The following discussion and analysis should be read in conjunction with our consolidated financial statements included in "Appendix I — Accountants' Report," together with the accompanying notes. The consolidated financial statements have been prepared in accordance with HKFRSs.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed here and elsewhere in this prospectus, particularly in "Risk Factors" and "Forward-looking Statements."

OVERVIEW

We are a leading, integrated, credit-based guarantee and SME financing solutions provider in China, providing credit guarantees and loans to SMEs and microenterprises across China. We operate in the following two business lines:

- *Credit Guarantee*: We guarantee SMEs' ability to repay financing or meet certain obligations through our credit guarantee network. We offer financing guarantees and non-financing guarantees.

- *SME Lending*: We offer principally 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 funds to borrowers we select.

In 2010, 2011 and 2012, our net fee and interest income totaled RMB321.9 million, RMB870.3 million and RMB1,143.3 million, respectively, representing a CAGR of 88.5%. During the same periods, our profit was RMB90.0 million, RMB476.2 million and RMB517.8 million, respectively, representing a CAGR of 139.9%. In the ten months ended October 31, 2012 and 2013, our net fee and interest income was RMB925.8 million and RMB1,246.8 million, respectively, and our profit was RMB412.4 million and RMB273.9 million, respectively. As of December 31, 2010, 2011 and 2012, and October 31, 2013, we had net assets of RMB1,252.3 million, RMB2,004.5 million, RMB2,508.0 million and RMB5,244.6 million, respectively.

Credit risks, including customer defaults and loan impairment, are inherent in our principal business. We believe that our long term business success and sustainability are dependent on our ability to effectively manage our credit risks at a reasonable and tolerable level relative to our business scale and profitability, amid a constantly changing external credit and economic environment. We continue to strive for an optimal balance between an acceptable and manageable credit risk level and an efficient use of available funds to expand our business and improve returns for our shareholders.

During the Track Record Period, leveraging the additional funds we received through equity contributions from shareholders, we had achieved significant business expansion. Our outstanding guarantee balance increased from RMB8.8 billion as of December 31, 2010 to RMB19.4 billion as of October 31, 2013, while our outstanding SME loan balance grew from RMB0.9 billion to RMB3.9 billion in the same period. Despite our expanded guarantee and SME loan portfolios, our net asset leverage ratio for outstanding financing guarantee remained relatively stable at 5.2 times, 4.8 times, 4.7 times and 5.3 times, respectively, as of December 31, 2010, 2011 and 2012 and October 31, 2013, and our paid-in capital leverage ratio for outstanding micro and small loans remained relatively stable at 1.9 times, 2.2 times and 2.2 times, respectively, as of December 31, 2010, 2011 and 2012 and reduced to 1.5 times as of October 31, 2013 due to significantly increased paid-in capital of our SME lending business in 2013.

Due to the challenging credit and economic conditions in China in 2012 and 2013, our default payments increased significantly and our loss/revenue ratio increased from 11.2% in 2012 to 18.8% in the ten months ended October 31, 2013. However, after the notable increase from 0.4% in 2011 to 1.2% in 2012, the default rate in our credit guarantee business remained relatively stable at 1.4% in the ten months ended October 31, 2013.

Similarly, our impaired loan ratio for micro and small loans increased from 0.7% as of December 31, 2011 to 2.0% as of December 31, 2012 and stood at 2.6% as of October 31, 2013. In line with the increase in this impaired loan ratio, our loss/revenue ratio for SME lending also increased to 11.9% in 2012 and further to 16.6% in the ten months ended October 31, 2013.

BASIS OF PRESENTATION

Our financial information has been prepared in accordance with HKFRSs and includes applicable disclosures required by the Hong Kong Listing Rules and the Companies Ordinance. Our financial information has been prepared on the historical cost basis except for available-for-sale financial assets and liabilities from guarantees which are measured at fair values, as explained in our accounting policies set forth below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Our financial information is presented in Renminbi and our financial year ends on December 31 of each year. The financial information incorporates the financial statements of our Company and its subsidiaries.

During the Track Record Period, we conducted our business primarily through Hanhua Guarantee and its subsidiaries. Hanhua Guarantee was established as a joint stock limited liability company in the PRC on August 19, 2009 by our Company, Huitai and other corporate and individual shareholders. Upon its establishment, our Company and Huitai held 40.5% and

10.0% of the equity interests of Hanhua Guarantee, respectively. Huitai was established as an investment holding company for the purpose of holding and providing equity securities to incentivize our senior management. Upon its establishment, Huitai was owned by two members of our senior management team and it held equity interests in Hanhua Guarantee on behalf of our Company and other corporate and individual shareholders based on their respective equity interests in Hanhua Guarantee until the share incentive scheme has been determined and implemented. See "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme." Our Company and other corporate and individual shareholders provided funding to Huitai for subscribing the ordinary shares of Hanhua Guarantee and agreed to give Mr. Tu the right to determine all significant matters related to Huitai, including Huitai's voting rights in respect of its equity interests in Hanhua Guarantee. Accordingly, Hanhua Guarantee was controlled by Mr. Tu by virtue of his control over our Company and Huitai, which collectively owned a majority of equity interests in Hanhua Guarantee.

Following the Reorganization in February 2013 as set out in "History, Reorganization and Corporate Structure," our Company holds 100% equity interests in Hanhua Guarantee. Since our Company and Hanhua Guarantee were controlled by Mr. Tu before and after the Reorganization, the increase in our Company's equity interests in Hanhua Guarantee to 100% is considered as a business combination of entities under common control. The financial information has been prepared under the merger basis of accounting as if the combination had occurred before the beginning of the Track Record Period. The net assets of our Company and Hanhua Guarantee are consolidated using historical book values from the perspective of the ultimate controlling shareholder. The equity interests in Hanhua Guarantee attributable directly or indirectly to other corporate and individual shareholders for periods before the Reorganization have been presented as non-controlling interests in our consolidated financial statements. Our consolidated financial statements include the consolidated results of operations of our Company and Hanhua Guarantee, and their respective subsidiaries, for the Track Record Period. Our consolidated statements of financial position have been prepared to present the consolidated assets and liabilities of our Company and Hanhua Guarantee, and their respective subsidiaries as of December 31, 2010, 2011 and 2012 and October 31, 2013. All material intra-group transactions and balances have been eliminated as a result of the combination.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following are the principal factors that have affected, and we expect will continue to affect, our business, financial condition, results of operations and prospects.

Macroeconomic and Market Conditions in the PRC and the Development of the SME and Microenterprise Sector

We focus on the SME and microenterprise sector in China, and therefore, our results of operations and financial conditions are directly linked to this sector, which is largely affected by general economic and market conditions in the PRC.

We believe general economic and market conditions that would be favorable to the SME and microenterprise sector include, but are not limited to:

- high GDP growth;
- reasonable levels of inflation;
- increasing domestic consumption;
- liquid and efficient financial markets;
- stable geopolitical conditions, including continued government support for SMEs and microenterprises; and
- rising personal wealth.

Unfavorable or uncertain economic and market conditions include, but not limited to:

- declines in economic growth, business activities or investor confidence;
- decreases in the availability of, or increases in the cost of, credit and capital;
- significant inflation and increases in interest rates;
- reduced government support for SMEs and microenterprises;
- outbreaks of hostilities or other geopolitical instability; and
- natural disasters or pandemics.

In recent years, China has experienced a significant economic growth, and the PRC government has actively supported the development of SMEs and microenterprises, resulting in increases in the number of SMEs and microenterprises and their financing needs. Sustained economic growth and favorable government policies towards the SME and microenterprise sector are likely to increase the demand for our products and services. Unfavorable economic and market conditions or adverse policy changes could negatively impact the demand for our products and services and result in a greater credit risk. For example, due partly to the unfavorable overall market and industry conditions in China, particularly in relation to the Yangtze River Delta since 2012, the default rate in our credit guarantee business increased from 0.4% in 2011 to 1.2% in 2012 and further to 1.4% in the ten months ended October 31, 2013.

Government Regulation and Policies

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, an overview of which is set forth in "Regulatory Environment."

These laws, rules and regulations are issued by different central government ministries and departments, provincial and local governments and are enforced by different local authorities in each province in which we operate. In addition, the local authorities have broad discretion in the implementation and enforcement of rules and regulations. For example, according to the local rules in Chongqing, a single shareholder may not hold more than 50% of the equity interest in a micro and small loan company incorporated in Chongqing. In practice, however, the Chongqing Finance Bureau usually allows a single shareholder to hold more than 50%, or even 100% under certain circumstances, of the equity interest in a locally-incorporated micro and small loan company.

As a result of the complexity, uncertainties and constant changes in these laws, rules and regulations, including changes in their interpretation and implementation, we may have to adjust our business practice, capital structure or product pricing from time to time. For example, we generally ceased taking customer pledged deposits from new guarantee customers in 2012 pursuant to the 2012 Notice published by the CBRC on April 5, 2012 that discouraged such practice. As a result, we raised our guarantee and consulting fee rate for bank financing guarantees to compensate for the greater credit exposure we face and the cost of cash we placed with banks on behalf of customers.

In addition, our business expansion in other regions in China depends on our ability to obtain the relevant operating license from local government authorities, which is also affected by the local regulatory environment and policy. If we are unable to obtain or renew our local operating license in a timely manner or at all, due to changes in laws and regulations or in their interpretation or enforcement or otherwise, the implementation of our business strategy could be hindered.

PRC Tax Incentives and Government Grants

We have received various incentives and subsidies from the PRC government due to the location of our Company and the nature of our business. During the Track Record Period, some of our subsidiaries located in Chongqing and Sichuan were entitled to a reduced EIT rate of 15%, as opposed to the statutory rate of 25%, due to their qualification for preferential tax treatment under the "Western Development Program." In addition, we have also received various forms of grants and subsidies from national and local government authorities to incentivize our business of providing financing guarantees to SMEs and microenterprises. In 2010, 2011 and 2012 and the ten months ended October 31, 2012 and 2013, our government grants and subsidies amounted to RMB7.6 million, RMB31.5 million, RMB26.2 million, RMB7.1 million and RMB12.3 million, respectively, representing 8.4%, 6.6%, 5.1%, 1.7% and 4.5% of our profit in the same periods, respectively.

Any modification or termination of the foregoing incentives currently available to us will affect our financial condition and results of operations.

Capital Base and Ability to Obtain Financing

The expansion of our business requires substantial capital. Under the PRC law, the maximum amount of outstanding financing guarantees, which a guarantee company can provide, shall not exceed ten times its net assets. A micro and small loan company shall only borrow bank loans up to a certain percentage, usually 50%, of its paid-in capital for conducting lending business. In addition, each of our guarantee or loan subsidiary is subject to a minimum capital requirement. Consequently, the scale of our business heavily depends on our capital base. The following table presents the growth of our capital base and the resulting increase in our business scale as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Net assets of our credit guarantee business	1,328.1	2,514.7	2,849.8	3,465.4
Balance of outstanding financing guarantees	6,873.8	12,193.7	13,399.1	18,282.5
Paid-in capital of our micro and small loan business	300.0	540.0	800.0	2,000.0
Balance of outstanding micro and small loans	575.5	1,185.9	1,736.9	2,956.8

The expansion of our two business lines and addition of new branch network have been and will continue to be affected by our ability to raise our capital base. The expansion of our micro and small loan business also depends on our ability to borrow bank loans at a reasonable cost and raise alternative financing, such as repurchase transactions, to further leverage our capital.

Cooperation with Banks and Other Financial Institutions

Our ability to cooperate with banks and other financial institutions is key to our business, particularly bank financing guarantee business.

As of October 31, 2013, we had established close business relationships with 65 commercial banks in the PRC, which in aggregate have agreed to extend over RMB38 billion of credit lines to borrowers we guarantee. If we fail to maintain and enhance our existing cooperation with banks or develop new relationships with other banks and financial institutions, the amounts of financing available for our customers may decrease, which in turn may adversely affect our prospects and results of operations.

In addition, the amount of security deposits which commercial banks require from us largely depends on our business relationship and track record with them. A lower proportion of security deposits relative to the guaranteed amount increases our capital efficiency and profitability.

As we continued to diversify our product and service offering, we also rely on our cooperation with the non-bank financial institutions, such as fund houses, trust, insurance and financial leasing companies, as well as third-party agents, such as Chongqing Financial Assets Exchange, to further expand our non-bank financing guarantee business. As a percentage of our total financing guarantees, our non-bank financing guarantees increased from 1.1% as of December 31, 2010 to 11.0% as of December 31, 2012 and further to 19.3% as of October 31, 2013.

Competition

Competition across our two business lines is intense. 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.

For the credit guarantee business, our major competitors include regional-based state-owned or foreign-invested guarantee companies that have a strong presence in the 16 provinces in which we operate. We compete primarily on the basis of capital base, relationships with cooperating banks, customer service, pricing and terms and brand name. For the SME lending business, our major competitors include local micro and small loan companies, private money lenders, wealthy individuals and rural banks who lend to micro and small businesses. In this segment, we compete primarily on the basis of pricing and terms, customer service and accessibility, brand recognition, and access to funding.

To effectively compete with our competitors and maintain or increase our market share, we need to continue enhancing our competitive strengths, in particular, our ability to offer customized, efficient, flexible financial solutions to our clients. If we fail to maintain our competitive strengths, we may lose market share and our revenue may decrease. In addition, our expansion into new geographic or product areas will subject us to competition from market participants in those new markets. If we fail to replicate or otherwise build our competitive strengths in the new markets we enter, our business expansion and prospects may be adversely affected. See "Risk Factors — Risks Relating to Our Business and Industry — We may face increasing competition from existing and new market participants."

Business and Product Mix

We operate two business lines, credit guarantee and SME lending. We divide our credit guarantee business into financing guarantee, which includes bank financing guarantees and non-bank financing guarantees; and non-financing guarantee, which includes contract bonds and attachment bonds. We also provide micro and small loans and entrusted loans in our SME lending business.

Based on the varying risks and resources involved, we charge different fee rates for different products or services we offer. As a result, our profit margins vary across business lines as well as products and services within each business line. Our product mix and changes in such mix, which reflect our business strategy and risk management policies, regulatory requirements, prevailing market conditions and other factors, may affect our revenue and profitability from time to time. For example, we may adjust the size of our entrusted loans and fully secured bank financing guarantees based on our product strategy from time to time, which is primarily affected by our relationship with banks, their internal policies and the availability of our cash at the subsidiary level. In 2012, due to our cooperating banks' general preference for fully secured bank financing guarantees and our efforts to enhance our relationship with commercial banks, we reduced the volume of entrusted loans while increasing the volume of fully secured bank financing guarantees. As a result, the segment profit margin of our SME lending business decreased in 2012 while the segment profit margin of our credit guarantee business increased as a result. In 2013, due to significant increases in our provisions for guarantee losses as a result of enlarged credit guarantee balance and increased provision ratio applied and impairment losses on default payment receivables in line with increased default payments, segment margin of our credit guarantee business decreased substantially, negatively affecting our overall profit margin. However, segment margin of our SME lending business decreased slightly, primarily as a result of an increase in our administrative expenses, as we continued to expand our business network and increase the provisions for impairment losses collectively assessed in line with our enlarged loan portfolio.

With a view to minimizing our risks while maximizing return, we intend to regularly monitor and adjust our product mix across our two business lines and further expand our product offerings as part of our strategy. Our financial condition could be affected by our ability to successfully offer new products and services, to transact business with new clients and business partners, and to enter new markets.

Risk Management Capability

Our business is inherently subject to various risks, in particular, credit risk. 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 independent credit approval, to determine the creditworthiness of each individual customer. In addition, we monitor and report our portfolio risks on a regular basis to take proactive corrective actions and determine adequate provision for losses.

A comprehensive and effective risk management system helps mitigate our risk exposures and control customers' default rate. Any significant ineffectiveness or deficiency in the risk management system may cause failure in identifying or controlling risks, and may result in an increased customer default, failure to effectively manage our guarantee and loan portfolios, or failure to collect repayment or realize collateral. In general, our future business expansion and product segmentation require an effective and adequate risk management system.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of our financial information in accordance with HKFRSs. The Accountants' Report in Appendix I to this prospectus sets forth these significant accounting policies in note 1 of Section B, which are important for an understanding of our financial condition and results of operations. Our significant accounting policies have been applied consistently throughout the Track Record Period.

Certain of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 32 of Section B of the Accountants' Report in Appendix I to this prospectus. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed by our management on an on-going basis.

We have identified below the accounting policies, estimates and judgments that we believe are critical to the preparation of our financial information.

Critical Accounting Policies

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized provided it is probable that the economic benefits will flow to us and the revenue and costs, if applicable, can be measured reliably, on the following basis:

Guarantee and consulting fee income

We recognize guarantee income when the guarantee contracts have been entered into whereby the related guarantee obligation has been accepted, the economic benefits associated with the guarantee contracts will probably flow in, and the amount of revenue associated with guarantee contracts can be measured reliably. Our guarantee fee income is determined based on the total agreed fee in the guarantee contracts and is recognized in the income statement over the period of the guarantee. We receive consulting fee income in relation to guarantee services in full at inception and record it as unearned income before amortizing it throughout the term of the guarantee.

Interest and handling fee income

We recognize interest income as and when it accrues using the effective interest method. We receive the fee income from loan services in full at inception and record it as unearned income before amortizing it throughout the contractual period of the loan.

Dividends

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established. Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for providing guarantee services to

SMEs under certain criteria are recognized as revenue in the income statement upon receiving such grants. Grants that compensate us for the cost of an asset are deducted from the carrying amount of the assets and consequently are effectively recognized in the income statement over the useful life of the asset by way of reduced depreciation expense.

Financial Guarantees Issued

Financial guarantees are contracts that require the guarantor to make specified payments to reimburse the beneficiary of the guarantee, or the holder, for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where we issue a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within liabilities from guarantees. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with our policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions of guarantee losses are recognized if and when (i) it becomes probable that the holder of the guarantee will call upon us under the guarantee, and (ii) the amount of that claim on us is expected to exceed the amount currently carried in liabilities from guarantees in respect of that guarantee, i.e., the amount initially recognized, less accumulated amortization.

Provisions for Guarantee Losses

When determining the amounts to be recognized in respect of liabilities arising from our guarantee business, we estimate the provision based on prior experience and default history of the business. It is possible that the prior experience and default history are not indicative of future loss on the guarantees issued. Any increase or decrease in the provision would affect the income statement in future years.

Financial Instruments

Our financial instruments include, among others, cash and bank deposits, loans and advances to customers, trade and other receivables, available-for-sale financial assets, financial assets sold under repurchase agreements, accruals and other payables, borrowing, customer pledged deposits and paid-in capital.

Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognized in the statements of financial position when we become a party to the contractual provisions of a financial instrument.

Financial assets and financial liabilities are measured initially at fair value, plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs.

Financial assets and financial liabilities are categorized as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets held by us with fixed or determinable recoverable amounts that are not quoted in an active market, other than:

(a) those that we intend to sell immediately or in the near-term, which will be classified as held for trading;

(b) those that we, upon initial recognition, designate as at fair value through profit or loss or as available-for-sale; or

(c) those where we may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity assets.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction of transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognized directly in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is reclassified to the income statement.

Impairment of Financial Assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by us at the end of each reporting period to determine whether there is an objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have an impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- probability that the debtor will enter bankruptcy or other financial restructuring;
- disappearance of an active market for financial assets because of financial difficulties;
- significant changes in the technological, market, economic or legal environment that would have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

Loans and receivables

We use two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

- Individual assessment

  Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is an objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognized in the income statement.

  Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

  The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

- Collective assessment

  Loans and receivables, which are assessed collectively for impairment, include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is an observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

We periodically review and assess the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

When we determine that a loan has no reasonable prospect of recovery after we have completed all the necessary legal or other claim proceedings, the loan is written off against its provision for impairment losses upon necessary approval.

Available-for-sale financial assets

For available-for-sale securities, the cumulative loss that has been recognized in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognized in the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the income statement.

Impairment losses recognized in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in the income statement.

Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on our management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, we consider all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

We obtain market data from the same market where the financial instrument was originated or purchased.

Share-based Payments

The fair value of share awards granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve in equity. The fair value is measured on the grant date using the Cox-Ross-Rubinstein Binomial Pricing model, taking into account the terms and conditions upon which the awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the awards, the total estimated fair value of the awards is spread over the vesting period, taking into account the probability that the awards will vest.

During the vesting period, the number of share awards that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged or credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual number of awards that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of our shares.

Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forwarded. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credit, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if we have the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, we intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  i. the same taxable entity; or

  ii. different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

Critical Accounting Judgments and Estimates

Impairment of Receivables, Loans and Advances and Available-for-sale Financial Assets

We review portfolios of receivables, loans and advances and available-for-sale financial assets periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for receivables, loans and advances and available-for-sale financial assets. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for receivables and loans and advances that are individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgment based on management's historical experience. Our management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for available-for-sale financial assets includes significant or continual decline in fair value of investments. When deciding whether there is significant or continual decline in fair value, we will consider the historical fluctuation records of the market and the debtors' credit condition, financial position and performance of related industry.

Provisions for Guarantee Losses

We make a reasonable estimate on expense required to fulfill the relevant obligation of guarantee contracts when we calculate the provisions of guarantee losses. Such estimation is made based on the available information as of the balance sheet date and is determined by our practical experience, taking into consideration of the industry information and market data.

Tax

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. We carefully evaluate the tax implications of transactions and make tax provisions accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all the changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, our management's judgment is required to assess the probability of future taxable profits. Our assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

PRINCIPAL COMPONENTS OF CONSOLIDATED INCOME STATEMENTS

Net Fee and Interest Income

Our net fee and interest income consists primarily of net guarantee and consulting fee income and net interest and handling fee income.

Net guarantee and consulting fee income

We generate guarantee and consulting fees in return for the guarantees and consulting services we provide. During the Track Record Period, our net guarantee and consulting fee income represented substantially all of the revenue from our credit guarantee business and a majority of our net fee and interest income. For a discussion of our guarantee and consulting fee rates during the Track Record Period, see "Business — Products and Services — Credit Guarantee — Guarantee and Consulting Fees." We also pay re-guarantee expenses to third-party guarantors who provide guarantee insurance to us.

Net interest and handling fee income

We generate interest and handling fee income mainly from the micro and small loans and entrusted loans we provide to customers. For a discussion of our interest and handling fee rates, see "Business — Products and Services — Micro and Small Loans — Interest and Handling Fee Rate" and "Business — Products and Services — Entrusted Loans." We also earn interest income from our cash at banks and restricted bank deposits.

Our net interest and handling fee income is net of interest expenses and certain services commission fees. We incur interest expenses on bank and other borrowings to principally expand our micro and small loan business and meet working capital requirements. We incur interest expenses from financial assets sold under repurchase agreements whereby we sell certain of our loan receivables to investors and then repurchase them within a specified period of time. We also pay services commission fees to third party agents, including China UnionPay for using its settlement services and Chongqing Financial Assets Exchange for using its over-the-counter trading platform for repurchase transactions.

Other Revenue

Our other revenue primarily consists of investment income from available-for-sale financial assets, principally unlisted equity investments, and government grants. We normally receive grants and subsidies from national government authorities, such as the Ministry of Industry and Information Technology and the Ministry of Finance, and local government authorities as incentives for our business of providing credit guarantees to SMEs and microenterprises. We have also received other one-off government subsidies from time to time.

Provisions for Guarantee Losses

We assess our outstanding guarantees on a quarterly basis in order to make a reasonable estimate on the level of provisions to cover probable losses in our guarantee portfolio. Provisions for guarantee losses primarily reflect our management's estimate on the level of provisions that are adequate to our credit guarantee business based on the growth of our guarantee portfolio and past experience. See "Financial Information — Critical Accounting Policies, Judgments and Estimates — Critical Accounting Policies — Provisions for Guarantee Losses" and Section B note 32 to our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus.

Impairment Losses

Impairment losses include provisions we make in relation to (i) default payment receivables, which reflect the balance of the default payments in our credit guarantee business; and (ii) loans and advances in our SME lending business.

We assess our loans and receivables 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.

Administrative Expenses

Our administrative expenses include the following major components:

- staff costs, such as salaries, bonuses and allowances paid to employees, social insurance and other benefits;
- business tax and surcharges;
- operating lease charges;
- depreciation and amortization expenses;
- office expenditure; and
- other miscellaneous expenses, such as travel expenses, business development fees, advertising fees, property management fees, stamp duty and utilities fees.

In addition to base salary, we also offer commission-based salary to incentivize our frontline sales staff based on their business performance. The commission usually ranges between 2% to 5% of an employee's revenue contribution, depending primarily on product type, transaction size and the duration of the local branch's existence. During the Track Record Period, our overall employee commission rates remained relatively stable.

Given that our executive share incentive scheme will last for eight years starting from January 1, 2013 and that each grantee is entitled to dispose of 12.5% of his effective interest each year, the relevant non-cash share based payment expenses are expected to be amortized on a monthly basis in these eight years.

Income Tax

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. During the Track Record Period, some of our subsidiaries were subject to a tax rate of 25% pursuant to the EIT Law effective January 1, 2008. Certain of our subsidiaries in Chongqing and Sichuan are entitled to a reduced tax rate of 15% due to their qualification for preferential tax treatment under the "Western Development Program." In 2010, 2011 and 2012 and the ten months ended October 31, 2012 and 2013, our effective tax rate was 18.1%, 17.4%, 18.3%, 18.5% and 25.9%, respectively.

RESULTS OF OPERATIONS

The following table sets forth our summary results of operations for the periods indicated:

	Years ended December 31,						Ten months ended October 31,			
	2010		2011		2012		2012		2013	
	Amount	% of net fee and interest income	Amount	% of net fee and interest income	Amount	% of net fee and interest income	Amount	% of net fee and interest income	Amount	% of net fee and interest income
	(RMB in millions, except percentages)									
Net fee and interest income	321.9	100.0%	870.3	100.0%	1,143.3	100.0%	925.8	100.0%	1,246.8	100.0%
Other revenue	15.2	4.7	123.1	14.1	29.6	2.6	7.4	0.8	12.6	1.0
Provisions for guarantee losses	(77.6)	(24.1)	(123.9)	(14.2)	(51.7)	(4.5)	(31.9)	(3.4)	(103.0)	(8.3)
Impairment losses	(25.1)	(7.8)	(43.5)	(5.0)	(130.1)	(11.4)	(105.9)	(11.4)	(224.3)	(18.0)
Administrative expenses	(124.0)	(38.5)	(249.4)	(28.7)	(356.4)	(31.2)	(289.2)	(31.2)	(561.7)	(45.1)
Other net losses	(0.6)	(0.2)	(0.4)	–	(0.8)	(0.1)	(0.4)	(0.1)	(0.8)	(0.1)
Profit before taxation	109.8	34.1	576.2	66.2	633.9	55.5	505.8	54.6	369.6	29.6
Income tax	(19.8)	(6.2)	(100.0)	(11.5)	(116.1)	(10.2)	(93.4)	(10.1)	(95.7)	(7.7)
Profit	**90.0**	**28.0%**	**476.2**	**54.7%**	**517.8**	**45.3%**	**412.4**	**44.5%**	**273.9**	**22.0%**

Net Fee and Interest Income

The following table sets forth the breakdown of our net fee and interest income for the periods 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)									
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	198.7	61.7	417.6	48.0	358.8	31.4	310.7	33.6	506.1	40.6
Net fee and interest income	**321.9**	**100.0%**	**870.3**	**100.0%**	**1,143.3**	**100.0%**	**925.8**	**100.0%**	**1,246.8**	**100.0%**

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Our net fee and interest income increased by 34.7% to RMB1,246.8 million in the ten months ended October 31, 2013 from RMB925.8 million in the same period in 2012. This increase was primarily attributable to (i) a 62.9% increase in our net interest and handling fee income; and (ii) a 20.4% increase in our net guarantee and consulting fee income.

2012 compared to 2011

Our net fee and interest income increased by 31.4% to RMB1,143.3 million in 2012 from RMB870.3 million in 2011. This increase was attributable to a 73.3% increase in our net guarantee and consulting fee income, partly offset by a 14.1% decrease in our net interest and handling fee income.

2011 compared to 2010

Our net fee and interest income increased significantly to RMB870.3 million in 2011 from RMB321.9 million in 2010. This substantial increase was attributable to the rapid expansion in our two business lines and the resulting increases in our net guarantee and consulting fee income and net interest and handling fee income.

Net guarantee and consulting fee income

The following table sets forth the breakdown of our guarantee and consulting fee income by products for the periods indicated:

	Year ended December 31,			Ten months ended October 31,	
	2010	**2011**	**2012**	**2012**	**2013**
	(RMB in millions)				
Guarantee and consulting fee income from					
Bank financing guarantees	112.4	436.5	745.3	587.8	678.6
Non-bank financing guarantees	5.8	4.6	28.9	21.3	58.2
Financing guarantees	118.2	441.1	774.2	609.1	736.8
Contract bonds	2.0	8.8	10.4	6.7	3.8
Attachment bonds	3.2	5.2	2.1	0.6	0.7
Non-financing guarantees	5.2	14.0	12.5	7.3	4.5
Less : Re-guarantee expenses	(0.2)	(2.4)	(2.2)	(1.3)	(0.6)
Net guarantee and consulting fee income	123.2	452.7	784.5	615.1	740.7

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Our net guarantee and consulting fee income increased by 20.4% to RMB740.7 million in the ten months ended October 31, 2013 from RMB615.1 million in the same period in 2012, due primarily to an increase in our fee income from financing guarantees. In particular:

- The average guarantee and consulting fee rate for our bank financing guarantees (excluding fully secured bank financing guarantees) increased to 4.64% in the ten months ended October 31, 2013 from 3.78% in the same period in 2012 as we continued to raise our fee rate.

- The average balance of our non-bank financing guarantees increased significantly to RMB2,443.0 million in the ten months ended October 31, 2013 compared to RMB683.6 million in the same period in 2012. We guaranteed an increased amount of bond offerings, capital preservation public fund and repurchase transactions in the ten months ended October 31, 2013, which we intended to continue to expand as part of our business strategy. This increase was partially offset by a decrease in average guarantee and consulting fee rate for our non-bank financing guarantees to 2.86% in the ten months ended October 31, 2013 from 3.40% in the same period in 2012 due primarily to the capital preservation public fund we guaranteed in 2013 on which we charge a relatively lower fee rate in consideration of its low risk profile.

The foregoing increases were partially offset by a 47.56% decrease in the average balance of our fully secured bank financing guarantees on which we typically charge a higher fee rate to RMB848.1 million in the ten months ended October 31, 2013 from RMB1,137.8 million in the same period in 2012 due to changes in our product strategy described above to take advantage of market opportunities.

2012 compared to 2011

Our net guarantee and consulting fee income increased by 73.3% to RMB784.5 million in 2012 from RMB452.7 million in 2011, due primarily to an increase in our fee income from financing guarantees, partly offset by a decrease in our fee income from non-financing guarantees. In particular:

- The average balance of our bank financing guarantees increased by 27.5% to RMB13,114.7 million in 2012 compared to RMB10,284.2 million in 2011 due to our increased capital base and expanded credit guarantee network. The average balance of our non-bank financing guarantees increased significantly to RMB839.8 million in 2012 compared to RMB156.5 million in 2011 as we guaranteed an increased amount of bond offerings and repurchase transactions in 2012, which are emerging markets for our non-bank financing guarantee business;

- We generally ceased taking customer pledged deposits from the new guarantee customers pursuant to the 2012 Notice. As a result, we raised our guarantee and consulting fee rate for bank financing guarantees to compensate for the greater credit exposure we faced and the cost of cash we placed with banks on behalf of customers. The average guarantee and consulting fee rate for our bank financing guarantees (excluding fully secured bank financing guarantees) increased to 4.06% in 2012 from 3.57% in 2011;

- Based on our product strategy in 2012, we expanded the offering of fully secured bank financing guarantees, the average balance of which increased significantly to RMB1,234.8 million in 2012 from RMB383.4 million in 2011. The average guarantee and consulting fee rate for this service was 21.34% in 2012 and 21.50% in 2011; and

- The foregoing increases were partially offset by an 8.7% decrease in the average balance of our non-financing guarantees to RMB1,872.2 million in 2012 from RMB2,049.9 million in 2011 as we guaranteed a lesser amount of attachment bonds in 2012.

2011 compared to 2010

Our net guarantee and consulting fee income increased significantly to RMB452.7 million in 2011 from RMB123.2 million in 2010, due primarily to the increases in our capital base and branch network and the resulting increase in our fee income from both financing guarantees and non-financing guarantees. In particular:

- The average balance of our financing guarantees increased by 134.0% to RMB10,440.7 million in 2011 compared to RMB4,462.1 million in 2010, and the average balance of our non-financing guarantees increased by 42.0% to RMB2,049.9 million in 2011 from RMB1,443.7 million in 2010;

- Our average guarantee and consulting fee rate for bank financing guarantees (excluding fully secured bank financing guarantees) increased to 3.57% in 2011 from 2.48% in 2010, and our average guarantee and consulting fee rate for non-financing guarantees increased to 0.72% in 2011 from 0.36% in 2010; and

- We substantially increased our offering of fully secured bank financing guarantees in 2011, the average balance of which increased to RMB383.5 million in 2011 from RMB18.9 million in 2010. The average guarantee and consulting fee rate for this product was 21.50% in 2011 and 18.99% in 2010.

Net interest and handling fee income

The following table sets forth the breakdown of our interest and handling fee income by sources for the periods indicated:

	Year ended December 31,			Ten months ended October 31,	
	2010	**2011**	**2012**	**2012**	**2013**
			(RMB in millions)		
Interest and handling fee income from					
Loans and advances to customers					
Micro and small loans . .	69.4	186.5	280.1	236.3	375.7
Entrusted loans	137.7	260.7	104.7	91.6	169.5
Subtotal.	207.1	447.2	384.8	327.9	545.2
Cash at banks and restricted bank deposits[1]	4.8	24.9	53.1	42.2	46.3
Total interest and handling fee income	211.9	472.1	437.9	370.1	591.5
Interest and commission expenses from					
Borrowings from banks and non-bank institutions	(10.7)	(37.7)	(51.6)	(44.8)	(45.6)
Financial assets sold under repurchase agreements . .	(1.5)	(9.2)	(9.5)	(5.2)	(18.2)
Commission paid to agents	(1.0)	(7.6)	(18.0)	(9.4)	(21.6)
Total interest and commission fee expenses	(13.2)	(54.5)	(79.1)	(59.4)	(85.4)
Net interest and handling fee income .	198.7	417.6	358.8	310.7	506.1

(1) Interest from our cash at banks and restricted bank deposits consisted of (i) interest income from restricted bank deposits and cash at bank in our credit guarantee business and (ii) interest income from cash at bank in our SME lending business.

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Our net interest and handling fee income increased by 62.9% to RMB506.1 million in the ten months ended October 31, 2013 from RMB310.7 million in the same period in 2012, due primarily to an increase in income from micro and small loans and entrusted loans. In particular,

- The average balance of our entrusted loans increased by 88.1% to RMB854.1 million in the ten months ended October 31, 2013 compared to RMB454.0 million in the same period in 2012, due to a significant increase in our capital base following a series of equity contributions in 2013.

- The average balance of our micro and small loans increased by 58.1% to RMB1,960.7 million in the ten months ended October 31, 2013 compared to RMB1,240.1 million in the same period in 2012, due to increased capital base and the resulting expansion of our loan portfolio in 2013.

- The foregoing increases were partially offset by a RMB13.0 million increase in interest expenses from financial assets sold under repurchase agreements and a RMB12.2 million increase in commission paid to agents in connection with obtaining financing through independent third parties including Chongqing Financial Assets Exchange and commercial banks.

2012 compared to 2011

Our net interest and handling fee income decreased by 14.1% to RMB358.8 million in 2012 from RMB417.6 million in 2011, due primarily to a decrease in such income from entrusted loans, partially offset by increases in income from micro and small loans as well as from cash at banks and restricted bank deposits. In particular,

- The average balance of our entrusted loans decreased by 58.9% to RMB424.0 million in 2012 from RMB1,031.8 million in 2011 as we adjusted our product strategy;

- Our average interest and handling fee rate for entrusted loans decreased to 24.67% in 2012 compared to 25.26% in 2011 due primarily to the increasing market competition and our decision to reduce interest rate based on negotiation with borrowers;

- Our interest expenses on borrowings increased by 36.9% to RMB51.6 million in 2012 from RMB37.7 million in 2011 due primarily to the increased borrowings for expanding our micro and small loan business; and

- The foregoing decreases were partially offset by a 49.7% increase in the average balance of our micro and small loans to RMB1,227.8 million in 2012 compared to RMB820.1 million in 2011 as a result of the increased capital base for our micro and small loan business in 2012.

2011 compared to 2010

Our net interest and handling fee income increased significantly to RMB417.6 million in 2011 compared to RMB198.7 million in 2010, due primarily to increased income from loans and advances to customers. This is mainly attributable to our increased capital base and expanded micro and small loan network.

In particular, the average balance of our micro and small loans increased significantly to RMB820.1 million in 2011 from RMB320.9 million in 2010, and the average balance of our entrusted loans increased significantly to RMB1,031.8 million in 2011 from RMB467.4 million in 2010.

Segment Revenue

The following table sets forth the breakdown of our segment revenue for the periods 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
Subtotal	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 consisted of our interest income from restricted bank deposits and cash at banks in our credit guarantee business.

Segment revenue from both the credit guarantee and SME lending businesses increased in the ten months ended October 31, 2013 compared to the same period in 2012 due to the increase in our net guarantee and consulting income and net interest and handling fee income. Segment revenue from our SME lending business grew at a higher rate in 2013 compared to our credit guarantee business, due primarily to a combination of (i) a significantly increased capital base of our SME lending business and the resulting substantial increases in our micro and small loan and entrusted loan portfolios, and (ii) a decrease in the average balance of fully secured bank financing guarantees, despite continued growth in our overall credit guarantee portfolio.

In 2010, 2011 and 2012, segment revenue from our credit guarantee business increased steadily while segment revenue from our SME lending business fluctuated. As a percentage of our net fee and interest income, segment revenue from our credit guarantee business increased from 38.7% in 2010 to 53.7% in 2011 and further increased to 70.7% in 2012, while segment revenue from our SME lending business decreased from 61.3% in 2010 to 46.3% in 2011 and further decreased to 29.3% in 2012. Our credit guarantee business achieved a faster growth compared to our SME lending business during those three years due primarily to changes in our product mix, as reflected in a substantial increase in the average balance of fully secured bank financing guarantees and a substantial decrease in the average balance of entrusted loans in 2012. As both of these two products normally command the highest fee rates among all product groups in our two business lines, significant fluctuations of the offerings of fully secured bank financing guarantees and entrusted loans could have a notable impact on the percentage composition of our revenue.

See "— Principal Components of Consolidated Income Statements — Net Fee and Interest Income" for a detailed discussion of our net guarantee and consulting income and net interest and handling fee income.

Other Revenue

The following table sets forth the breakdown of our other revenue by sources for the periods indicated:

	Year ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	(RMB in millions)				
Investment income from available-for-sale financial assets	1.2	91.3	–	–	–
Dividend income from an unlisted security	5.5	–	–	–	–
Government grants	7.6	31.5	26.2	7.1	12.3
Others	0.8	0.3	3.4	0.3	0.3
Total	15.1	123.1	29.6	7.4	12.6

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Other revenue increased by 70.0% to RMB12.6 million in the ten months ended October 31, 2013 compared to RMB7.4 million in the same period in 2012 due primarily to an increase in government grants.

2012 compared to 2011

Other revenue decreased by 76.0% to RMB29.6 million in 2012 from RMB123.1 million in 2011, due primarily to a RMB91.3 million one-off gain we realized in 2011 from the disposal of our equity investment in an unlisted company in China. Our government grants also decreased to RMB26.2 million in 2012 from RMB31.5 million in 2011, due primarily to a RMB5 million one-off government subsidies we received from the Chongqing government in 2011.

2011 compared to 2010

Other revenue increased significantly to RMB123.1 million in 2011 from RMB15.1 million in 2010, due to a combination of (i) a one-off gain of RMB91.3 million from our disposal of equity investment; (ii) an increase in government incentives for our business of providing guarantees to SMEs and microenterprises which resulted from an increase in our segment revenue from the credit guarantee business; and (iii) a one-off government subsidy of RMB5.0 million from the Chongqing government.

Provisions for Guarantee Losses

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

We made provisions for guarantee losses of RMB103.0 million in the ten months ended October 31, 2013 compared to RMB31.8 million in the same period in 2012, primarily due to (i) general provisions collectively assessed in line with the substantial increase in our outstanding guarantees; and (ii) an upward adjustment in our provision ratio after considering factors, such as historical default rate, loss ratio and prevailing macro-economic conditions, specifically the unfavorable overall market and industry conditions in 2013.

2012 compared to 2011

The balance of our provisions for guarantee losses increased by 22.6% from RMB228.6 million as of December 31, 2011 to RMB280.2 million as of December 31, 2012. Such an increase was generally in line with the increase in the balance of our outstanding guarantees. We made provisions for guarantee losses of RMB51.7 million in 2012 compared to RMB123.9 million in 2011, largely corresponding to the magnitude of the respective increases in the balance of our outstanding guarantees in 2012 and 2011.

2011 compared to 2010

The balance of our provisions for guarantee losses increased significantly from RMB104.6 million as of December 31, 2010 to RMB228.6 million as of December 31, 2011, which was in line with the increase in the balance of our outstanding guarantees from 2010 to 2011. We made provisions for guarantee losses of RMB123.9 million in 2011 compared to RMB77.6 million in 2010, largely corresponding to the magnitude of the respective increases in the balance of our outstanding guarantees in 2011 and 2010.

Impairment Losses

The following table sets forth the breakdown of our impairment losses for the periods indicated:

	Year ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	(RMB in millions)				
Impairment losses on default payment receivables	8.0	16.5	90.3	74.6	147.6
Impairment losses on loans and advances to customers					
Micro and small loans	7.7	15.5	42.7	25.1	66.3
Entrusted loans	9.4	11.5	(2.9)	6.2	10.5
Subtotal	17.1	27.0	39.8	31.3	76.8
Total	25.1	43.5	130.1	105.9	224.4

Our impairment losses increased throughout the Track Record Period, reflecting the increases in our default payments and impaired loans in line with our business expansion.

Our default payment receivables, representing the outstanding amount of our default payments, totaled RMB14.2 million, RMB40.7 million, RMB198.0 million and RMB352.1 million as of December 31, 2010, 2011 and 2012 and October 31, 2013, respectively.

Our impaired loans totaled RMB46.5 million, RMB69.5 million, RMB63.8 million and RMB94.3 million as of December 31, 2010, 2011 and 2012 and October 31, 2013, respectively. See "Business — Provisioning Policies and Asset Quality."

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Our impairment losses increased by 111.9% to RMB224.4 million in the ten months ended October 31, 2013 from RMB105.9 million in the same period in 2012, which was in line with the increased outstanding balance and aging of our default payment receivables from previous periods and increased loan balance. In particular:

- Our impairment losses on default payment receivables increased to RMB147.6 million in the ten months ended October 31, 2013 from RMB74.6 million in the same period in 2012, due primarily to our management's judgment that certain default payment receivables were less likely to be recovered and the increased default payment receivables balance.

- Our impairment losses on loans and advances to customers also increased substantially to RMB76.8 million in the ten months ended October 31, 2013 from RMB31.3 million in the same period in 2012, due primarily to the general provision collectively assessed for the increased scale of our loan portfolio in the first ten months of 2013.

2012 compared to 2011

Our impairment losses increased significantly to RMB130.1 million in 2012 from RMB43.5 million in 2011, which was in line with our increased default payment receivables and increased loan balance. In particular:

- Our impairment losses on default payment receivables increased to RMB90.3 million in 2012 from RMB16.5 million in 2011 due primarily to the rapid growth of our credit guarantee business and the effect of the unfavorable market and industry conditions in China, particularly in relation to the Yangtze River Delta, in 2012 which resulted in the deterioration in certain customers' financial conditions and repayment ability. Our default payment receivables increased substantially to RMB198.0 million as of December 31, 2012 compared to RMB40.7 million as of December 31, 2011.

- Our impairment losses on loans and advances to customers also increased by 47.4% to RMB39.8 million in 2012 from RMB27.0 million in 2011, due primarily to the rapid growth of our micro and small loan business in 2012.

2011 compared to 2010

Impairment losses increased by 73.3% to RMB43.5 million in 2011 compared to RMB25.1 million in 2010, which was in line with our increased default payment receivables and increased loan balance. In particular:

- Our impairment losses on default payment receivables increased to RMB16.5 million in 2011 from RMB8.0 million in 2010, corresponding to the rapid growth of our credit guarantee business in 2011. Our default payment receivables increased to RMB40.7 million as of December 31, 2011 compared to RMB14.2 million as of December 31, 2010.

- Our impairment losses on loans and advances to customers also increased by 57.9% to RMB27.0 million in 2011 from RMB17.1 million in 2010, corresponding to the rapid growth of our SME lending business in 2011.

Administrative Expenses

The following table sets forth the breakdown for our administrative expenses for the periods indicated:

	Year ended December 31,			Ten months ended October 31,	
	2010	**2011**	**2012**	**2012**	**2013**
	(RMB in millions)				
Staff costs	51.2	93.8	147.2	121.1	306.7
Operating lease charges in respect of buildings	7.8	23.5	36.5	30.0	38.7
Depreciation and amortization expenses	4.3	10.8	15.1	14.3	16.4
Others[(1)]	60.7	121.3	157.6	123.8	199.9
Total	124.0	249.4	356.4	289.2	561.7

(1) Primarily include business tax and surcharges and certain miscellaneous expenses.

Our administrative expenses increased throughout the Track Record Period, which was generally in line with our business expansion during the same period.

Staff costs, which constituted the single largest component of our administrative expenses, accounted for 41.3%, 37.6%, 41.3%, 41.9% and 54.6% of our administrative expenses in 2010, 2011 and 2012 and the ten months ended October 31, 2012 and 2013, respectively.

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Our administrative expenses increased by 94.2% to RMB561.7 million in the ten months ended October 31, 2013 from RMB289.2 million in the same period in 2012, mainly attributable to significant increases in our staff costs and other administrative expenses. In particular:

- Our staff costs increased by 153.3% to RMB306.7 million in the ten months ended October 31, 2013 from RMB121.1 million in the same period in 2012 due primarily to (i) non-cash share-based payment expenses of RMB117.3 million relating to our newly-implemented share incentive scheme in June 2013; and (ii) an increase in headcount from 1,239 as of October 31, 2012 to 1,596 as of October 31, 2013, which contributed to 49.5% or RMB59.9 million increase in salaries, wages, bonuses and other benefits paid to our employees. We hired an increasing number of new employees in 2013 to expand our business across China who were still at preparatory training and internal development stages and did not contribute directly to our revenue growth.

- Our other administrative expenses increased by 61.5% to RMB199.9 million in the ten months ended October 31, 2013 from RMB123.8 million in the same period in 2012, due primarily to (i) expansion in business operations and geographic coverage and additional office spaces, which contributed to a RMB36.6 million increase in miscellaneous expenses, such as travel expenses, office expenses and advertisement fees, and a RMB13.5 million increase in business tax and surcharges; (ii) an increase of RMB14.4 million incurred for third-party's professional services in connection with the Global Offering; and (iii) additional cost of RMB11.6 million due to the development of our new IT system.

2012 compared to 2011

Our administrative expenses increased by 42.9% to RMB356.4 million in 2012 from RMB249.4 million in 2011, which was mainly attributable to our increased business scale and the resulting increases in staff costs, business tax and surcharges, operating lease charges and other miscellaneous expenses. Due primarily to the one-off investment gain we realized in 2011, our administrative expenses as a percentage of net fee and interest income increased to 31.2% in 2012 from 28.7% in 2011.

Our staff costs increased by 56.9% to RMB147.2 million in 2012 compared to RMB93.8 million in 2011, due primarily to our branch network expansion in China and the resulting increase in our headcount.

2011 compared to 2010

Our administrative expenses increased by 101.1% to RMB249.4 million in 2011 from RMB124.0 million in 2010, which is mainly attributable to our substantially increased business scale and the resulting increases in staff costs, business tax and surcharges, operating lease charges and other miscellaneous expenses. Due to the economies of scale we achieved in our business and the one-off investment gain we realized in 2011, our administrative expenses as a percentage of net fee and interest income decreased to 28.7% in 2011 compared to 38.5% in 2010.

Our staff costs increased by 83.2% to RMB93.8 million in 2011 compared to RMB51.2 million in 2010, due primarily to our branch network expansion in China and the resulting increase in our headcount.

Profit Before Taxation and Profit Margin Before Taxation

As a result of the foregoing, our profit before taxation increased to RMB634.0 million in 2012 from RMB109.8 million in 2010, representing a CAGR of 140.3%. Our profit before taxation decreased by 26.9% to RMB369.6 million in the ten months ended October 31, 2013 from RMB505.8 million in the same period in 2012.

Our profit margin before taxation fluctuated throughout the Track Record Period, being 34.1%, 66.2% 55.5%, 54.6% and 29.6%, respectively, in 2010, 2011 and 2012 and the ten months ended October 31, 2012 and 2013.

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Our profit margin before taxation decreased to 29.6% in the ten months ended October 31, 2013 from 54.6% in the same period in 2012, mainly attributable to a combination of following:

- a 123.4%, or RMB71.2 million, increase in provisions for guarantee losses collectively assessed in our credit guarantee business as a result of (i) our substantially increased outstanding guarantee balance, especially in the second half of 2013, which significantly increased the period-end base we used for making collective provisions for guarantee losses, while we recognized our guarantee fee and income on an accrual basis according to the term of the respective guarantee contracts with the unrecognized portion accounted for as deferred income in connection with the remaining term of the guarantee contract, which resulted in a slower revenue growth compared to the growth in our outstanding guarantee balance. In particular, segment revenue from our credit guarantee business increased by 23.3% during the ten months ended October 31, 2013 compared to the same period in 2012, while our outstanding credit guarantees increased by 32.2% as of October 31, 2013 compared to December 31, 2012; and (ii) increased provision ratio from 1.9% as of December 31, 2012 to 2.0% as of October 31, 2013 after taking into account the historical default rate, loss ratio and the then prevailing macro-economic conditions;

- a 111.8%, or RMB118.4 million, increase in our impairment losses due to (i) increased default payments attributable in part to the challenging credit and economic conditions in China in 2013; and (ii) the increased impairment losses collectively assessed for loan losses as a result of the substantial increase in our outstanding loan balance, especially in the second half of 2013 which significantly increased the period-end base we used for making collective assessment on loan losses, while we recognized our interest income on an accrual basis according to the term of the respective loan contracts with the unrecognized portion accounted for as receipts in advance in connection with the remaining term of the loan contract, which resulted in a slower revenue growth compared to the growth in our outstanding loan balance. In particular, segment revenue from our SME lending business increased by 59.7% during the ten months ended October 31, 2013 compared to the same period in 2012 while our outstanding micro and small loan balance increased by 90.1% as of October 31, 2013 compared to December 31, 2012; and

- a 94.2%, or RMB272.5 million, increase in our administrative expenses, particularly non-cash share-based payment expenses of RMB117.3 million relating to our newly-implemented share incentive scheme in June 2013.

2012 compared to 2011

Our profit before taxation increased by 10.0% to RMB634.0 million in 2012 compared to RMB576.2 million in 2011. Our profit margin before taxation decreased to 55.5% in 2012 from 66.2% in 2011, due primarily to the one-off effect of our investment gain of RMB91.3 million from the disposal of equity investment and increased administration expenses.

2011 compared to 2010

Our profit before taxation increased significantly to RMB576.2 million in 2011 from RMB109.8 million in 2010. Our profit margin before taxation increased to 66.2% in 2011 from 34.1% in 2010, due primarily to (i) the one-off investment gain of RMB91.3 million we realized in 2011 and (ii) our increased operating efficiency by leveraging the economies of scales we achieved through expanding our business across China.

Segment Profit and Segment Margin

The following table sets forth our profit and profit margin by segment during the periods indicated:

	Year ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	(RMB in millions, except percentages)				
Segment profit					
– Credit guarantee business	(22.5)	224.1	466.5	342.7	256.2
– SME lending business	128.8	263.0	169.8	165.1	255.8
Segment profit margin(1)					
– Credit guarantee business	N/A	48.0%	57.7%	53.8%	32.7%
– SME lending business	65.3%	65.2%	50.6%	57.0%	55.3%

(1) Segment profit margin equals segment profit divided by segment revenue

Credit Guarantee

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Segment profit from our credit guarantee business decreased by 25.2% to RMB256.2 million in the ten months ended October 31, 2013 from RMB342.7 million in the same period in 2012, due primarily to the increases in our provisions for guarantee losses which we collectively assessed for the increased scale of our guarantee portfolio and impairment losses on default payment receivables as well as administrative expenses incurred for our continued business expansion during the ten months ended October 31, 2013. Our segment margin decreased to 32.7% in the ten months ended October 31, 2013 from 53.8% in the same period in 2012 accordingly.

2012 compared to 2011

Segment profit from our credit guarantee business increased by 108.2% to RMB466.5 million in 2012 compared to RMB224.1 million in 2011, due primarily to our increased net guarantee and consulting fee income. Our segment margin increased to 57.7% in 2012 compared to 48.0% in 2011, due primarily to our increased offering of fully secured bank financing guarantees on which we charge a higher fee rate than other guarantees services.

2011 compared to 2010

Our credit guarantee business recorded a loss of RMB22.5 million in 2010, due primarily to the increases in provisions for guarantee losses made and administration expenses incurred resulting from the rapid expansion of our credit guarantee business in 2010 and the fact that some of our new credit guarantee branch offices were still at a preparation stage and had not generated substantial revenue. Our segment profit and margin were RMB224.1 million and 48.0%, respectively, in 2011, due to our increased segment revenue and our ability to increase our economies of scale as we grow our business.

SME Lending

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Segment profit from our SME lending business increased by 54.9% to RMB255.8 million in the ten months ended October 31, 2013 compared to RMB165.1 million in the same period in 2012, due primarily to the increased average balance of loans we offered in the first ten months of 2013. Our segment profit margin decreased to 55.3% in the ten months ended October 31, 2013 from 57.0% in the same period in 2012, due primarily to the significant increase in administrative expenses.

2012 compared to 2011

Segment profit from our SME lending business decreased by 35.4% to RMB169.8 million in 2012 compared to RMB263.0 million in 2011, due primarily to the reduced average balance of entrusted loans we offered in 2012. Our segment profit margin decreased to 50.6% in 2012 compared to 65.2% in 2011, due primarily to a decrease in our offering of entrusted loans on which we generally charge a higher interest rate than on micro and small loans.

2011 compared to 2010

Segment profit from our SME lending business increased by 103.9% to RMB263.0 million in 2011 compared to RMB128.8 million in 2010, primarily due to the substantial increase in our net interest and handling fee income. Our segment profit margin remained stable at 65.2% in 2011 and 65.3% in 2010.

Income Tax

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

Notwithstanding a decrease in our profit before taxation, our income tax expense remained relatively the same at RMB95.7 million in the ten months ended October 31, 2013 compared to RMB93.4 million in the same period in 2012. Our effective tax rate was 25.9% in the ten months ended October 31, 2013 as compared to 18.5% in the same period in 2012. The increase in our effective tax rate was due primarily to the non-cash share-based payment expenses of RMB117.3 million in the ten months ended October 31, 2013 being incurred by our Company as a non-operating holding company that did not generate any taxable revenue against which these expenses could be deducted for tax purposes.

2012 compared to 2011

Income tax expense increased by 16.1% to RMB116.1 million in 2012 from RMB100.0 million in 2011, primarily due to the increase in our taxable income in 2012. Our effective tax rate was 18.1% in 2012 as compared to 17.4% in 2011.

2011 compared to 2010

Our income tax expense increased significantly to RMB100.0 million in 2011 from RMB19.8 million in 2010, primarily due to the increase in our taxable income in 2011. Our effective tax rate was 17.4% in 2011 as compared to 18.3% in 2010.

Profit

Ten months ended October 31, 2013 compared to ten months ended October 31, 2012

As a result of the foregoing, our profit decreased by 33.6% to RMB273.9 million in the ten months ended October 31, 2013 from RMB412.4 million in the same period in 2012, and our net profit margin decreased to 22.0% in the first ten months of 2013 compared to 44.5% in the first ten months of 2012.

2012 compared to 2011

As a result of the foregoing, our profit for the year increased by 8.7% to RMB517.8 million in 2012 from RMB476.2 million in 2011, and our net profit margin decreased to 45.3% in 2012 compared to 54.7% in 2011.

2011 compared to 2010

As a result of the foregoing, our profit for the year increased significantly to RMB476.2 million in 2011 compared to RMB90.0 million in 2010, and our net profit margin also increased to 54.7% in 2011 compared to 28.0% in 2010.

LIQUIDITY AND CAPITAL RESOURCES

We have in the past funded our working capital and other capital requirements primarily by equity contributions from shareholders, bank borrowings and cash flows from operations. Our liquidity and capital requirements primarily relate to extending micro and small loans and entrusted loans, making default payments, maintaining security deposits at banks and other working capital requirements. We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal liquidity that can meet our working capital needs while supporting a healthy level of business scale and expansion. See "— Cash Management."

Taking into account the financial resources available to us, including our existing cash and cash equivalents, net proceeds from the Global Offering and cash flows from operations, our Directors believe that we have sufficient working capital for our present requirements and are able to fulfill our obligations under our business for at least the next 12 months from the date of this prospectus.

In addition to the net proceeds from the Global Offering, we will also consider managing our future liquidity requirements through a combination of:

- cash generated from operating activities;
- bank borrowings and corporate bonds offerings;
- alternative sources of financing, such as repurchase transactions; and
- equity financing, such as follow-on offerings and rights issues.

In the ten months ended October 31, 2013, we incurred RMB14.4 million in expenses for the Global Offering, and we expect to incur an additional RMB122.0 million (including the commission and expenses that can be capitalized, assuming an Offer Price of HK$2.58 per H Share, which is the mid-point of the stated range of the Offer Price of between HK$2.28 and HK$2.88 per H Share) until the completion of the Global Offering. We do not expect these expenses to have a material impact on our results of operations in 2014.

The following discussion of liquidity and capital resources principally focuses on our consolidated cash flow statements.

Cash Flows

The following table sets forth a selected summary of our consolidated cash flow statements for the periods indicated:

	Years ended December 31,			Ten months ended October 31,	
	2010	2011	2012	2012	2013
	(RMB in millions)				
Net cash used in operating activities	(258.7)	(926.5)	(377.8)	(146.8)	(1,663.2)
Net cash generated from/(used in) investing activities	5.2	168.4	(140.5)	(140.5)	(125.4)
Net cash generated from financing activities	576.5	723.8	244.1	160.6	2,344.4
Net increase/(decrease) in cash and cash equivalents	323.0	(34.3)	(274.2)	(126.7)	555.8
Cash and cash equivalents at the beginning of the period	240.0	562.9	528.5	528.5	254.4
Cash and cash equivalents at the end of the period	562.9	528.5	254.4	401.8	810.2

Net Cash Used in Operating Activities

Our business of providing guarantees and loans to customers is capital-based in nature, and our SME Lending business is particularly capital intensive and involves a substantial amount of operating cash turnover in its ordinary course of business undertakings. During the Track Record Period, our business growth was mainly supported by funding from equity contributions which were cash inflows from financing activities. In particular, we received equity contributions in cash in the amount of RMB412.0 million, RMB498.2 million, RMB60.0 million and RMB2,296.6 million in 2010, 2011 and 2012 and the ten months ended October 31, 2013, respectively. However, as these funds were gradually deployed into further expanding our guarantee and SME lending businesses in the form of increased securities deposits placed with banks and loans advanced to customers, they were classified as cash used in operating activities and as a result, we reported net cash used in operating activities during the Track Record Period. See "Risk Factors — Risks Relating to Our Business and Industry — We reported negative operating cash flows during the Track Record Period and expect to continue to do so in the near term subsequent to the Listing."

Our cash used in operating activities primarily consists of security deposits that we place with banks or return to customers and loans and advances we extend to our customers as well as default payment receivables. Our cash generated from operating activities primarily consists of fee and interest income and customer pledged deposits. Net cash flows from operating activities reflect (i) our profit before tax adjusted for non-cash and non-operating items, such as impairment losses, provision for guarantee losses as well as depreciation and amortization, (ii) the effects of changes in working capital, such as changes in restricted bank deposits, received deposits, loans and advances to customers and trade and other receivables, and (iii) income tax paid.

In the ten months ended October 31, 2013, we had net cash used in operating activities of RMB1,663.2 million. Our net cash outflows arising from changes in working capital were due primarily to a combination of the following:

(i) a RMB1,845.2 million of increase in loans and advances to customers, following two rounds of equity contributions in 2013; and

(ii) a RMB360.3 million decrease in customer pledged deposits as we continued to return customer pledged deposits while discontinued our practice of taking customer pledged deposits from new guarantee customers.

In 2012, we had net cash used in operating activities of RMB377.8 million. Our net cash outflows arising from changes in working capital were due primarily to a combination of the following:

(i) a RMB623.1 million decrease in customer pledged deposits as we returned a significant portion of customer pledged deposits and we also discontinued our practice of taking customer pledged deposits from new guarantee customers after April 2012;

(ii) a RMB422.4 million increase in loans and advances to customers as a result of our expanded SME lending business; and

(iii) a RMB196.3 million increase in our trade and other receivables, due to increased default payment receivables as a result of the growth of our credit guarantee business and the unfavorable economic and industry conditions for many of our customers in 2012.

In 2011, we had net cash used in operating activities of RMB926.5 million. Our net cash outflows arising from changes in working capital were primarily due to the combination of the following:

(i) a RMB1,367.3 million increase in restricted bank deposits due to the rapid expansion of our financing guarantee business and the resulting increase in security deposits that we placed with banks in 2011; and

(ii) a RMB721.6 million increase in loans and advances to customers as a result of our fast growing SME lending business in 2011.

These cash outflows were partially offset by a RMB389.5 million increase in the cash deposits we received from our guarantee customers resulting from our expanded bank financing guarantee business in 2011.

In 2010, we had net cash used in operating activities of RMB258.7 million. Our net cash outflows arising from changes in working capital were primarily due to the combination of the following:

(i) a RMB519.5 million increase in restricted bank deposits as a result of the expansion of our financing guarantee business in 2010; and

(ii) a RMB528.7 million increase in loans and advances to customers as a result of the expansion of our SME lending business in 2010.

These cash outflows were partially offset by a RMB471.4 million increase in cash deposits we received from our guarantee customers resulting from our expanded bank financing guarantee business in 2010.

Net Cash Generated from/(Used in) Investing Activities

Our cash generated from investing activities is primarily attributable to proceeds from disposal of equity investments, while our cash used in investing activities is primarily attributable to our purchase of fixed assets.

In the ten months ended October 31, 2013, our net cash used in investing activities was RMB125.4 million, due primarily to the installment payment of RMB102.4 million for an office building in Chongqing.

In 2012, our net cash used in investing activities was RMB140.5 million, due primarily to our payment for fixed assets, principally an office building in Chongqing, of RMB131.1 million.

In 2011, our net cash from investing activities was RMB168.4 million, due primarily to a RMB193.8 million disposal of equity investments, partially offset by our purchase of fixed assets of RMB25.5 million.

In 2010, our net cash used from investing activities was RMB5.2 million, due primarily to a RMB13.2 million disposal of equity investments and RMB5.5 million dividend received on our equity investment in an unlisted company, partially offset by our purchase of fixed assets of RMB13.7 million.

Net Cash Generated from Financing Activities

Our cash generated from financing activities consist primarily of proceeds from equity contributions, new borrowings and repurchase transactions. Our cash used in financing activities consists primarily of (i) repayment of borrowings; (ii) payment for assets sold under repurchase transactions; and (iii) dividends payment to the non-controlling shareholders of our subsidiaries.

In the ten months ended October 31, 2013, our net cash generated from financing activities was RMB2,344.4 million, primarily due to equity contributions of RMB2,296.6 million.

In 2012, our net cash generated from financing activities was RMB244.1 million, primarily due to proceeds from new borrowings of RMB1,140.7 million, proceeds from repurchase transactions of RMB369.7 million and equity contributions of RMB60.0 million, which were partially offset by RMB878.6 million we used for repayment of borrowings and payment for assets sold under repurchase transactions of RMB198.8 million.

In 2011, our net cash generated from financing activities was RMB723.8 million, primarily due to proceeds from new borrowings of RMB911.4 million, proceeds from equity contributions of RMB498.2 million and proceeds from repurchase transactions of RMB189.9 million, which were partially offset by our repayment of borrowings of RMB456.0 million and payment for repurchase of assets sold under repurchase transactions of RMB220.0 million.

In 2010, our net cash generated from financing activities was RMB576.5 million, primarily due to proceeds from new borrowings of RMB569.6 million and proceeds from equity contributions of RMB412.0 million, which were partially offset by our repayment of borrowings of RMB439.8 million.

Cash Management

We have also established cash management measures to manage the liquidity of our credit guarantee and micro and small loan businesses on a separate basis:

Credit guarantee

We typically evaluate each outstanding guarantee contract on an individual basis one month prior to its due date. When a guarantee customer is found to be at risk of default during our on-site visit, we would estimate the maximum amount of payment to be made on behalf of such customer and provide for such amount in our cash flow management for the coming month. In general, our credit guarantee business would maintain a free cash balance of around 2% of our outstanding guarantee balance, of which we would evaluate and adjust (if required) on an ongoing basis after taking into account the following:

- our historical default rate;
- our track record of monthly default payments;
- probability distribution analysis on our historical default rate to evaluate the likelihood of future default and the adequacy of our cash balance;
- restricted bank deposits placed with lending banks which we can use to offset default payments; and
- our other working capital requirements, such as general and administrative expenses.

We require each of our guarantee subsidiaries to submit its cash balance on a daily basis so that we are able to monitor the total amount of free cash balance in our credit guarantee business, which we compare against our latest month-end balance of outstanding guarantees. The generally maintained cash balance of our guarantee subsidiaries represents a free cash balance, excluding any restricted bank deposits, after settlement of all cash outlays during the month including, without limitation, all general and administrative expenses, entrusted loans advanced to customers and default payments during the month. During the Track Record Period, our monthly average cash inflows from guarantee and consulting fees and entrusted loan interests together with other ancillary cash receipts for our guarantee subsidiaries amounted to RMB26.4 million, RMB58.1 million, RMB59.4 million and RMB77.2 million, while the monthly average cash outflows for general and administrative expenses together with default payments (net of cash recovered) amounted to RMB7.7 million, RMB19.0 million, RMB41.0 million and RMB45.6 million, representing an average monthly surplus of RMB18.7 million, RMB39.1 million, RMB18.4 million and RMB31.6 million, respectively.

In addition, we utilize our entrusted loans and fully secured bank financing guarantees as part of our cash management measures to cover large sums of scheduled or anticipated cash outflows from time to time in addition to our regular cash inflows from guarantee and consulting fees and interests. We actively adjust the size of our entrusted loan portfolio and fully secured bank financing guarantees to earn additional interest and fee income for our surplus free cash, and/or make available additional free cash reserve to meet any substantial cash requirements from time to time, such as large sums of anticipated default payment, scheduled repayment of bank borrowings and scheduled repurchases of financial assets under repurchase arrangements. Our entrusted loans and fully secured bank financing guarantees generally have a relatively short maturity profile of six months or less, which enable us to adjust our level of free cash within a relatively reasonable timeframe.

On the basis set out above, we consider our generally maintained free cash balance more as a cash reserve to safeguard against the occurrence of any significant unanticipated default payments in the immediate near term.

In 2010, 2011 and 2012 and the ten months ended October 31, 2013, the monthly average free cash balance of our credit guarantee business (i.e., free cash excluding any restricted bank deposits) amounted to RMB207.9 million, RMB414.0 million, RMB229.3 million, RMB478.5 million, representing 3.5%, 3.3%, 1.4% and 2.6% of our monthly average outstanding guarantees in the same period, respectively. The monthly average free cash balance was only 1.4% of our monthly average outstanding guarantee in 2012, primarily due to the gradual return of customer pledged deposits since the promulgation of the 2012 Notice. We utilized part of our free cash balance to return the cash deposits to certain customers whose guaranteed loans were not yet due, after assessing the credit profile of such customers and the overall default risks of our guarantee portfolio at the time.

Since the outstanding guarantee balance at a month end does not all become due in the coming month, we will not be exposed to the risk of customers' defaults on the full amount of the outstanding guarantee balance all at once. The following table sets out our monthly average balance of cash and cash equivalents against our monthly average outstanding guarantees due and released during the Track Record Period:

	Year ended December 31,			Ten months ended October 31,
	2010	**2011**	**2012**	**2013**
	(RMB in millions, except percentages)			
Average balance of cash and cash equivalents(1)	207.9	414.0	229.3	478.5
Average amount of outstanding guarantees due and released(2)	244.6	707.5	1,329.5	1,353.8
Coverage ratio	85.0%	58.5%	17.2%	35.3%

(1) Average month end balance of our cash and cash equivalents for our guarantee subsidiaries during the period.

(2) Average month end amount of our outstanding guarantees released during the relevant period.

Given that the outstanding guarantee balance at a month end does not all become due in the coming month, the coverage ratio above compares our monthly average free cash coverage against our monthly average outstanding guarantees due and released, which better demonstrates the sufficiency of our average free cash balance, and therefore better indicates our short-term liquidity for our credit guarantee business, on an average monthly basis. Our coverage ratio was significantly higher than the historical default rate throughout the Track Record Period. In particular, the coverage ratio was 35.3% in the ten months ended October 31, 2013 which is significantly higher than the default rate of 1.4% of our credit guarantee business in the same period. Such coverage ratio was higher in 2010 and 2011 compared to that in 2012 and the ten months ended October 31, 2013, primarily due to the significant growth in our guarantee business starting 2011 resulting in a significant increase in average balance of outstanding guarantees due and released.

Some of our cooperating banks would also allow us a grace period of one to three months to make default payments.

Micro and small loans

As our micro and small loan business relies primarily on its available cash, we normally set aside a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interest on bank loans, and use substantially all of the remainder for granting loans to our customers. As of December 31, 2010, 2011 and 2012 and October 31, 2013, the total cash and cash equivalents of our micro and small loan subsidiaries amounted to RMB7.6 million, RMB47.3 million, RMB18.0 million and RMB605.6 million, respectively, which we consider to be adequate based on our actual working capital needs.

SELECTED ITEMS OF THE STATEMENT OF FINANCIAL POSITION

The following table sets forth a summary of our assets and liabilities as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Assets				
Cash and cash equivalents	562.9	528.5	254.4	810.2
Restricted bank deposits	865.8	2,233.1	2,207.2	2,276.4
Trade and other receivables	34.0	71.9	310.3	308.8
Loans and advances to customers	922.4	1,616.9	1,961.6	3,730.0
Available-for-sale financial assets	170.5	–	10.0	9.6
Fixed assets	60.8	75.1	81.4	297.3
Intangible assets	0.6	0.9	0.6	3.4
Deferred tax assets	29.2	90.7	142.4	215.4
Total assets	2,646.2	4,617.1	4,967.9	7,651.1
Liabilities				
Interest-bearing borrowings	280.0	735.4	880.6	702.6
Financial assets sold under repurchase agreement	81.5	51.4	222.3	466.0
Liabilities from guarantees	249.2	488.2	626.8	791.0
Customer pledged deposits	680.5	1,070.1	446.9	86.6
Accruals and other payables	69.0	151.5	169.5	265.4
Current tax liabilities	33.7	116.0	113.8	94.9
Total liabilities	1,393.9	2,612.6	2,459.9	2,406.5
Net assets	1,252.3	2,004.5	2,508.0	5,244.6

For a maturity profile of our assets and liabilities, see "— Quantitative and Qualitative Analysis of Market Risk — Liquidity Risk."

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of our cash in hand and cash at banks. The following table sets forth our cash and cash equivalents as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Cash in hand	0.7	0.2	0.3	0.2
Cash at banks	562.2	528.3	254.1	810.0
Cash and cash equivalents	562.9	528.5	254.4	810.2

The increase in our cash and cash equivalents from RMB254.4 million as of December 31, 2012 to RMB810.2 million as of October 31, 2013 was mainly a result of equity contribution in May 2013, which we are deploying to our micro and small business and credit guarantee business. As of December 31, 2013, our cash and cash equivalents were RMB940.5 million.

The substantial decrease in our cash and cash equivalents from RMB528.5 million as of December 31, 2011 to RMB254.4 million as of December 31, 2012 was primarily due to (i) the refund of a portion of customer pledged deposits and (ii) the discontinuation of our practice of taking such deposits from new customers after April 2012. While our new practice has reduced the flexibility of our available cash in 2012, we expect that the impact of our new practice commencing from 2012 will not adversely affect our cash flow and results of operations after 2012.

See "— Liquidity and Capital Resources" for a discussion of our cash management measures.

Restricted Bank Deposits

Restricted bank deposits represent the security deposits we place with banks in connection with our provision of bank financing guarantees. Restricted bank deposits include (i) security deposits, generally ranged from nil to 20% of the amount of bank financing guarantees we provide, and (ii) cash deposits or certificates of deposit for fully secured bank financing guarantees. See "Business — Products and Services — Credit Guarantee — Financing Guarantee — Bank Financing Guarantee."

The following table sets forth a breakdown of our restricted bank deposits as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Security deposits	865.8	1,167.7	1,267.8	1,435.2
Cash deposits or certificates of deposit for fully secured bank financing guarantees	–	1,065.4	939.4	841.2
Total	865.8	2,233.1	2,207.2	2,276.4

As we actively manage our available cash to increase its efficiency, we have, since 2011, launched the fully secured bank financing guarantee, 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. Our restricted bank deposits will be released from restriction upon the full repayment of the financing it secures. See "Business — Products and Services — Credit Guarantee — Financing Guarantee — Bank Financing Guarantee." As of December 31, 2011, our restricted bank deposits increased significantly to RMB2,233.1 million from RMB865.8 million as of December 31, 2010, due to the growth of our bank financing business and the launch of fully secured bank financing guarantees in 2011.

As of December 31, 2012, our restricted bank deposits slightly decreased to RMB2,207.2 million from RMB2,233.1 million as of December 31, 2011, due primarily to a decrease in the ending balance of our fully secured bank financing guarantees. As of October 31, 2013, our restricted bank deposits increased to RMB2,276.4 million, due to the growth of our fully secured bank financing guarantees in the first ten months of 2013. As of December 31, 2013, our restricted bank deposits were RMB2,293.2 million.

Loans and Advances to Customers

Our loans and advances to customers reflect the total balance of our loan portfolio, including micro and small loans and entrusted loans. The following table sets forth our loans and advances to customers by product as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
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
Gross loans and advances to customers[1]	945.7	1,665.3	2,045.6	3,888.7
Allowances for impairment losses	(23.3)	(48.4)	(84.0)	(158.7)
Total	922.4	1,616.9	1,961.6	3,730.0

(1) Our gross loans and advances to customers included loans to related parties of RMB48.2 million, RMB51.2 million, RMB4.4 million and nil as of December 31, 2010, 2011 and 2012 and October 31, 2013, respectively. In 2012, we disposed of RMB27.3 million of our impaired entrusted loans to Chongqing Honghua Financial Consultants Ltd. Co. (重慶泓華融資顧問有限公司), a minority shareholder of one of our micro and small loan subsidiaries in preparation of the Reorganization. As a substantial portion of the impaired loans were fully collateralized by a commercial building located in central Chongqing, we did not make any provisions on the impaired loans. In addition, as these impaired loans in dispute were awarded certain penalty interests by the courts, we were able to sell them at book value. As such, we did not record any profit or loss from the disposal of the impaired loans.

During the Track Record Period, our loans and advances to customers increased steadily given the rapid expansion of our micro and small loan business, as a result of our increased capital base and expanded branch network. The balance of our entrusted loans fluctuated as a result of changes in our product mix in response to our cash management measures. As of December 31, 2013, our loans and advances to customers were RMB4,579.9 million.

We focus on providing short-term loans to minimize our risk exposure and, as a result, a substantial majority of our loans and advances to customers have a maturity of less than one year. The following table sets forth a maturity portfolio of our loans and advances to customers as of the dates indicated:

	As of December 31,			As of October 31,
	2010	**2011**	**2012**	**2013**
	(RMB in millions)			
Repayable on demand	39.9	80.5	92.9	112.5
Due within three months	522.2	798.3	916.4	1,075.8
Due between three months and one year	350.2	731.7	938.3	2,380.2
Due between one year and five years	10.1	6.4	14.0	161.5
Total	922.4	1,616.9	1,961.6	3,730.0

For a detailed description of our micro and small loan portfolio, see "Business — Products and Services — Micro and Small Loans — Micro and Small Loan Portfolio."

Trade and Other Receivables

Our trade and other receivables primarily consist of default payment receivables in our credit guarantee business, various forms of prepayments as well as interest receivables. The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Default payment receivables	14.2	40.7	198.0	352.1
Trade receivables	2.7	7.6	7.6	4.4
Less: Allowance for default payment receivables	(8.0)	(24.6)	(114.8)	(262.3)
Subtotal	8.9	23.7	90.8	94.2
Interest receivables	6.3	20.7	29.6	38.9
Amount due from related parties	–	5.2	27.9	16.0
Prepayments for purchase of a building for own use	–	–	109.7	–
Repossessed assets	–	–	–	12.6
Other prepayments, deposits and other receivables	18.9	22.3	52.3	147.1
Subtotal	25.2	48.2	219.5	214.6
Total	34.1	71.9	310.3	308.8

The substantial increase in our default payment receivables and allowance for such receivables during the Track Record Period reflected the rapid growth of our guarantee business and the unfavorable market and industry conditions in 2012 and 2013, which resulted in a substantial increase in our default payments. In addition, in the ten months ended October 31, 2013, a non-bank financing guarantee customer defaulted, for whom we paid RMB40.7 million as default payment.

Our interest receivables increased during the Track Record Period due to our expanded SME lending business following a series of equity contributions from our shareholders.

Our prepayments for purchase of a building for own use of RMB109.7 million as of December 31, 2012 related to the down payment we made for the purchase of an office building in Chongqing. The increases in our other prepayments, deposits and other receivables during the Track Record Period corresponded with our business growth.

As of December 31, 2013, our trade and other receivables were RMB254.4 million.

Available-for-sale Financial Assets

Certain of our subsidiaries made equity investments in unlisted companies in China, which we accounted for as available-for-sale financial assets.

As of December 31, 2010, our available-for-sale financial assets of RMB170.5 million related to our investment our Company made in a venture capital firm (an independent third party) based in Shenzhen in December 2008 at a consideration of RMB102.5 million. We sold such holding to a third party for RMB193.8 million in May 2011.

As of December 31, 2012 and October 31, 2013, our available-for-sale financial assets of RMB10.0 million and RMB9.6 million, respectively, related to the investments we made in an unlisted chemical company (an independent third party) based in Xi'an in 2012.

Liabilities from Guarantees

Liabilities from guarantees consist of deferred income in our credit guarantee business and provisions for guarantee losses. The following table sets forth a breakdown of our liabilities from guarantees as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Deferred income	144.6	259.6	346.6	407.8
Provisions for guarantee losses	104.6	228.6	280.2	383.2
Total	249.2	488.2	626.8	791.0

Based on our revenue recognition policy, deferred income refers to the guarantee and consulting fees we have received but the relevant guarantee was still outstanding at the end of a period. Our deferred income would generally increase as our credit guarantee business grows.

Our provisions for guarantee losses reflect the cumulative balance of the provisions we have made on our guarantee portfolio according to our provisioning policy. In general, our provisions for guarantee losses will increase in line with the growth of our guarantee business. As of December 31, 2013, our liabilities from guarantees were RMB853.0 million.

Customer Pledged Deposits

Customer pledged deposits refer to cash deposits we collect from customers as a security for the guarantees we provide. We return these deposits to our customers upon the release of our guarantee.

Our customer pledged deposits decreased by 58.2% from RMB1,070.1 million as of December 31, 2011 to RMB446.9 million as of December 31, 2012 and further to RMB86.6 million as of October 31, 2013 and RMB78.2 million as of December 31, 2013 as we discontinued our practice of taking cash deposits from new guarantee customers in 2012 and continued to return such deposits in 2013.

As of December 31, 2011, our customer pledged deposits increased by 57.3% to RMB1,070.1 million from RMB680.5 million as of December 31, 2010, which was generally in line with the growth of our bank financing guarantee business in 2011.

Financial Assets Sold under Repurchase Agreement

We engage in repurchase transactions to principally finance our SME lending business through mobilizing our assets to obtain alternative financing to further leverage our existing capital. During the Track Record Period, we sold certain of our loan receivables to trust companies under repurchase agreements. Since 2011, we were one of the first few companies to participate in a pilot program for repurchase transactions in Chongqing. Through the over-the-counter trading platform offered by the Chongqing Financial Assets Exchange, we sold a portion of our loan receivables to investors under repurchase agreements under which we agree to repurchase the loan receivables we sold at pre-determined prices and within a specified period of time. The proceeds involved in repurchasing loan receivables we sold under the repurchase arrangement become a payment by us.

The following table sets forth our financial assets sold under repurchase agreements as of the dates indicated:

	As of December 31,			As of October 31,	As of December 31,
	2010	2011	2012	2013	
	(RMB in millions)				
Loan receivables sold under repurchase agreements. . .	81.5	51.4	222.3	466.0	798.0

Our financial assets sold under repurchase agreements increased significantly from RMB51.4 million as of December 31, 2011 to RMB222.3 million as of December 31, 2012 and further to RMB466.0 million as of October 31, 2013 and RMB798.0 million as of December 31, 2013 due to our increased utilization of alternative financing and an increasing market acceptance in China for structured products.

Indebtedness

We borrow bank and other loans primarily for expanding our micro and small loan business and meeting working capital requirements.

As of December 31, 2013, the latest date for determining our indebtedness, our total outstanding borrowings amounted to RMB966.7 million. The following table sets forth our outstanding borrowings as of the dates indicated:

	As of December 31,			As of October 31,	As of December 31,
	2010	2011	2012	2013	
	(RMB in millions)				
Bank loans					
– Guaranteed by third parties	–	85.0	312.5	360.0	440.0
– Secured by properties of the Group	–	–	–	97.0	97.0
– Unsecured	150.0	115.0	168.5	133.1	167.2
	150.0	200.0	481.0	590.1	704.2
Loans from related parties	130.0	505.4	324.6	20.0	20.0
Other loans	–	30.0	75.0	92.5	242.5
Total	280.0	735.4	880.6	702.6	966.7

The steady increase in our bank loans borrowed during the Track Record Period was a result of our business expansion. Historically, we have also borrowed from related parties to partially fund our working capital. Our Directors have confirmed that all borrowings from related parties were settled before the Latest Practicable Date. As of October 31, 2013, our outstanding borrowings bore interest rates of between 6.2% and 15.0% on an annual basis. As of December 31, 2013, our outstanding borrowings bore interest rates of between 6.2% and 18.0% on an annual basis.

The following table sets forth the maturity profile of our interest-bearing borrowings as of the dates indicated:

	As of December 31,			As of October 31,	As of December 31,
	2010	2011	2012	2013	
	(RMB in millions)				
Due within three months	115.0	–	111.0	115.9	95.0
Due between three months and one year	–	433.9	436.1	359.5	629.5
Due between one year and five years	165.0	301.5	333.5	227.2	242.2
Total	280.0	735.4	880.6	702.6	966.7

During the Track Record Period, we did not experience any difficulties in obtaining bank loans. We generally apply for bank loans on a case-by-case basis and draw down the entire loan amount when approved by the lending banks. As of October 31, 2013 and December 31, 2013, we did not have any unutilized banking facilities.

Except as disclosed above and intra-group liabilities, we did not have, as of December 31, 2013, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

Accruals and Other Payables

The following table sets forth our accruals and other payables as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Accrued staff cost	15.7	25.0	30.6	54.0
Business tax and other surcharges payable	3.8	6.0	9.2	13.7
Interest payables	2.6	19.4	7.7	9.0
Other payables	5.8	5.3	5.0	16.7
Receipts in advance	41.1	95.8	117.0	172.0
Total	**69.0**	**151.5**	**169.5**	**265.4**

Our accrued staff cost, business tax and other surcharges payable and interest payables relate to payments recognized but which have not been made until the due date.

Most of our other payables relate to cash payables to third-party contractors in connection with the renovation work of our office buildings.

Our receipts in advance relate to (i) deferred interest and handling fee income from the SME lending business which we received but which has not been recognized as income and (ii) the guarantee and consulting fee we are entitled to receive upon confirmation of the corresponding guarantee arrangement but prior to the drawdown of guaranteed loans by our customers.

As of December 31, 2013, our accurals and other payables were RMB332.9 million.

Current Tax Liabilities

Our current tax liabilities, which represent our income tax payables, were RMB33.7 million, RMB116.0 million, RMB113.8 million and RMB94.9 million, respectively, as of December 31, 2010, 2011 and 2012 and October 31, 2013. As of December 31, 2013, our current tax liabilities amounted to RMB140.8 million.

CAPITAL EXPENDITURES

Our capital expenditures consist primarily of expenditures for the purchase of property, equipment as well as vehicles. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Ten months ended October 31,
	2010	**2011**	**2012**	**2013**
	(RMB in millions)			
Capital expenditures	19.4	27.9	149.8	143.7

Our capital expenditures increased during the Track Record Period due to our purchase of additional property, equipment and vehicles to support our business expansion. A majority of our capital expenditures in 2012 and the ten months ended October 31, 2013 related to the payments for the purchase of an office building in Chongqing. Considering our business needs to (1) satisfy the business premises in line with our expanded business and long-term business growth, (2) expand our office space in Chongqing and (3) provide a secure location for our data center and support our IT infrastructure, we purchased an office building in Chongqing, with a total area of 9,601 sq.m. We paid up the full purchase price of RMB216 million, 45.6% of which was financed by a mortgaged loan, without any significant impact on our liquidity. The new office building is currently under renovation and, upon completion, it will provide ample space for our Chongqing operation and a long-term and secure location for our nationwide data and IT center, supporting our future growth. In the meantime, we will continue to lease most of our offices at our subsidiaries or branch offices to support our nationwide expansion.

In November and December 2013, we incurred RMB14.4 million of capital expenditures which we used to (i) expand our branch network across China; (ii) purchase and develop new information technology software and applications and (iii) renovate our newly purchased office building in Chongqing. We intend to fund our capital expenditures with cash generated from our operating activities.

CAPITAL COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Capital Commitments

The following table sets forth our capital commitments for acquisition of fixed assets, mainly property, equipment and vehicles, as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Commitments in respect of purchase of fixed assets				
– Contracted for	–	–	98.7	5.1

Our capital commitment as of December 31, 2012 related to the purchase of an office building in Chongqing. Considering our future growth of business and expansion of our branch network, we may incur additional capital commitment to support our business expansion.

Operating Lease Commitments

We lease certain of our office properties from third parties under non-cancellable operating leases. The following table sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions)			
Within one year (inclusive)	8.6	22.7	32.3	25.0
After one year but within three years (inclusive)	13.1	23.1	25.9	21.1
Over three years	1.1	2.9	3.7	6.3
Total	22.8	48.7	61.9	52.4

Our operating lease commitments increased throughout the Track Record Period due to the expansion of our branch network.

INTRA-GROUP LIABILITIES

As of October 31, 2013, we guaranteed the following liabilities of certain members of our Group:

- an aggregate of RMB75 million of borrowings by our micro and small loan subsidiaries;
- an aggregate of RMB160 million of borrowings by one of our asset management subsidiaries; and
- an aggregate of RMB187 million of repurchase transactions originated by our micro and small loan and asset management subsidiaries.

As of October 31, 2013 and the Latest Practicable Date, none of the liabilities of our credit guarantee subsidiaries were guaranteed by other entities within our Group.

As there was no intra-group lending between our credit guarantee subsidiaries and other group entities and since each of these credit guarantee subsidiaries is a limited liability company under the PRC Law, our Company is only liable for a credit guarantee subsidiary's debts to the extent of our equity contribution. Accordingly, our obligations under outstanding guarantees will not adversely affect the business and operations of other entities within our Group should any of our credit guarantee subsidiaries fail to meet their contingent liabilities under outstanding guarantees.

As of December 31, 2011 and 2012 and October 31, 2013, 0.5%, 7.2% and 8.2%, respectively, of our micro and small loans were guaranteed by our credit guarantee subsidiaries, amounting to RMB6.0 million, RMB125.0 million and RMB239.8 million, respectively. In the event that the relevant credit guarantee subsidiaries are liquidated or enter bankruptcy, these loans would no longer be guaranteed, as a result of which our micro and small loan subsidiaries would be exposed to potentially greater credit risks. Given the relatively insignificant amount of the outstanding micro and small loans guaranteed by our credit guarantee subsidiaries, we believe that it would not materially affect the business and operations of our other subsidiaries should any of these micro and small loans no longer be guaranteed by our credit guarantee subsidiaries. During the Track Record Period and up to the Latest Practicable Date, none of our credit guarantee subsidiaries was liquidated or entered bankruptcy.

OFF-BALANCE SHEET ARRANGEMENTS

We are a party to guarantee contracts with off-balance-sheet risk in the ordinary course of our business. The contract amounts reflect the extent of our involvement in the credit guarantee business and also represent our maximum exposure to credit loss. As of October 31, 2013 and December 31, 2013, our outstanding guarantees totalled RMB19.4 billion and RMB21.3 billion, respectively.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

The primary financial risks we face in the ordinary course of business are credit risk, interest rate risk and liquidity risk. See "Risk Management" and note 29 in the Accountants' Report in Appendix I to this prospectus for details.

Credit Risk

We are exposed to credit risk, which is the risk of loss arising from a borrower's or counterparty's failures or inabilities to fulfill obligations to us. Our credit exposure arises primarily from outstanding guarantees and loans provided by us, and the trade and other receivables. We continuously monitor these risk exposures.

Credit risk in our credit guarantee business

See "Business — Products and Services — Credit Guarantee — Guarantee Portfolio" and "Risk Management" for a discussion of how we manage our credit risk in our credit guarantee business.

Loans and advances to customers

See "Business — Products and Services — Micro and Small Loans — Micro and Small Loan Portfolio" for a detailed analysis of our micro and small loan portfolio, and "Risk Management" for a discussion of how we manage our credit risk in our SME lending business.

Other credit risks

In respect of trade and other receivables, individual credit evaluations are performed on all customers applying for credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, we do not obtain collateral from customers.

Our exposure to credit risk of trade and other receivables is affected mainly by the individual characteristics of each customer rather than the industry or country in which the customer operates and therefore a significant concentration of credit risk primarily arises when we have significant exposure to individual customers.

Interest Rate Risk

We are principally engaged in providing guarantee and related consulting services and loan business. Our interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowing.

The following tables sets forth the interest rate profile of our assets and liabilities as of the dates indicated:

	As of December 31,			As of October 31,
	2010	2011	2012	2013
	(RMB in millions, except percentages)			
Fixed interest rate				
Financial assets				
– Restricted bank deposits	253.5	1,472.1	1,577.6	1,612.9
– Loans and advances to customers	922.4	1,616.9	1,961.6	3,730.0
	1,175.9	3,089.0	3,539.2	5,342.9
Financial liabilities				
– Interest-bearing borrowing	(195.0)	(635.4)	(512.1)	(358.4)
– Financial assets sold under repurchase agreement	(81.5)	(51.4)	(222.3)	(466.0)
	(276.5)	(686.8)	(734.4)	(824.4)
Net	899.4	2,402.2	2,804.8	4,518.5
Variable interest rate				
Financial assets				
– Cash and cash equivalents	562.2	528.3	254.1	810.0
– Restricted bank deposits	612.3	761.0	629.7	663.6
	1,174.5	1,289.3	883.8	1,473.6
Financial liabilities				
– Interest-bearing borrowing	(85.0)	(100.0)	(368.5)	(344.2)
Net	1,089.5	1,189.3	515.3	1,129.4
Net fixed rate borrowings as a percentage of total borrowing	76.5%	87.3%	66.6%	70.5%

Sensitivity analysis

As of December 31, 2010, 2011, 2012 and October 31, 2013, we estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased or reduced our profit before tax by approximately RMB5.5 million, RMB5.9 million, RMB2.6 million and RMB5.6 million, respectively.

The sensitivity analysis above indicates the instantaneous change in our profit before tax that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by us which expose us to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by us at the end of the reporting period, the impact on our profit before tax is estimated as an annualized impact on interest expense or income of such a change in interest rates.

Liquidity Risk

Liquidity risk refers to risks in our operations when we have inadequate funds to fulfill our obligations related to financial debts. Our management regularly monitors our liquidity requirements to ensure that we maintain sufficient reserves of cash to meet our liquidity requirements in the short and long terms.

The following tables provide an analysis of our financial assets and liabilities in the relevant maturity groups based on the remaining periods to repayment as of the dated indicated:

	As of December 31, 2010						
	Indefinite	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
	(RMB in millions)						
Assets							
Cash and cash equivalents	–	562.9	–	–	–	–	562.9
Restricted bank deposits	–	135.2	209.2	458.6	62.8	–	865.8
Trade and other receivables	–	14.1	11.3	1.0	4.8	–	31.2
Loans and advances to customers	–	39.9	522.3	350.2	10.0	–	922.4
Available-for-sale financial assets	170.5	–	–	–	–	–	170.5
Total	170.5	752.1	742.8	809.8	77.6	–	2,552.8
Liabilities							
Customer pledged deposits	–	5.0	103.4	487.9	83.9	0.3	680.5
Interest-bearing borrowing	–	–	115.0	–	165.0	–	280.0
Financial assets sold under repurchase agreement	–	–	–	81.5	–	–	81.5
Accrued staff cost	–	–	15.7	–	–	–	15.7
Other liabilities	–	2.6	5.6	0.2	–	–	8.4
Total	–	7.6	239.7	569.6	248.9	0.3	1,066.1
Net	170.5	744.5	503.1	240.2	(171.3)	(0.3)	1,486.7

	As of December 31, 2011						
	Indefinite	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
	(RMB in millions)						
Assets							
Cash and cash equivalents	–	528.5	–	–	–	–	528.5
Restricted bank deposits	–	295.8	814.2	1,032.7	90.1	0.3	2,233.1
Trade and other receivables	–	39.6	15.1	7.1	8.4	–	70.2
Loans and advances to customers	–	80.5	798.3	731.7	6.4	–	1,616.9
Total	–	944.4	1,627.6	1,771.5	104.9	0.3	4,448.7
Liabilities							
Customer pledged deposits	–	107.3	196.7	691.8	74.3	–	1,070.1
Interest-bearing borrowing	–	–	–	433.9	301.5	–	735.4
Financial assets sold under repurchase agreement	–	–	20.7	30.7	–	–	51.4
Accrued staff cost	–	–	25.0	–	–	–	25.0
Other liabilities	–	0.4	24.3	–	–	–	24.7
Total	–	107.7	266.7	1,156.4	375.8	–	1,906.6
Net	–	836.7	1,360.9	615.1	(270.9)	0.3	2,542.1

	As of December 31, 2012						
	Indefinite	**Repayable on demand**	**Within three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Total**
	(RMB in millions)						
Assets							
Cash and cash equivalents	–	254.4	–	–	–	–	254.4
Restricted bank deposits	–	276.7	672.5	1,220.3	36.9	0.8	2,207.2
Trade and other receivables	–	129.8	27.1	13.3	25.9	–	196.1
Loans and advances to customers	–	92.9	916.4	938.3	14.0	–	1,961.6
Available-for-sale financial assets	10.0	–	–	–	–	–	10.0
Total	10.0	753.8	1,616.0	2,171.9	76.8	0.8	4,629.3
Liabilities							
Customer pledged deposits	–	33.6	389.9	1.6	21.2	0.6	446.9
Interest-bearing borrowing	–	–	111.0	436.1	333.5	–	880.6
Financial assets sold under repurchase agreement	–	–	96.2	76.1	50.0	–	222.3
Accrued staff cost	–	–	30.5	–	–	–	30.5
Other liabilities	–	–	5.6	6.4	0.6	–	12.6
Total	–	33.6	633.2	520.2	405.3	0.6	1,592.9
Net	10.0	720.2	982.8	1,651.7	(328.5)	0.2	3,036.4

	As of October 31, 2013						
	Indefinite	Repayable on demand	Within three months	Three months and one year	Between one year and five years	More than five years	Total
	(RMB in millions)						
Assets							
Cash and cash equivalents	–	505.1	305.1	–	–	–	810.2
Restricted bank deposits	–	523.6	948.5	799.7	4.6	–	2,276.4
Trade and other receivables	–	129.9	89.4	43.0	20.0	–	282.3
Loans and advances to customers	–	112.5	1,075.8	2,380.1	161.6	–	3,730.0
Available-for-sale financial assets	9.6	–	–	–	–	–	9.6
Total	9.6	1,271.1	2,418.8	3,222.8	186.2	–	7,108.5
Liabilities							
Interest-bearing borrowings	–	–	115.9	359.5	227.2	–	702.6
Financial assets sold under repurchase agreement	–	–	–	466.0	–	–	466.0
Customer pledged deposits	–	81.1	0.4	5.0	0.1	–	86.6
Accrued staff cost	–	–	54.0	–	–	–	54.0
Other liabilities	–	–	16.4	9.4	–	–	25.8
Total	–	81.1	186.7	839.9	227.3	–	1,335.0
Net	9.6	1,190.0	2,232.1	2,382.9	(41.1)	–	5,773.5

Sensitivity analysis

As of October 31, 2013, our cash and cash equivalents amounted to RMB810.2 million. Our default payments and default rate in the credit guarantee business amounted to RMB190.4 million and 1.4% in the ten months ended October 31, 2013, respectively. For our SME lending business, our provisions for impairment losses and provision for impairment losses ratio amounted to RMB158.7 million and 4.1% as of October 31, 2013, respectively. The following sensitivity analysis on our cash and cash equivalents has not taken into account our restricted bank deposits of RMB2,276.4 million for our credit guarantee business.

Guarantee default rate

Based on such base case scenario, a general decrease or increase of 5%,10%, 20% or 30% on the actual default rate recorded in the ten months ended October 31, 2013, with all other variables held constant, would reduce or increase our cash and cash equivalents as of October 31, 2013 by the following amounts:

% change in our guarantee default rate	(Decrease)/Increase in our cash and cash equivalents as of October 31, 2013
	(RMB in millions)
5% increase	(9.5)
10% increase	(19.0)
20% increase	(38.0)
30% increase	(57.0)
5% decrease	9.5
10% decrease	19.0
20% decrease	38.0
30% decrease	57.0

Based on the foregoing analysis, in order for our cash and cash equivalents as of October 31, 2013 to be depleted for default payments, our guarantee default rate would have to increase to 6.0%, a 325.0% increase from the historical default rate of 1.4% in the ten months ended October 31, 2013.

Provisions for impairment losses on loans

In order to perform a working capital sensitivity and tipping point analysis on the provisions for impairment losses on loans, we have assumed that such provisions for impairment losses would amount to our actual loan losses and consume an equal amount of cash. Based on such base case scenario, a general decrease or increase of 5%, 10%, 20% or 30% on the provisions for impairment losses on loans recorded in the ten months ended October 31, 2013, with all other variables held constant, would reduce or increase our cash and cash equivalents as of October 31, 2013 by the following amounts:

% change in our provisions for impairment losses	(Decrease)/Increase in our cash and cash equivalents as of October 31, 2013
	(RMB in millions)
5% increase	(3.9)
10% increase	(7.8)
20% increase	(15.6)
30% increase	(23.4)
5% decrease	3.9
10% decrease	7.8
20% decrease	15.6
30% decrease	23.4

Based on the foregoing analysis, with all other variables held constant, in order for our cash and cash equivalents as of October 31, 2013 to be depleted, our provision ratio for impairment losses would have to increase to 24.9%, a 407.3% increase from the historical provision ratio of 4.1% as of October 31, 2013.

DIVIDEND POLICY

We can distribute dividends in cash or in other way deemed suitable by us after the Global Offering. Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' General Meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, capital adequacy ratio, cash dividends we receive from our subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors deems relevant.

According to our Articles of Association, we will pay dividends out of our distributable profit after tax of the year only after we have made the following allocations from our profit after tax of the year:

- recovery of accumulated losses, if any; and
- allocations to the statutory reserve equivalent to 10% of our profit after tax, and, when the statutory reserve reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory reserve will be required.

During the Track Record Period, the total provisions made by our guarantee subsidiaries, which were assessed based on applicable accounting policies, are higher than the amount of provisions for outstanding guarantees and for guarantee loss required to be made under the Interim Measures. According to our consultation with CBRC, CBRC 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 the amount that needs to be made under the Interim Measures. On the basis that future total provisions made by our guarantee subsidiaries shall not be less than those that need to be made under the Interim Measures, we can apply the applicable accounting policies which we adopt regarding the recognition of guarantee income and provisioning for guarantee losses for the preparation of our financial statements and declare dividends (if any) from such distributable profit in accordance with the PRC Company Law and our Articles of Association.

In accordance with our Articles of Association, dividends may be paid only out of distributable profits as determined under PRC GAAP or HKFRSs, whichever is lower. We paid cash dividends of RMB7.5 million, RMB80.4 million, RMB135.2 million and RMB142.8 million to non-controlling interests in 2010, 2011 and 2012 and the ten months ended October 31, 2013, respectively. Our dividend distributions during the Track Record Period have complied with the applicable reserve requirements in the PRC. In the future, we intend to distribute no less than 20.0% of our annual distributable profits as dividends. There is, however, no assurance that we will be able to declare dividends of such an amount or any amount each year or in any year.

DISTRIBUTABLE RESERVES

As of October 31, 2013, our Company did not have reserves available for distribution to the shareholders of our Company.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders is prepared based on our consolidated net tangible assets attributable to our Shareholders as of October 31, 2013, adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders have been prepared for illustrative purposes only, and because of their nature, they may not give a true picture of our consolidated financial position as of October 31, 2013 or any future date following the Global Offering.

The statement of unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders has been prepared to show the effect on our consolidated net tangible assets attributable to our Shareholders as of October 31, 2013 as if the Global Offering had occurred on October 31, 2013. The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to our Shareholders is calculated in accordance with Listing Rules 4.29.

	Consolidated net tangible assets of our Group attributable to the equity holders of our Company as of October 31, 2013[(1)]	Estimated net proceeds from the Global Offering[(2)(5)]	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the equity holders of our Company[(3)]	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the equity holders of our Company per share	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB)[(3)]	(HK$)[(6)]
Based on offer price of HK$2.28 for each Offer Share. .	4,760.8	1,673.1	6,433.9	1.46	1.84
Based on offer price of HK$2.88 for each Offer Share. .	4,760.8	2,120.7	6,881.5	1.56	1.97

(1) The consolidated net tangible assets attributable to shareholders of the Company as of October 31, 2013 is based on the consolidated net assets attributable to the shareholders of the Company of RMB4,764.1 million as of October 31, 2013 after (i) deduction of intangible assets of RMB3.4 million; and (ii) adjusting the share of intangible assets attributable to non-controlling interests of RMB0.08 million.

(2) The estimated net proceeds from the Global Offering are based on the offer prices of HK$2.28 and HK$2.88 per share after deduction of the underwriting fees and other related expenses payable by the Company and does not take into account any shares which may be issued upon the exercise of the over-allotment option.

(3) The pro forma adjusted net tangible assets are arrived after the adjustments referred to in the preceding paragraphs and on the basis that 4,418,000,000 shares are expected to be in issue following the Global Offering and the respective offer prices of HKD$2.28 and HKD$2.88 per share, but do not take into account any shares which may be issued upon the exercise of the over-allotment option.

(4) No adjustment has been made to reflect any of our trading result or other transactions entered into subsequent to October 31, 2013.

(5) The estimated net proceeds from the Global Offering are converted into Renminbi at the rate of RMB0.79226 to HK$1.00, the exchange rate set by the PBOC prevailing on October 31, 2013. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

(6) The unaudited pro forma adjusted net tangible assets per share is translated into Hong Kong dollars at exchange rate of RMB0.79226 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that, as of the date of this prospectus, there has been no material adverse change in our financial position or prospects since October 31, 2013.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Hong Kong Listing Rules.