltd. We compete primarily on the basis of:

- pricing and terms;
- customer service and accessibility;
- brand recognition; and
- access to funding.

As we expand into new regions and product areas, we will face competition from additional competitors. See "Risk Factors — Risks Relating to Our Business and Industry — We may face increasing competition from existing and new market participants."

INSURANCE

We maintain standard insurance, including vehicle, life and disability, as well as medical, insurance. Our insurance coverage is provided by reputable companies in accordance with commercially reasonable standards. Consistent with the industry practice in China, we do not maintain business interruption insurance, key-person insurance or insurance covering potential liabilities.

We believe that our insurance coverage is sufficient for its present purposes and is consistent with the insurance coverage of other financial services companies in China. We periodically review our insurance coverage to ensure that it is adequate.

EMPLOYEES

As of October 31, 2013, we had 1,596 full-time employees, all of whom had entered into employment contracts with us. The following tables show breakdowns of our employees by business function and by educational background as of October 31, 2013:

	Number of employees	% of total
Credit guarantee business	600	37.6%
Micro and small loans business	375	23.5
Risk management	279	17.5
Finance and accounting	88	5.5
Information technology	29	1.8
Administration	225	14.1
Total	**1,596**	**100.0%**

	Number of employees	% of total
Master's degree or above	154	9.6%
Bachelor's degree	1,116	69.9
Junior college graduate and below	326	20.5
Total	**1,596**	**100.0%**

We believe the sustainability of our growth depends on the capability and loyalty of our employees. Our management recognizes the importance of realizing personal values for our employees and promotes a transparent appraisal system for all our employees seeking career advancement across different business departments. Our appraisal system provides the basis for making human resource decisions such as remuneration adjustment, granting bonuses, career promotion and employee share incentive programs.

In order for us to maintain a competitive edge in the marketplace, we will continue to focus on attracting and retaining qualified professionals by offering a performance-based and market-driven compensation structure that rewards performance and results. In addition to base salary, we also offer commission-based salary to incentivize our frontline sales staff based on their performance. Such commissions typically range from 2% to 5% of their revenue contribution, depending primarily on product type, transaction size and the duration of the local branch's existence. In 2010, 2011 and 2012 and the ten months ended October 31, 2013, we paid RMB5.8 million, RMB6.9 million, RMB18.1 million and RMB27.1 million, respectively, to our employees as commission-based salary. In accordance with applicable PRC laws and regulations, we provide our employees with benefits, such as basic pension insurance, basic medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing provident funds.

We recognize the importance of having a team of well-trained and home-grown employees and provide them with comprehensive training programs focused on product awareness, risk management and professional ethics to improve their business skills, enhance their ability to manage risks and to help them demonstrate a high standard of diligence.

To date, we have not experienced any labor strikes or other material labor disputes that have affected our operations. We believe that our senior executives, labor union and employees will continue to maintain good relationships with each other.

INFORMATION TECHNOLOGY

Our information technology systems are integral to many aspects of our business operations, including transaction processing, risk management, customer services and financial management. Historically, we have incorporated a number of functions into our IT systems to improve the efficiency and quality of our services and to further strengthen our risk and financial management capabilities, which include the following:

- ***IT system for credit guarantee business:*** supports the key business process in our credit guarantee business, including customer information management, guarantee approval and portfolio monitoring and reporting.

- ***IT system for SME lending business:*** supports the key business process in our SME lending business, including sales and marketing management, customer information management, loan approval, loan drawdown and loan portfolio monitoring and reporting.

- ***IT system for financial management:*** supports the key function in our financial management, such as capital management and monitoring, financial reporting, budgeting management, account management and loan drawdown and repayment management. We also use third-party integrated management solutions, such as "Yonyou(用友) NC."

- ***Websites:*** we maintain our official website at **www.hanhua.com**, which includes an online application platform for our products and services, and customer enquiries.

- ***Software systems:*** we employ "Microsoft Exchange" for enterprise email system, "Microsoft Lync" for internal communication and "Microsoft SharePoint" for intranet management.

We have, since 2013, commenced developing a new IT system which is designed to encompass a broad array of operational, management and financial functionalities, including integrated customer management and business management systems across two business lines, a real-time risk monitoring and alert system, technology systems that support the entire process of our business and a treasury management system. Our new IT system is intended to provide us with streamlined business process management systems, which will enable us to effectively monitor and manage our credit guarantee and SME lending businesses across the PRC with predefined rules and criteria, as well as a centralized data warehouse to support data analysis and information processing for our Group on a consolidated basis, which we expect will greatly improve our operational efficiency.

In October 2013, we succeeded in rolling out our new IT system, through which we are able to conduct our key business processes, including application, review and approval, as well as signing and closing. Additionally, we have completed the migration of our key business data, including customers' basic information, credit proposals and financing release records, into the new IT system as of the Latest Practicable Date. Currently, the new IT system is equipped with the following key functionalities:

(i) *Integrated customer management system*: to manage customer information for our credit guarantee business and SME lending business on an integrated basis. It provides, among other things, basic information on both the customers and their affiliate(s).

(ii) *Business process management system*: to conduct the key processes for our credit guarantee business and SME lending business in our business process management systems integrated into our new IT system including, among other things, credit application, review, approval, closing, collateral management and portfolio management. This system is also capable of detecting if a new customer or its affiliates have any existing transactions with us, together with the maximum amount of credit guarantees that can be provided to such customer and its affiliates based on the relevant guarantee subsidiary's latest available monthly and quarterly net assets. In addition, we will be able to use our IT system for analyzing, planning and monitoring our operating capital.

(iii) *Integration of the business process system and the financial system*: to automatically record the collection of receivables, settlement of payables and placement of security deposits in our financial system.

We will continue to enhance our new IT system by further refining and optimizing its functionalities and capabilities to cater for our business operations and management needs. In addition, we will focus on developing a centralized data warehouse, which will enable us to collect, analyze and process the business data of our entire Group in order to meet the data requirements for various management purposes to enhance our business operation. We endeavor to utilize the enhanced customer data collection, management and analysis functionalities of our new IT system to gain more in-depth understanding of our customers to improve our marketing and business efficiency.

We may face IT risks arising from the improper performance or malfunction of our IT systems on which our operations significantly rely. We manage our IT risks through information technology governance, information system formulation, system maintenance and information security. We have established an IT team consisting of 24 employees to collaborate with our third-party service providers and to supervise the implementation of IT-related rules and procedures.

PROPERTIES

Our headquarters are located at 1F, A Building, No. 2 Fortune Tower, No. 15 Caifu Avenue, Chongqing, and 5F, East Tower, World Financial Center, No. 1 East Third Ring Middle Road, Chaoyang District, Beijing. As of October 31, 2013, we owned two office properties in Chongqing, with an aggregate gross floor area of 15,239.4 square meters, and leased 83 properties in China with an aggregate leased area of 34,596.4 square meters.

As of October 31, 2013, our property interests represented 3.3% of our total assets. Accordingly, this prospectus is exempt from the requirements under the Listing Rules and the Companies Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Listing Rules, a prospectus is exempt from the requirement if the carrying amounts of a listing applicant's property activities and non-property activities are below 1% and 15%, respectively. A similar exemption applies under section 6 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies Ordinance and paragraph 34(2) of the Third Schedule to the Companies Ordinance.

Owned Properties

As of October 31, 2013, we had obtained the relevant building ownership certificates and land use rights certificates for our two properties in Chongqing. We have been advised by our PRC legal advisors that we have the legal ownership of such properties and we have the rights to possess, utilize, generate income from these properties.

Leased Properties

As of October 31, 2013, we leased 83 properties in China, with aggregate leased areas of 34,596.4 square meters. Our leased properties are primarily used for business and office purposes, with gross floor areas ranging from 51.9 square meters to 4,556.4 square meters.

The following table shows our total rental expenses for the periods indicated:

	Year ended December 31,			Ten months ended October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Total rental expenses	7.8	23.5	36.5	38.7

Our PRC legal advisors have confirmed that the lessors of our 68 leased properties are the owners of, or authorized persons to lease or sublease, the respective properties and that the owners have obtained valid building ownership certificates for the respective leased properties.

As of October 31, 2013, our landlords did not provide us certificates showing ownership of the remaining 15 leased properties with a total gross floor area of 4,957.7 square meters, representing 13.0% of the aggregate gross floor area of all leased properties. Of these 15 leased buildings, the relevant lease agreement for one leased building with gross floor area of 648.1 square meters expressly provides for indemnity obligations. We have been advised by our PRC legal advisors that we will have the right to seek indemnity from the landlord pursuant to this lease agreement. For the remaining 14 leased buildings with a total gross floor area of 4,309.6 square meters, we have been advised by our PRC legal advisors, and our Directors are of the view that, the title defects of these leased properties will not have any material adverse impact on our operations because of the limited number and size of these leased properties as compared to the total number and size of our leased properties and the fact that these leased properties can easily be substituted by comparable premises.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business. During the Track Record Period, we were not subject to any material litigation as defendant. We initiated 177 legal proceedings to recover overdue payments from our customers with an aggregate of default payments of RMB328.5 million, of which, we had successfully recovered RMB52.5 million as of October 31, 2013. We obtained favorable court judgments on 115 of the 177 legal proceedings, with 62 legal proceedings pending as of October 31, 2013.

Of the RMB276.0 million not recovered by us as of October 31, 2013, RMB152.1 million was in relation to the 115 legal proceedings in which we have obtained judgments, and RMB123.9 million was in relation to the 62 pending legal proceedings. We have made provisions of RMB221.5 million for the RMB276.0 million not yet recovered (representing a provision coverage ratio of 80.3%), of which RMB131.0 million was made against the RMB152.1 million unrecovered amount under the 115 legal proceedings (representing a provision coverage ratio of 86.1%), and RMB90.5 million was made against the RMB123.9 million unrecovered under the 62 pending legal proceedings (representing a provision coverage ratio of 73.0%) as of October 31, 2013. Taking into account our experience and track record in the recovery of receivables on default payments, we consider the provisions made to be sufficient, and believe the balance which was unprovided for to be recoverable.

According to our PRC legal advisors, we have obtained all the requisite licenses, permits and approvals for our operations.

Anti-money Laundering Procedures

The anti-money laundering regime in the PRC requires financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. As confirmed by our PRC legal advisors, we are not subject to the anti-money laundering regime in the PRC. However, as part of our due diligence process and review and approval procedures, we have established certain standard procedures to ensure that our customers have a genuine business and ascertainable needs for financing. These procedures include:

- conducting background checks on potential customers, including conducting on-site visits to verify information;

- obtaining information on the customers' financing needs, as well as their plans for short-term, mid-term and long-term development, to determine the reasonableness of such financing needs; and

- providing training related to due diligence to our employees.

In addition, as part of our risk management procedures, we ensure that loans, either from the banks or from us, are deposited to the customers' bank accounts instead of to third-party accounts, and use commercial banks as an intermediary for settlement and payment, which may, to a certain extent, reduce money laundering risks.

Based on the procedures described above and given that we are not subject to the anti-money laundering regime in the PRC, the Joint Sponsors are of the view that our standard measures are capable of assisting us to be reasonably alert to potential money laundering exposure and to take appropriate measures if necessary.

Non-compliance Incidents

We are subject to extensive and complex national, provincial and local laws, rules and regulations with regard to our guarantee and loan operations, capital structure, pricing and provisioning policy, as set out in "Regulatory Environment."

We are subject to periodic or random on-site inspections, examinations and enquiries from the local finance bureau or other competent authorities in respect of our compliance with local regulatory requirements applicable to our business. In addition, we are required to report our key operating and financial data to the relevant authorities, usually on a monthly or quarterly basis. During the Track Record Period and up to the Latest Practicable Date, as advised by our PRC legal advisors, except for the three incidents set out below, the relevant competent authorities have confirmed that we have materially complied with all rules and regulations applicable to our business.

The following sets out the details of our three non-compliance incidents during the Track Record Period:

Non-compliance with the restriction on maximum amount of guarantee to a single customer in March and May 2013

According to the Interim Measures and the Beijing Interim Measures for the Administration of Finance Guarantee Companies (the "Beijing Interim Measures"), the total guarantee provided to a single customer by a financing guarantee company shall not exceed 10% of its net assets. As confirmed by our PRC legal advisors, neither the Interim Measures nor the Beijing Interim Measures provide any specific details on the implementation of such rules, such as the calculation of net assets or the point of time at which the total guarantee amounts of a single customer is to be considered for the purpose of complying with the 10% net assets benchmark.

(1) Non-compliance incident in March 2013

- *Description:* In December 2012, Beijing Hanhua, our licensed guarantee subsidiary in Beijing entered into a guarantee contract with a customer whereby we agreed to guarantee RMB20 million of financing for the customer. In March 2013, Beijing Hanhua entered into another guarantee contract to guarantee RMB15 million of financing for the same customer, causing the aggregate balance of the outstanding guarantees we provided to a single customer to reach RMB35 million. During an on-site inspection conducted by the Beijing Finance Bureau in June 2013, such authority found that the aggregate balance of the outstanding guarantees we provided to this customer exceeded 10% of Beijing Hanhua's net assets of RMB303.1 million, based on our management accounts as of December 31, 2012, the latest date for our year-end financial statements when the two guarantee contracts were drawn.

- *Cause:* Immediately after this incident, we carefully investigated this matter and discovered that these two guarantee transactions were reviewed by separate credit review officers and the second credit review officer, who was responsible for customer due diligence in relation to the RMB15 million guarantee, acted negligently by not following our internal protocol of verifying whether such customer has outstanding financing we have guaranteed during the review of the relevant due diligence report.

- *Rectification measures*: We have adopted the following measures to prevent the reoccurrence of such deviation from our standard operational guidelines since June 2013:

  (i) issuing a reprimand to the second credit review officer for his failure to follow our internal protocol;

  (ii) using this non-compliance incident as an example to reiterate the importance of adhering to our operational protocols and guidelines;

(iii) monitoring the maximum amount of guarantees to a single customer and its affiliates on a consolidated basis against the applicable net assets at three different stages:

- by credit review officers and credit approvers at the credit review and approval process;

- by the legal and compliance team at the signing process; and

- by the finance team prior to placing the requisite security deposits to the lending banks as required for such banks to release the loans to the borrowers; and

(iv) enhancing our regular training programs to keep all business staff as well as legal and compliance personnel updated with the relevant laws and regulations and their developments.

In addition, we have also rolled out our new IT system in October 2013, which has enabled us to detect if a new customer or its affiliates have any existing transactions with us, together with the maximum amount of credit guarantees that can be provided to such customer and its affiliates based on the relevant guarantee subsidiary's latest available monthly and quarterly net assets information. A new guarantee application that results in our total guarantee amounts to a single customer and its affiliates exceeding the respective thresholds will be automatically detected by our new IT system and will not be processed.

- *Status:* In July 2013, the first guarantee of RMB20 million we provided was released following full repayment of the financing by the borrower. According to a letter we received from the Beijing Finance Bureau on October 21, 2013, such authority confirmed that we had rectified our past non-compliance with the restriction on the maximum amount of guarantee to a single customer. As of the Latest Practicable Date, our Directors have confirmed that we have no outstanding financing guarantee issued to a single customer which exceeded 10% of the relevant guarantee subsidiary's net assets.

- *Legal consequences*: As advised by our PRC legal advisors, potential disciplinary actions for violating the Interim Measures may include being ordered to take corrective measures, a regulatory warning or fines, but the Interim Measures and the Beijing Interim Measures do not provide the maximum amount of fines that can be imposed. In August 2013, the Beijing Finance Bureau which, according to our PRC legal advisors, is the competent authority to give such confirmation, orally stated that it will not take any disciplinary actions in connection with this non-compliance incident. As of the Latest Practicable Date, we have not received any regulatory warning from, or had any fines or other administrative penalties imposed on us by any competent authorities.

(2) Non-compliance incident in May 2013

- *Description and cause:* In May 2013, Beijing Hanhua entered into two guarantee contracts with two separate customers whereby we agreed to guarantee RMB30 million of financing for each customer. At the time when these guarantee contracts were signed, the amount of guarantee to each of the customers was less than 10% of Beijing Hanhua's net assets as of March 31, 2013, which was RMB301.9 million. However, during an on-site inspection conducted by the Beijing Finance Bureau, it found that the aggregate balance of the outstanding guarantee we provided to each customer exceeded 10% of Beijing Hanhua's then net assets of RMB299.5 million, based on our management accounts as of April 30, 2013, the latest available monthly management accounts when these guarantee contracts were signed.

  Prior to the Beijing Finance Bureau's discovery of this non-compliance, due to the lack of specific details on the implementation of the Interim Measures, we had been following common practice in the industry and were using our latest available quarterly management accounts or annual financial statements, which are filed with the relevant government authorities and are acceptable to them, to calculate our net assets for the purpose of monitoring the total guarantee amounts provided to a single customer in the immediate following quarter.

- *Rectification measures:* Immediately after the discovery of this incident, we became aware of the different interpretations on how to calculate net assets between us and the competent authorities, and have since used the lower of the latest available monthly management accounts and the latest available quarterly management accounts immediately preceding the date when the relevant guarantee contract is signed to calculate net assets, for the purpose of monitoring compliance with the 10% of net assets limit. In addition, we have also implemented other rectification measures. For details, see "— (1) Non-compliance incident in March 2013."

- *Status:* According to a letter we received from the Beijing Finance Bureau on October 21, 2013, such authority confirmed that we had rectified our past non-compliance with the restriction on the maximum amount of guarantee to a single customer. As of the Latest Practicable Date, our Directors have confirmed that we have, since this incident, used the lower of the latest available monthly management accounts and the latest available quarterly management accounts immediately preceding the date when the relevant guarantee contract is signed to calculate net assets.

- *Legal consequences*: As advised by our PRC legal advisors, potential disciplinary actions for violating the Interim Measures may include being ordered to take corrective measures, a regulatory warning or fines, but the Interim Measures and the Beijing Interim Measures do not provide the maximum amount of fines that can be imposed. In August 2013, the Beijing Finance Bureau which, according to our PRC legal advisors, is the competent authority to give such confirmation, orally stated that it will not take any disciplinary actions in connection with this non-compliance incident. As of the Latest Practicable Date, we have not received any regulatory warning from, or had any fines or other administrative penalties imposed on us by, any competent authorities.

The Joint Sponsors are satisfied that the enhanced measures put in place following the two non-compliance incidents described above are adequate and effective in assisting the Company to ensure that a guarantee granted to a single customer and its affiliates, if applicable, is within the relevant regulatory threshold.

Non-compliance with the rules for establishing financing guarantee branch offices in Beijing

- *Description and cause:* According to the Interim Measures, a financing guarantee company shall obtain prior approval from the relevant local finance bureau before it can establish and register a new branch office. The Beijing Interim Measures further provide that any financing guarantee branch offices established prior to the effective date of the Beijing Interim Measures, being December 31, 2010, should be in full compliance with the Beijing Interim Measures by March 31, 2011. Prior to the effective date of the Beijing Interim Measures, Beijing Hanhua had established ten branch offices in Beijing in 2010 without the approval of the Beijing Finance Bureau, which approval was previously not required. They were established initially as sales offices representing Beijing Hanhua in various districts of Beijing for providing marketing support to Beijing Hanhua when it was exploring business opportunities in those areas. Beijing Hanhua, which had a license of conducting guarantee business in the entire Beijing city, was the entity conducting business activities. During an on-site inspection conducted by the Beijing Finance Bureau in June 2013, such authority found that our ten guarantee branch offices in Beijing did not receive proper approval for their establishment. Given that the license of Beijing Hanhua already enabled us to conduct guarantee business covering the entire Beijing city, and maintaining such branch offices would result in additional administrative and compliance monitoring expenses which we did not consider to be cost effective, we decided subsequently to close these ten branch offices.

- *Rectification measures:* Since June 2013, we have taken immediate measures to close and deregister our ten guarantee branch offices in Beijing. In addition, our President, as assisted by the Office of our Board of Directors under the supervision of our Board of Directors, has been designated to review and approve the establishment of every new subsidiary or branch.

- *Status:* As of the Latest Practicable Date, our Directors confirmed that all of these ten branch offices had been deregistered, with the last one closed on July 24, 2013. Such confirmation was also supported by a letter from the Beijing Finance Bureau on October 21, 2013.

- *Legal consequences*: As advised by our PRC legal advisors, potential disciplinary actions for violating the Interim Measures may include ordered corrective measures, a regulatory warning or fines, but the Interim Measures and the Beijing Interim Measures do not provide the maximum amount of fines that can be imposed. In August 2013, the Beijing Finance Bureau in August 2013, which, according to our PRC legal advisors, is the competent authority to give such confirmation, orally stated that it will not take any disciplinary actions in connection with this non-compliance incident. As of the Latest Practicable Date, we had not received any regulatory warning from, or had any fines or other administrative penalties imposed on us by, any competent authorities.

Our Directors confirm that none of our existing Directors and senior executives has been involved in any regulatory non-compliance incidents. Our Directors believe that the three non-compliance incidents, individually or in the aggregate, did not have a material adverse effect on our business, financial condition and results of operations. Our Directors are of the view that the findings of the regulatory authorities and the non-compliance incidents did not reveal any material deficiencies in our operations, internal audit, internal control or risk management.

Inconsistencies with the Relevant Regulatory Policies involving the Shareholding Structure, Changes in Shareholding Structure and/or Registered Capital in Our Micro and Small Loan Subsidiaries

As of the Latest Practical Date, we beneficially owned eight micro and small loan subsidiaries. As advised by our PRC legal advisors, the shareholding structure, changes in shareholding structure and registered capital of these micro and small loan subsidiaries involved certain inconsistencies with relevant national guiding opinions and local regulatory policies and measures, as set forth in greater details below. However, the competent authorities have confirmed that these inconsistencies did not constitute non-compliance incidents.

(i) Inconsistencies with the Guiding Opinions

Under the current PRC legal regime, the principal national regulatory policy for small loan companies in the PRC is 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) (the "Guiding Opinions"), jointly issued by the CBRC and the PBOC in 2008, for the purpose of guiding the pilot operations of micro and small loan companies in China. As advised by our PRC legal advisors, the Guiding Opinions are not administrative regulations (部門規章) as defined in the Legislation Law of the PRC (中華人民共和國立法法) but are the normative documents (規範性文件) in nature, the legal hierarchy of which in the PRC legal regime is not specified in the Legislation Law of the PRC. According to the Working Rules for Official Documents of Party and Governmental Institutions (黨政機關公文處理工作條例), the Guiding Opinions are an official document providing opinions and solutions on important issues. Furthermore, based on 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), 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 as further discussed below) in terms of legal hierarchy. For detailed analysis and the relevant laws, rules and notice, see "Regulatory Environment."

According to the Guiding Opinions, shares held by individuals, enterprises, other social organizations or their related parties in a small loan company shall not exceed 10% of its total registered capital. The shareholding structure of each of the Group's eight micro and small loan companies are inconsistent with this provision. However, our PRC legal advisors have advised that, according to the Guiding Opinions, the competent regulatory authorities for micro and small loan companies are the provincial governments and their respective authorized bureaus or offices (such as provincial-level finance bureaus), which are responsible for the supervision and administration of micro and small loan companies within their jurisdiction. We have duly applied for, and obtained, the relevant finance bureaus' approvals for the establishment of, and any subsequent shareholding changes in, all our micro and small loan companies, and have obtained compliance confirmations from these relevant competent authorities.

(ii) Inconsistencies with Relevant Provincial Regulatory Policies and Measures

Based on the Guiding Opinions, pilot operations of small loan companies are supervised and regulated by authorized authorities at provincial level. Provincial governments with a designated supervising authority for micro and small loan companies have promulgated various administration measures to establish that provincial government authorities (such as provincial-level finance bureaus) are responsible for the supervision and administration of micro and small loan companies. These provincial governments also issue various regulatory policies and measures for supervising and regulating micro and small loan companies in their respective jurisdiction. Similar to the Guiding Opinions, these provincial-level policies and measures are not administrative regulations but are normative documents in nature.

Of our eight micro and small loan subsidiaries, seven have shareholding structures that are inconsistent in certain respects with the relevant provincial regulatory policies and measures. We have obtained confirmation letters from the provincial government authorities in provinces where these seven subsidiaries are located, confirming that:

- each of them has completed all the necessary approval procedures for its establishment or change of shareholding structure;

- each of them is in compliance with the relevant national rules, guidance and principles applicable to micro and small loan companies announced by the PBOC, the CBRC and other local governments from time to time as well as relevant local regulations; and

- none of them has been disciplined due to the inconsistencies with the relevant regulatory requirements.

In addition, in November 2013, we obtained additional confirmation letters from the same government authorities specifically confirming that the shareholding structures of our micro and small loan subsidiaries are in compliance with the relevant regulatory policies and measures.

A summary of these inconsistencies and of the dates of the confirmation letters received from the competent authorities is set out below:

Nature of inconsistency	**Name of subsidiaries involved and details of inconsistencies**	**Date of confirmation letters**
Inconsistencies with the local regulatory policies and measures on shareholding structures	***Nanning Micro-credit:*** 100% of its equity interest is held by our Group, which is inconsistent with the maximum shareholding by a single shareholder and its affiliates of 30% required by local regulatory policies and measures.	April 10, 2013; September 11, 2013; and November 22, 2013
	Chongqing Micro-credit: 56% of its equity interest is held by our Group and its affiliates in aggregate, which is inconsistent with the maximum shareholding by a single shareholder and its affiliates of 30% required by local regulatory policies and measures.	May 21, 2013; September 18, 2013; and November 21, 2013
	Sichuan Micro-credit: 95% of its equity interest is held by our Group, which is inconsistent with the maximum shareholding by a single shareholder and its affiliates of 30% required by local regulatory policies and measures.	April 27, 2013; September 17, 2013; and November 21, 2013
	Tianjin Micro-credit: 100% of its equity interest is held by our Group, including 50% held by our Company and another 50% held by certain subsidiaries of the Group, which is inconsistent with the local regulatory policies and measures which require the maximum shareholding by the principal shareholder not to exceed 50% and the maximum shareholding by each other shareholder and its affiliates not to exceed 30%.	May 6, 2013; November 11, 2013; and November 26, 2013
	Shenyang Micro-credit: 89.5% of its equity interest is held by our Group, including 30% held by Liaoning Hanhua, its principal shareholder, and another 59.5% held by certain related parties of the Group, which is inconsistent with the local regulatory policies and measures which require the maximum shareholding by a shareholder (other than the principal shareholder) and its affiliates not to exceed 10%.	April 18, 2013; September 12, 2013; and November 21, 2013
	Changchun Micro-credit: 60% of its equity interest is held by our Group, including 24% held by Hanhua Guarantee, its principal shareholder, and another 36% held by certain subsidiaries of the Group, which is inconsistent with the local regulatory policies and measures which require the maximum shareholding by the principal shareholder not to exceed 20% and the maximum shareholding by each other shareholder and its affiliates not to exceed 10%.	April 22, 2013; June 30, 2013; and November 21, 2013

Nature of inconsistency	Name of subsidiaries involved and details of inconsistencies	Date of confirmation letters
	Xi'an Micro-credit: 65% of its equity interest is held by our Group, including 35% held by our Company and another 30% held by a subsidiary of the Group, which is inconsistent with the local regulatory policies and measures which require the aggregate shares held by related shareholders of a small loan company not to exceed 49% of its total shares.	November 15, 2013
Inconsistencies with the local regulatory policies and measures on the minimum shareholder lock-up period for share transfer and the minimum time period for the increase of registered capital	***Sichuan Micro-credit:*** Its original principal and other shareholders made share transfers 15 months after this subsidiary was established, which is inconsistent with the minimum lock-up period of three years for the principal shareholder and two years for other shareholders required by local regulatory policies and measures.	April 27, 2013; September 17, 2013; and November 21, 2013
	Shenyang Micro-credit: Its share capital was increased nine months after this subsidiary was established, which is inconsistent with the minimum time period for capital increase of two years required by local regulatory policies and measures.	April 18, 2013; September 12, 2013; and November 21, 2013
	Changchun Micro-credit: Its share capital was increased four months after this subsidiary was established, which is inconsistent with the minimum time period for increase of registered capital of one year required by local regulatory policies and measures.	April 22, 2013; June 30, 2013; and November 21, 2013
Inconsistencies with the local regulatory policies and measures on the maximum registered capital	***Shenyang Micro-credit:*** Its registered capital of RMB300 million exceeded the local regulatory policies and measures requirement of no more than RMB200 million.	April 18, 2013; September 12, 2013; and November 21, 2013

(iii) Legal Consequences Analysis

Prior to the establishment of or changes in the shareholding structure of our relevant micro and small loan companies, we submitted application materials, including information on proposed shareholding structure, registered capital and other corporate and business information, to the relevant provincial-level competent authorities for review, which granted approvals for us to effect the company establishment or subsequent shareholding changes. Accordingly, these competent authorities were fully aware of the inconsistencies of our micro and small loan subsidiaries with the applicable local policies and measures, the aggregate percentage of beneficial ownership of our Group in each of these subsidiaries and the number of micro and small loan companies owned by our Group in China. These approvals were obtained in the ordinary course of these authorities' administrative processes, without any special consideration from these authorities. As advised by our PRC legal advisors, it is not uncommon for local government authorities to relax the relevant requirements on micro and small loan companies. See “Risk Factors — Risks Relating to Our Business and Industry — Our business is subject to extensive regulation and supervision by national, provincial and local government authorities, which may interfere with the way we conduct our business and may negatively impact our business and results of operations.”

As advised by our PRC legal advisors, based on the Guiding Opinions, the competent regulatory authorities for micro and small loan companies are provincial governments and authorized bureaus or offices (such as provincial-level finance bureaus), not the PBOC nor the CBRC; therefore, we are not required to obtain any approval from the PBOC or the CBRC for the establishment or change of shareholding structure of any of our micro and small loan subsidiaries. On such basis, our PRC legal advisors have advised that, as a market participant in the micro and small loan industry, under the current industry regulatory regime, we have no official channel to communicate with the PBOC or the CBRC directly regarding the establishment or operation of our micro and small loan companies. Where the Guiding Opinions are inconsistent with the local policies and measures promulgated by competent provincial-level governments or authorized authorities, as a market participant in the micro and small loan industry, we can only officially obtain approvals from the provincial-level competent authorities for the establishment and operations of our micro and small loan companies and act pursuant to relevant policies and measures promulgated by such provincial-level competent authorities. Our PRC legal advisors have further advised that we have legally obtained approvals for the establishment and change of shareholding structure of our micro and small loan subsidiaries from the relevant provincial-level competent authorities through requisite review and approval process.

In addition, we have obtained confirmation letters from the provincial government authorities in each province in which our micro and small loan subsidiaries are located. As confirmed by our PRC legal advisors, these confirmation letters were properly endorsed by the relevant regulatory authorities as evidenced by the official seal affixed to the letters. Each provincial government authority issuing the confirmations is the competent supervising authority of the relevant micro and small loan companies, responsible for approving and supervising the establishment of local micro and small loan companies and their shareholding changes subsequent to their inception. These authorities also promulgate and/or interpret local regulatory policies and measures applicable to local micro and small loan companies. Based on the foregoing, our PRC legal advisors have advised us that such authorities are the competent authorities for confirming the legality of the shareholding structure (and related issues) of our micro and small loan subsidiaries and the confirmation letters we received are binding on the relevant authorities.

Our PRC legal advisors have advised that the establishment of and changes to our micro and small loan companies have been properly approved by the competent authorities and such authorities have issued confirmation letters, including the confirmation letters specifically confirming compliance with the relevant local policies and measures of the shareholding structure. Therefore, in practice, the risks for our micro and small loan companies subsequently being subject to administrative penalties (including suspension of business for rectification, revocation of business license, being instructed to change directors, supervisors and senior management or other penalties affecting the continuous operations of these companies) or criminal liability is highly unlikely. Our PRC legal advisors have further advised that such confirmations provided by the competent authorities are not likely to be overturned by other authorities or the courts in the PRC. In addition, our PRC legal advisors confirmed that the inconsistencies on the shareholding structure, changes in shareholding structure and registered capital of our micro and small loan companies with the Guiding Opinions and/or the relevant local policies and measures will not adversely affect the Global Offering from a PRC law perspective.