



Hanhua Financial Holding Co., Ltd.\*

瀚華金控股份有限公司

(a joint stock limited liability company incorporated  
in the People's Republic of China)

Stock Code : 3903

Global Offering

瀚華金控

Joint Sponsors



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



\* For identification purpose only

# IMPORTANT

*If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*



## Hanhua Financial Holding Co., Ltd.\* 瀚華金控股份有限公司

*(a joint stock limited liability company incorporated in the People's Republic of China)*

### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 1,150,000,000 H Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 115,000,000 H Shares (subject to adjustment)
Number of International Offer Shares	: 1,035,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$2.05 per H Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)
Nominal value	: RMB1.00 per H Share
Stock code	: 3903

### Joint Sponsors



### Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



### Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The SFC and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed by our Company and the Joint Global Coordinators (on behalf of the Underwriters) but in any event no later than June 17, 2014. The Offer Price will be not more than HK\$2.05 per Offer Share and is expected to be not less than HK\$1.55 per Offer Share. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$2.05 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be less than HK\$2.05. If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before June 17, 2014, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) with our Company's consent may reduce the number of Hong Kong Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction of the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available at the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.hanhua.com](http://www.hanhua.com). Further details are set out in "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares."

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in "Risk Factors," "Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V — Summary of the Articles of Association" to this prospectus. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in "Risk Factors."

The obligations of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreements are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in "Underwriting — Hong Kong Public Offering — Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered, sold, pledged or transferred within the United States except that the Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and inside the United States in reliance on Rule 144A under the Securities Act ("Rule 144A") to persons who are both "qualified institutional buyers" (as defined in Rule 144A) and "qualified purchasers" within the meaning of Section 2(a)(51) of the United States Investment Company Act of 1940, as amended.

\* For identification purpose only

June 3, 2014

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## EXPECTED TIMETABLE

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Date<sup>(1)</sup>

Latest time to complete electronic applications under <b>White Form eIPO</b> service through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(2)</sup> . . . . .	11:30 a.m. on Tuesday, June 10, 2014
Application lists open <sup>(3)</sup> . . . . .	11:45 a.m. on Tuesday, June 10, 2014
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms . . . . .	12:00 noon on Tuesday, June 10, 2014
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(3 and 4)</sup> . . . . .	12:00 noon on Tuesday, June 10, 2014
Latest time to complete payment for <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . .	12:00 noon on Tuesday, June 10, 2014
Application lists close . . . . .	12:00 noon on Tuesday, June 10, 2014
Expected Price Determination Date <sup>(5)</sup> . . . . .	Friday, June 13, 2014

(1) Announcement of:

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before . . . . . Wednesday, June 18, 2014

(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in "How to Apply for the Hong Kong Offer Shares — Publication of Results" from . . . . . Wednesday, June 18, 2014

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk)<sup>(6)</sup> and our Company's website at [www.hanhua.com](http://www.hanhua.com)<sup>(7)</sup> from . . . . Wednesday, June 18, 2014

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## EXPECTED TIMETABLE

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Results of allocations in the Hong Kong Public Offering  
will be available at [www.iporesults.com.hk](http://www.iporesults.com.hk)  
with a “search by ID” function from . . . . .Wednesday, June 18, 2014

H Share certificates in respect of wholly or partially  
successful applications will be dispatched  
or deposited into CCASS on or before<sup>(8 and 9)</sup> . . . . .Wednesday, June 18, 2014

Refund cheques (if applicable) will be dispatched  
on or before<sup>(9 and 10)</sup> . . . . .Wednesday, June 18, 2014

**White Form e-Refund Payment Instructions**  
will be dispatched on or before<sup>(10)</sup> . . . . .Wednesday, June 18, 2014

Dealings in H Shares on the Hong Kong  
Stock Exchange expected to commence at 9:00 a.m. on . . . . .Thursday, June 19, 2014

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*Notes:*

- (1) All dates and times refer to Hong Kong local time and dates unless otherwise stated.
- (2) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications when the application lists will close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on **Tuesday, June 10, 2014**, the application lists will not open and close on that day. Further information is set out in “How to Apply for the Hong Kong Offer Shares — Effect of Bad Weather on the Opening of Application Lists.” If the application lists do not open and close on **Tuesday, June 10, 2014**, the dates mentioned above may be affected. Our Company will make a press announcement in such event.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for the Hong Kong Offer Shares — Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS.”
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about **Friday, June 13, 2014**, and in any event no later than **Tuesday, June 17, 2014**. If, for any reason, the Offer Price is not agreed on or before **Tuesday, June 17, 2014**, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) The announcement will be available for viewing on the “Main Board — Results of Allotment” page on the Hong Kong Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk).
- (7) Neither our Company’s website nor any of the information contained on our Company’s website forms part of this prospectus.
- (8) Our Company will not issue any temporary documents of title in respect of the Offer Shares. H Share certificates will only become valid certificates of title at 8:00 a.m. on **Thursday, June 19, 2014**, provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Global Offering will not proceed. In such a case, our Company will make an announcement as soon as possible thereafter.

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## EXPECTED TIMETABLE

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- (9) Applicants who apply on **WHITE** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have provided all required information may collect their refund cheques (if any) and H Share certificates in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on **Wednesday, June 18, 2014**. Identification and (where applicable) authorization documents acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have provided all required information may collect their refund cheques (if any) but may not elect to collect their H Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for applicants who apply on **YELLOW** Application Forms is the same as those for **WHITE** Application Form applicants.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for the Hong Kong Offer Shares — Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS."

Applicants who apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) and whose applications are wholly or partially successful, may collect their H Share certificates in person from Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, June 18, 2014. For applicants who apply for less than 1,000,000 Hong Kong Offer Shares, H Share certificates will be sent to the address specified in their application instructions to the **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) on **Wednesday, June 18, 2014** by ordinary post and at their own risk.

Applicants being individuals who opt for personal collection must not authorize any person to make collection on their behalf. Applicants being corporations which opt for personal collection must attend by their authorized representatives with letters of authorization of their corporations stamped with the corporation's chops (bearing the name of the corporations). Both individuals and authorized representatives of corporations (as applicable) must produce, at the time of collection, evidence of identity and authority (as applicable) acceptable to Computershare Hong Kong Investor Services Limited.

Uncollected H Share certificates and refund cheques will be dispatched by ordinary post to the addresses specified in the relevant Application Forms at the applicant's own risk. Further information is set out in "How to Apply for the Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies."

- (10) e-Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheques, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before cashing of your refund cheques. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheques.

For details of the structure of the Global Offering, including the conditions of the Hong Kong Public Offering, and the procedures for application for the Hong Kong Offer Shares, you should read "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares."

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by Hanhua Financial Holding Co., Ltd., solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained in our website, located at [www.hanhua.com](http://www.hanhua.com), does not form part of this prospectus.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole document before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk Factors.” You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

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

We focus on providing credit-based financing solutions to the SME and microenterprise sector in China because it is a fast-growing segment that has largely been underserved by the financial services industry. Major commercial banks in China are typically geared towards asset-based lending and have historically been reluctant to provide financing to SMEs and microenterprises due primarily to the latter’s lack of acceptable collateral and credit histories and the high transaction costs involved. We have developed a credit evaluation system that enables us to make credit decisions based on the creditworthiness of each customer rather than the collateral provided, differentiating us from many traditional commercial banks and other guarantee and micro and small loan companies in China. As of December 31, 2013, 52.3% of our outstanding guarantees, 86.4% of our outstanding micro and small loans and 45.1% of our entrusted loans were not secured with collateral.

At present, our business remains relatively concentrated in Chongqing and Sichuan. Our business originated in, and has historically been focused on, Chongqing. We later expanded to Sichuan and subsequently to other selected regions in the PRC over our nine years of operations. As a result, our geographic concentration in Chongqing and Sichuan has been decreasing. As of December 31, 2011 and 2012 and 2013, 70.9%, 69.1% and 59.7%, respectively, of our outstanding guarantees and 90.9%, 82.4% and 61.2%, respectively, of our outstanding micro and small loans were originated from Chongqing and Sichuan. We expect to continue to decrease our geographic concentration.

According to Euromonitor, as of March 31, 2014, we were the largest credit guarantee company in terms of the number of provinces covered by our credit guarantee network and the third-largest lender of micro and small loans in China in terms of the number of provincial-level cities covered by our micro and small loan network; we ranked fifth in the industry and first among all wholly domestic-owned and private credit guarantee providers in China in terms of the paid-in capital of our credit guarantee business; and we ranked third among all micro and small loan companies in China in terms of the paid-in capital of our micro and small loan business. Since our inception in Chongqing in 2004, our branch network has grown significantly to cover Chongqing, Sichuan, Liaoning, Beijing, Shanghai, Shenzhen and 13 other provinces in China, and we had serviced approximately 20,000 SMEs and microenterprises during the Track Record Period.



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## SUMMARY

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### **Our Products and Services**

We principally operate in the following two business lines:

- *Credit Guarantee*: We guarantee SMEs' ability to repay financing or perform certain obligations through our credit guarantee network.
- *SME Lending*: We principally offer unsecured loans to micro and small enterprises, individual entrepreneurs and individuals through our micro and small loan network. We also engage in entrusted loan arrangements in which we deposit funds with an intermediary bank which will on-lend the funds to borrowers we select.

#### ***Credit Guarantee***

We principally provide financing guarantees, in which we act as a guarantor both to assess and share credit risks and to facilitate financing arrangements between SMEs and banks or other financial institutions. We select SME customers whom we determine to be creditworthy but may lack the necessary credit histories or collateral to obtain bank financing independently. To make financing from banks and other financial institutions more accessible to these SMEs, we guarantee the lenders that we will repay the loans if the borrowers we guarantee default. We also guarantee bond offerings and repurchase transactions to enhance their credit standing and make them more attractive to investors. To complement our financing guarantee business, we also advise our customers on financing planning and cash flow management.

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

#### ***SME Lending***

As an integrated financial services provider for SMEs and microenterprises in China, we also provide easily-accessible micro and small loans in an efficient manner to ensure our customers' uninterrupted liquidity throughout their operating cycles. We grant loans to micro and small enterprises as well as individual entrepreneurs who are in need of quick access to funds. We focus on micro and small loans between RMB0.5 million and RMB3.0 million based on our risk assessment and return requirements.

We also provide SMEs with entrusted loans through our credit guarantee network to satisfy their demand for short-term financing or for relatively larger funding amounts, principally medium and small loans between RMB0.5 million and RMB30.0 million.

### **Sales, Marketing and Branch Network**

We source our customers primarily through our sales and marketing team and referrals from commercial banks. As of December 31, 2013, our sales and marketing team consisted of over 1,000 employees who conduct client development activities primarily through direct on-site marketing, phone calls and sales campaigns.

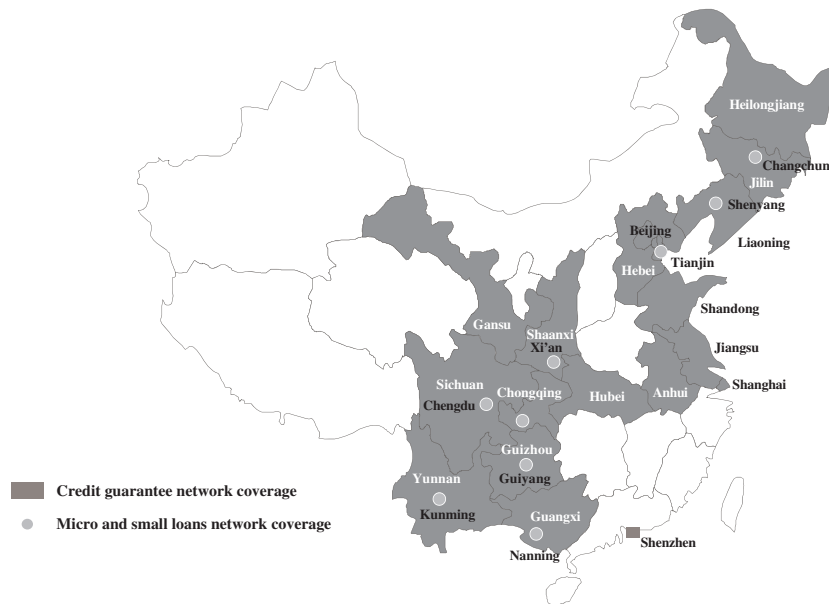
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## SUMMARY

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Close cooperation with commercial banks is integral to our bank financing guarantee business. As of December 31, 2013, we had entered into cooperation arrangements with 65 commercial banks in China, including national commercial banks, local commercial banks, policy banks and rural banks, which had agreed to extend in aggregate over RMB38.0 billion of credit lines to borrowers we guarantee.

As of the Latest Practicable Date, we had offered credit guarantees and entrusted loans through our credit guarantee network in 19 provinces in China, and had provided loans through our micro and small loans network in nine provincial-level cities in China. The following map illustrates the extent of our branch network as of the Latest Practicable Date:



## CREDIT RISK MANAGEMENT

The business of providing unsecured guarantees or loans inherently involves credit risks as the financings we guarantee or make may not be repaid on time, or at all. We recognize the importance of an effective credit risk management system in mitigating our exposure to risks in our business and optimizing our returns. In general, we maintain a guarantee and loan portfolio with (i) a highly diverse customer base across China, (ii) manageable transaction sizes (usually between RMB3.0 million and RMB30.0 million for guarantees and between RMB0.5 million and RMB3.0 million for micro and small loans) and (iii) a relatively short maturity period (typically not more than one year) to minimize our credit and concentration risks. Based on our extensive experience in serving the SME and microenterprise sector, we have developed a credit evaluation system that focuses on comprehensive customer due diligence and segregation of credit approvals to determine the credit limit of each individual customer. By doing so, we aim to maintain an optimized business portfolio that maximizes return while minimizing risks. See “Risk Management” beginning on page 223.

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## SUMMARY

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According to PRC laws and regulations, the total balance of outstanding financing guarantees provided by a guarantee company such as us should not exceed ten times its net assets. As of December 31, 2011, 2012 and 2013, each of our credit guarantee subsidiaries was in compliance with this maximum leverage ratio. The following table sets forth the net assets of our credit guarantee business and our aggregate outstanding financing guarantees as of the dates indicated:

	As of December 31,		
	2011	2012	2013
Net assets of credit guarantee business			
(RMB in millions) . . . . .	2,514.7	2,849.8	3,506.3
Balance of outstanding financing guarantees			
(RMB in millions) . . . . .	12,193.7	13,399.1	20,154.1
Leverage ratio <sup>(1)</sup> . . . . .	4.8	4.7	5.7

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

A micro and small loan company may only borrow bank loans up to a certain percentage, usually 50%, of its paid-in capital for conducting its lending business, depending on local regulations. As a result, the scale of our micro and small loan business depends primarily on its paid-in capital. The following table sets forth the growth of paid-in capital with respect to our SME lending business and the resulting increase in our outstanding micro and small loan balance as of the dates indicated:

	As of December 31,		
	2011	2012	2013
Paid-in capital of our SME lending business			
(RMB in millions) . . . . .	540.0	800.0	2,300.0
Balance of outstanding micro and small loans			
(RMB in millions) . . . . .	1,185.9	1,736.9	3,354.0
Leverage ratio <sup>(1)</sup> . . . . .	2.2	2.2	1.5

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

Our net asset leverage ratio for the financing guarantee business was 4.8 times, 4.7 times and 5.7 times, respectively, as of December 31, 2011, 2012 and 2013, while our paid-in capital leverage ratio with respect to the SME lending business remained stable at 2.2 times and 2.2 times, respectively, as of December 31, 2011 and 2012. Following a series of equity contributions in our SME lending business in 2013, our paid-in capital leverage ratio decreased to 1.5 times as of December 31, 2013.

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## SUMMARY

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### COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

- a leading integrated financial services company in China with national presence;
- focusing exclusively on the financing needs of SMEs and microenterprises in China;
- focusing on credit-based financing solutions supported by an effective risk management system;
- experienced and motivated management team; and
- strong financial and operational strength.

### BUSINESS STRATEGIES

Our goal is to become a premier diversified and integrated financial services company in China, focusing on meeting the diverse financing and business needs of SMEs and microenterprises and offering comprehensive credit-based financial services. To achieve our strategic goal, we intend to further leverage our existing competitive strengths and pursue the following business strategies:

- strategic expansion of our branch network;
- introducing and expanding capital-efficient products and services to improve our return on equity;
- continuing to strengthen our risk management systems, internal controls and information technology capabilities;
- exploring new sales channels; and
- attracting, retaining, motivating and developing talented and experienced professionals.

## SUMMARY

### KEY OPERATING AND FINANCIAL DATA

The following table sets forth the key financial data and ratios during the periods indicated:

	Year ended December 31,		
	2011	2012	2013
	(RMB in millions, except percentages)		
Net fee and interest income . . . . .	870.3	1,143.3	1,576.7
Profit before taxation . . . . .	576.2	633.9	472.3
Profit margin before taxation <sup>(1)</sup> . . . . .	66.2%	55.5%	30.0%
Segment profit			
– Credit guarantee business . . . . .	224.1	466.5	317.1
– SME lending business . . . . .	263.0	169.8	331.4
Segment profit margin <sup>(2)</sup>			
– Credit guarantee business . . . . .	48.0%	57.7%	32.9%
– SME lending business . . . . .	65.2%	50.6%	54.1%
Profit . . . . .	476.2	517.8	356.7
Net margin <sup>(3)</sup> . . . . .	54.7%	45.3%	22.6%
Return on average equity <sup>(4)</sup> . . . . .	29.2%	22.9%	9.0%
Return on average assets <sup>(5)</sup> . . . . .	13.1%	10.8%	5.2%
Cost/income ratio <sup>(6)</sup> . . . . .	28.7%	31.2%	44.6%

(1) Profit before taxation divided by net fee and interest income.

(2) Segment profit before taxation divided by segment revenue.

(3) Profit divided by net fee and interest income.

(4) Profit divided by average balance of total equity as of the beginning and end of a period.

(5) Profit divided by average balance of total assets as of the beginning and end of a period.

(6) Administrative expenses divided by net fee and interest income.

Our returns on average equity and average assets was higher in 2011 compared to those in 2012, due to (i) the one-off effect of our investment gain of RMB91.3 million from the disposal of equity investment in 2011, and (ii) the increases in our average equity and assets, respectively, in 2012. Our returns on average equity and average assets was lower in 2013 compared to those in 2012, due to the combination of (i) equity contributions from our shareholders and other investors around May 2013. In general, injection of equity will typically cause a short-term dip in the return on average equity; (ii) substantially increased administrative expenses, in particular our non-cash share-based payments and listing expenses; (iii) increased impairment losses for guarantee business for the larger default payment of guarantee in 2013; and (iv) a slower revenue growth as compared to the increased overall level of impairment losses on our outstanding balance of loans and advances to customers and provisions for guarantee losses on our outstanding guarantee balances, in particular due to our accounting policy that we recognized our guarantee and consulting fee income and interest and handling fee income on an accrual basis but the impairment losses on our outstanding balance of loans and advances to customers and provisions for guarantee losses we collectively made was based on the total amount of outstanding balance of loans and advances to customers and outstanding guarantee balance, respectively, of which such balances increased at a faster pace as compared to the respective segment revenue growth in 2013. Excluding the effects of non-cash share-based payments of RMB144.2 million and our listing expenses of RMB18.3 million in 2013, our adjusted return on average equity and adjusted return on average assets in 2013 were 13.0% and 7.6%, respectively, and our cost/income ratio was 34.3% in 2013.

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## SUMMARY

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Our net fee and interest income increased by 31.4% in 2012 from 2011 and further increased by 37.9% in 2013. The increase in our net fee and interest income during the Track Record Period was mainly attributable to the rapid expansion in our credit guarantee and SME lending businesses based on our enhanced capital base and greater economies of scale achieved.

Our profit decreased by 31.1% in 2013 as compared to 2012 and our profit margin before taxation decreased to 30.0% in 2013 from 55.5% in the same period in 2012, mainly attributable to the following:

- a slower revenue growth compared to the growth in our outstanding guarantee balance, due to our accounting policy that we recognized our guarantee and consulting fee 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. In particular, segment revenue from our credit guarantee business increased by 19.4% in 2013 compared to that in 2012, while our outstanding credit guarantees increased by 45.0% as of December 31, 2013 compared to that as of December 31, 2012;
- a 188.3%, or RMB97.3 million, increase in provisions for guarantee losses collectively assessed in our credit guarantee business as a result of (i) substantially increased outstanding guarantee balance, especially in the second half of 2013, which significantly increased the period-end base we use for making collective assessment on provisions for guarantee losses; and (ii) increased provision ratio from 1.9% as of December 31, 2012 to 2.0% as of December 31, 2013, reflecting our increased historical default rate from 1.2% in 2012 to 1.6% in 2013 and loss ratio from 0.6% in 2012 to 1.1% in 2013, as well as the then prevailing general market and economic conditions;
- a 126.3%, or RMB164.3 million, increase in our impairment losses due to (i) our 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 as a result of the substantial increase in the outstanding balance of our loans, especially in the second half of 2013, which significantly increased the period-end base we use for making collective assessment on impairment losses, while we recognized our interest income on an accrual basis 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 82.5% in 2013 compared to 2012 while our outstanding loan balance increased by 133.5% as of December 31, 2013 compared to December 31, 2012; and
- a 97.5%, or RMB347.5 million, increase in our administrative expenses, particularly non-cash share-based payment expenses of RMB144.2 million relating to our newly-implemented share incentive scheme in June 2013.

See “Financial Information — Results of Operations — Profit Before Taxation and Profit Margin Before Taxation” beginning on page 315 for more details.



## SUMMARY

The following table sets forth the key operating data in our credit guarantee and SME lending businesses as of the dates or for the periods indicated:

	As of or for the year ended December 31,		
	2011	2012	2013
	(RMB in millions, except percentages)		
<b>Credit Guarantee</b>			
Balance of outstanding guarantees <sup>(1)</sup>			
Financing guarantees . . . . .	12,193.7	13,399.1	20,154.1
Non-financing guarantees . . . . .	2,018.8	1,287.1	1,146.1
<b>Total</b> . . . . .	<b>14,212.5</b>	<b>14,686.2</b>	<b>21,300.2</b>
<b>Average guarantee and consulting fee rate<sup>(2)</sup></b>			
Financing guarantees . . . . .	4.22%	5.55%	5.25%
Non-financing guarantees . . . . .	0.72%	0.63%	0.51%
Default rate <sup>(3)</sup> . . . . .	0.4%	1.2%	1.6%
Provision ratio <sup>(4)</sup> . . . . .	1.6%	1.9%	2.0%
Loss ratio <sup>(5)</sup> . . . . .	0.2%	0.6%	1.1%
Loss/revenue ratio <sup>(6)</sup> . . . . .	3.5%	11.2%	18.0%
<b>SME Lending</b>			
Balance of outstanding loans			
Micro and small loans <sup>(7)</sup> . . . . .	1,185.9	1,736.9	3,354.0
Entrusted loans <sup>(8)</sup> . . . . .	479.4	308.7	1,423.4
<b>Total</b> . . . . .	<b>1,665.3</b>	<b>2,045.6</b>	<b>4,777.4</b>
<b>Average interest and handling fee rate<sup>(9)</sup></b>			
Micro and small loans . . . . .	22.74%	22.81%	22.26%
Entrusted loans . . . . .	25.26%	24.67%	24.56%
Impaired loan ratio <sup>(10)</sup> . . . . .	4.2%	3.1%	2.6%
Micro and small loans . . . . .	0.7%	2.0%	2.5%
Entrusted loans . . . . .	12.8%	9.4%	2.8%
Allowance coverage ratio <sup>(11)</sup> . . . . .	69.7%	131.6%	160.8%
Micro and small loans . . . . .	293.8%	180.4%	166.0%
Entrusted loans . . . . .	40.1%	73.5%	149.7%
Provision for impairment losses ratio <sup>(12)</sup> . . . . .	2.9%	4.1%	4.1%
Loss/revenue ratio <sup>(13)</sup> . . . . .	6.7%	11.9%	19.7%

- (1) As of December 31, 2011, 2012 and 2013, 48.0%, 48.8% and 47.7%, respectively, of our outstanding guarantees were secured by collateral. As of the same dates, the loan-to-value ratio (equal outstanding secured guarantees divided by the value of collateral of land and building) of our secured guarantees was 97.5%, 67.7% and 100.3%, respectively.
- (2) Guarantee and consulting fee income divided by average balance of guarantees.
- (3) Payment made on default borrower's behalf divided by guarantees released. Default rate indicates the quality of our guarantee portfolio.
- (4) Provisions for guarantee losses at period end divided by the balance of the outstanding guarantees. The provision ratio indicates the level of reserve we set aside for our guarantee portfolio.
- (5) Impairment losses on default payment receivables divided by guarantees released. Loss ratio indicates the level of estimated loss for our default payments.
- (6) Impairment losses on default payment receivables divided by segment revenue from our credit guarantee business. Loss/revenue ratio is a benchmark our management uses to monitor our financial results in relation to impairment losses incurred. See "Financial Information — Results of Operations — Segment Profit and Segment Margin — Loss/revenue Ratios."
- (7) As of December 31, 2011, 2012 and 2013, 1.9%, 8.0% and 13.6%, respectively, of our outstanding micro and small loans were secured by collateral. During the Track Record Period, only a small portion of our micro and small loans were secured by collateral such as land use rights and land ownership, and our

## SUMMARY

loan amount is generally small on average. As such, our valuation of the collateral for these loans is primarily limited to the basic information procured during the due diligence process, and accordingly we are not able to provide a meaningful loan-to-value ratio for the collaterals of our micro and small loans.

- (8) As of December 31, 2013, 54.9% of our outstanding entrusted loans were secured by collateral and the loan-to-value ratio (equal outstanding secured entrusted loans divided by the value of collateral of land and buildings) of such secured entrusted loans was 49.7%.
- (9) Interest and handling fee income divided by average balance of loans.
- (10) The balance of impaired loans divided by the balance of the outstanding loans. Impaired loan ratio indicates the quality of our loan portfolio.
- (11) Allowance for impairment loss divided by the balance of impaired loans. Allowance coverage ratio indicates the level of allowance we set aside to cover probable loss in our loan portfolio.
- (12) Allowance for impairment losses divided by the balance of outstanding loans. Provision for impairment losses ratio measures the cumulative level of provisions for our loans.
- (13) Impairment loss on loans divided by segment revenue from our SME lending business. Loss/revenue ratio is a benchmark our management uses to monitor our financial results in relation to impairment loss incurred. See “Financial Information — Results of Operations — Segment Profit and Segment Margin — Loss/revenue Ratios.”

Due to the unfavorable overall credit market and industry conditions in China since 2012, particularly in the Yangtze River Delta region, we made a substantial number of default payments and, as a result, the default rate in our credit guarantee business increased from 0.4% in 2011 to 1.2% in 2012 and further to 1.6% in 2013. See “Business — Provisioning Policies and Asset Quality — Provisioning for Guarantee Loss and Impairment Losses on Default Payment Receivables” beginning on page 197.

Similarly, the impaired loan ratio in our micro and small loan business also increased from 0.7% in 2011 to 2.0% in 2012 and further to 2.5% in 2013. See “Business — Provisioning Policies and Asset Quality — Provisions for Loan Loss” beginning on page 202.

The following table sets forth the breakdown of our segment revenue for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
<b>Credit Guarantee</b>						
Net guarantee and consulting fee income . . . . .	452.7	52.0%	784.5	68.6%	913.1	57.9%
Net interest and handling fee income <sup>(1)</sup> . . . . .	14.5	1.7	23.3	2.1	51.4	3.3
	467.2	53.7	807.8	70.7	964.5	61.2
<b>SME Lending</b>						
Net interest and handling fee income . . . . .	403.1	46.3	335.5	29.3	612.2	38.8
<b>Total</b> . . . . .	<b>870.3</b>	<b>100.0%</b>	<b>1,143.3</b>	<b>100.0%</b>	<b>1,576.7</b>	<b>100.0%</b>

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

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## SUMMARY

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### LIQUIDITY AND CAPITAL RESOURCES

Our business of providing guarantees and loans is capital-based, and our SME lending business is particularly capital intensive and requires a substantial amount of operating cash. 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 have, in the past, funded our working capital and other capital requirements primarily by capital contributions from shareholders, bank borrowings and cash flows from operations.

The following table sets forth a breakdown of our principal sources of capital for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Cash flows from operations . . . . .	772.8	45.6%	642.0	56.6%	1,000.9	23.1%
Capital contributions from shareholders . . . . .	498.2	29.4	60.0	5.3	2,400.6	55.5
Borrowings . . . . .	425.2	25.0	433.0	38.1	928.3	21.4
<b>Total . . . . .</b>	<b>1,696.2</b>	<b>100.0%</b>	<b>1,135.0</b>	<b>100.0%</b>	<b>4,329.8</b>	<b>100.0%</b>

As of December 31, 2011, 2012 and 2013, interest rates for our outstanding borrowings ranged between 5.4% and 15.0%, 5.4% and 15.0% and 6.3% and 18.0%, respectively. In 2011, 2012 and 2013, the average interest and handling fee rate for our micro and small loans was 22.74%, 22.81% and 22.26%, respectively.

We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimal cash position and sufficient liquidity for working capital needs while supporting a reasonable level of business expansion. For example, in our credit guarantee business, we normally maintain an average cash balance of around 2% of our outstanding guarantee balance. For our SME lending business, we normally maintain a sufficient amount of cash for general working capital needs, such as administrative expenses and payment of interest on bank loans, and apply the remainder of available cash for micro and small loan lending. See “Financial Information — Liquidity and Capital Resources — Cash Management” beginning on page 324.

During the Track Record Period, our business growth was mainly supported by funding from equity contributions which were classified as cash inflows from financing activities. However, the continuous growth in our guarantee and SME loan portfolios during the Track Record Period resulted in increased cash outflows in the form of increased securities deposits placed with banks and loans to customers, which were classified as cash outflow from operating activities. As a result of these classifications, we reported negative operating cash flows during the Track Record Period, particularly in 2013 when we deployed a significant amount of funds from capital contributions to support business expansion.

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## SUMMARY

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We plan to use the net proceeds from this Global Offering to further expand our credit guarantee and SME lending businesses. See “Future Plans and Use of Proceeds” beginning on page 347. As a result, we expect that we will continue to report negative operating cash flows in the near term after our Listing. 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” and “Risk Factors — Risks Relating to Our Business and Industry — Our business expansion relies heavily on our capital base” on page 40.

### INTRA-GROUP LIABILITIES

As of December 31, 2013, we guaranteed the following liabilities of certain members of our Group: (i) RMB175.0 million of borrowings by our micro and small loan subsidiaries; (ii) RMB197.2 million of borrowings by our asset management subsidiaries; and (iii) RMB574.0 million of repurchase transactions originated by our micro and small loan and asset management subsidiaries. As of December 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 subsidiaries is a limited liability company under 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 in the event that any of our credit guarantee subsidiaries fail to meet their contingent liabilities under outstanding guarantees.

As of December 31, 2011, 2012 and 2013, 0.5%, 7.2% and 14.4%, respectively, of our micro and small loans were guaranteed by our credit guarantee subsidiaries, amounting to RMB6.0 million, RMB125.0 million and RMB483.9 million, respectively. In the event that the relevant credit guarantee subsidiaries were to be 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 for the RMB483.9 million as of December 31, 2013. Given the insignificant balance of these guaranteed micro and small loans, we believe that it would not materially affect the business and operations of our other subsidiaries if any of these loans were no longer guaranteed by our credit guarantee subsidiaries. During the Track Record Period, most of our micro and small loans guaranteed by our credit guarantee subsidiaries were repaid when due. The default rate of these micro and small loans guaranteed by our credit guarantee subsidiaries was nil, 1.2% and 0.8% as of December 31, 2011, 2012 and 2013, respectively.

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## SUMMARY

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### RECENT DEVELOPMENTS

In the three months ended March 31, 2014, our business continued to grow. Our net fee and interest income increased by 62.9% to RMB498.4 million in the three months ended March 31, 2014 compared to RMB305.9 million in the same period in 2013, principally due to (i) the increase in net guarantee and consulting fee income of 15.6% to RMB237.5 million in the three months ended March 31, 2014 compared to RMB205.5 million in the same period in 2013; and (ii) the increase in net interest and handling fee income of 159.9% to RMB260.9 million in the three months ended March 31, 2014 compared to RMB100.4 million in the same period in 2013.

The financial information for the three months ended March 31, 2014 disclosed above was extracted from our unaudited interim financial information for the three months ended March 31, 2014 prepared by our Directors, which has been reviewed by KPMG, our reporting accountants, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

The increase in the net guarantee and consulting fee income was due to the increase in our outstanding guarantee by 47.2% to RMB21,481.7 million as of March 31, 2014 compared to RMB14,597.9 million as of March 31, 2013, due to the enlarged capital base of our credit guarantee business. The substantial increase in the net interest and handling fee income was primarily due to the increase in outstanding loan balance of 138.4% to RMB5,199.2 million as of March 31, 2014 compared to RMB2,181.2 million as of March 31, 2013, resulting from a substantially enlarged capital base in our SME lending business in 2013. Our annualized return on average equity for the three months ended March 31, 2014 (profit for the three months ended March 31, 2014 divided by the average balance of total equity as of January 1, 2014 and March 31, 2014 and multiplied by four) was 13.1%. Excluding the share-based payment and listing expenses, our annualized return on average equity for the three months ended March 31, 2014 would be 16.2%.

In the three months ended March 31, 2014, we made 12 default payments on behalf of customers in an aggregate amount of RMB57.5 million, resulting in a default rate of 1.2% in our credit guarantee business. Our default rate decreased from 1.6% in 2013 to 1.2% in the three months ended March 31, 2014 as a result of lower default payment amounts we had to make for guarantees released during the three months ended March 31, 2014. As of March 31, 2014, the balance of our impaired micro and small loans increased to RMB94.4 million compared to RMB83.5 million as of December 31, 2013, resulting in an impaired micro and small loan ratio of 2.5% as of March 31, 2014. In addition, the balance of our impaired entrusted loans increased to RMB39.9 million as of March 31, 2014 from RMB39.4 million as of December 31, 2013, resulting in an impaired entrusted loan ratio of 2.7% as of the same date.

As a result of the decreased default rate in our guarantee business and a faster revenue growth in our SME lending business compared to the increase in impairment losses, the loss/revenue ratio for our credit guarantee business decreased from 18.0% for 2013 to 12.9% for the three months ended March 31, 2014 and the loss/revenue ratio for our SME lending business decreased from 19.7% for 2013 to 11.6% for the three months ended March 31, 2014.

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## SUMMARY

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The loss ratio in our guarantee business decreased from 1.1% in 2013 to 0.7% in the three months ended March 31, 2014 as a result of a decreased default rate.

The Directors confirm that since December 31, 2013 (being the date to which the latest audited consolidated financial information of our Group was prepared) and up to the date of this prospectus, there has been no material adverse change in our business and financial condition (including any material deterioration in the financial condition and creditworthiness of our customers or their counter-guarantors as a whole and any material decrease in the valuation of the collateral provided) and there has been no event since December 31, 2013 which would materially affect the information shown in our consolidated financial statements included in the Accountants' Report set forth in Appendix I to this prospectus.

### USE OF PROCEEDS

In line with our strategies, we intend to use our net proceeds from the Global Offering as follows: (i) approximately 70%, or HK\$1,370.1 million, to increase the capital base of our micro and small loan business; (ii) approximately 20%, or HK\$391.5 million, to increase the capital base of our credit guarantee business; and (iii) approximately 10%, or HK\$195.6 million, to develop and offer new products and services to meet the diverse financing and business needs of SMEs and microenterprises, and to replenish our working capital and for general corporate use. See "Future Plans and Use of Proceeds" beginning on page 347.

### CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering, Mr. Tu, through Loncin Group, Loncin Holdings and Huitai, will in aggregate own approximately 32.15% of our issued share capital (assuming the Over-allotment Option is not exercised). Mr. Zhang Guoxiang holds approximately 62.1% of the equity interest of Huitai. Mr. Tu, Loncin Group, Loncin Holdings, Huitai and Mr. Zhang Guoxiang will continue to be our Controlling Shareholders after the Global Offering. Our Directors are of the view that there is a clear delineation between the businesses operated by us and our Controlling Shareholders. Each of the Controlling Shareholders has confirmed that none of them has any interest in a business which competes with, or is likely to compete with, us, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules. See "Relationship with Our Controlling Shareholders" beginning on page 250.

### DIVIDEND POLICY

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 RMB80.4 million, RMB135.2 million and RMB142.8 million to our non-controlling interests in 2011, 2012 and 2013, respectively. We expect to distribute not less than 20.0% of our annual distributable earnings as dividends, which our management deems a reasonable payout ratio, taking into account the need for preserving sufficient capital for business growth and providing our minority shareholders with reasonable returns for their



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## SUMMARY

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investment, and after considering the payout ratios generally adopted by PRC financial services companies listed in Hong Kong. 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. See “Financial Information — Dividend Policy” beginning on page 343.

### OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and 1,150,000,000 H Shares are newly issued in the Global Offering; (ii) the Over-allotment Option is not exercised; and (iii) 4,580,000,000 Shares are issued and outstanding following the completion of the Global Offering.

	<u>Based on an Offer Price of HK\$1.55</u>	<u>Based on an Offer Price of HK\$2.05</u>
Market capitalization . . . . .	HK\$7,099 million	HK\$9,389 million
Unaudited pro forma adjusted net tangible assets per Share attributable to our Shareholders . . . . .	HK\$1.71	HK\$1.83

For the calculation of the unaudited pro forma adjusted net tangible asset value per Share attributable to our Shareholders, see “Appendix II — Unaudited Pro Forma Financial Information.”

### OUR RISKS AND CHALLENGES

We face a number of risks, as set forth in “Risk Factors.” In particular, our business is subject to extensive regulation and supervision by national, provincial and local government authorities, which may interfere with the manner in which we conduct our business and may adversely impact our business, financial condition and results of operations. Given that our business involves providing unsecured guarantees and loans to customers, we rely on the creditworthiness of each individual customer and its counter-guarantors rather than on collateral. We may not be able to locate the counter-guarantors after our customer defaults and there is no assurance that these persons will have sufficient financial resources to make full payment on the borrower’s behalf, or at all. In addition, the process of attaching and subsequently realizing the value of the assets of the default customers or its counter-guarantors through legal proceedings is time-consuming and may not be successful. Given our principal business of offering bank financing guarantees, we rely heavily on cooperation with commercial banks. Furthermore, regulatory capital requirements limit our ability to leverage our capital and may adversely affect our growth and profitability.

You should read “Risk Factors” beginning on page 36 in its entirety before you decide to invest in the Offer Shares.

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### LISTING EXPENSES

In 2013, we incurred RMB18.3 million in expenses for the Global Offering, and we expect to incur an additional RMB97.2 million (including the commission and expenses that can be capitalized, assuming an Offer Price of HK\$1.80 per H Share, which is the mid-point of the stated range of the Offer Price of between HK\$1.55 and HK\$2.05 per H Share, and no exercise of the Over-Allotment Option) 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 as to be reflected in our consolidated statements of comprehensive income for 2014.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.*

“2012 Notice”	The Notice of Inter-ministries Joint Meeting of Financing Guarantee Business Supervision Concerning the Regulation of the Management of Customer Deposits by Financing Guarantee Institutions (融資性擔保業務監管部際聯席會議關於規範融資性擔保機構客戶擔保保證金管理的通知) promulgated by the Inter-ministerial Joint Meeting of Financing Guarantee Business Supervision on April 5, 2012, which encourages financing guarantee companies to discontinue the practice of taking customer-pledged deposits from their guarantee customers
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s) or, where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix V to this prospectus
“Beijing Credit”	Beijing Hanhua Credit Management Co., Ltd. (北京瀚華信用管理有限公司), a company incorporated in the PRC on March 15, 2012 and a wholly owned subsidiary of our Company
“Beijing Hanhua”	Beijing Hanhua Financing Guarantee Co., Ltd. (北京瀚華融資擔保有限公司), a company incorporated in the PRC on August 11, 2006 and a wholly owned subsidiary of our Company
“Beijing Technology”	Beijing Hanhua Internet Technology Co., Ltd. (北京瀚華網絡科技有限公司), a company incorporated in the PRC on October 11, 2013 and a wholly owned subsidiary of our Company
“Board” or “Board of Directors”	the board of directors of our Company
“Board of Supervisors”	the board of supervisors of our Company

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## DEFINITIONS

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“Business Day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, a Sunday or a public holiday in Hong Kong
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Changchun Micro-credit”	Changchun Hanhua Micro-credit Co., Ltd. (長春市瀚華小額貸款有限公司), a company incorporated in the PRC on January 25, 2013 with 60% of its equity interest being held by our Company. Details of the shareholding of the remaining 40% equity interest are set out in the section headed “History, Reorganization and Corporate Structure — Corporate Structure”
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“Chongqing Hanhua”	Chongqing Hanhua Assets Management Co., Ltd. (重慶瀚華資產管理有限公司), a company incorporated in the PRC on May 29, 2007 and a wholly owned subsidiary of our Company
“Chongqing Huiwei”	Chongqing Huiwei Investment Co., Ltd. (重慶惠微投資有限公司), a company incorporated in the PRC on January 7, 2013 and a wholly owned subsidiary of our Company

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## DEFINITIONS

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“Chongqing Micro-credit”	Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. (重慶市渝中區瀚華小額貸款有限責任公司), a company incorporated in the PRC on September 25, 2008 with 56% of its equity interest being held by our Company. Details of the shareholding of the remaining 44% equity interest are set out in the section headed “History, Reorganization and Corporate Structure — Corporate Structure”
“Chongqing Renhe”	Chongqing Renhe Die-casting Co., Ltd. (重慶市仁和壓鑄有限公司), a company incorporated in the PRC on February 15, 2001 and a Shareholder of our Company with 98% of its equity interest being held by Zhou Hongyu, nephew of Zhou Daoxue (one of our supervisors), and the remaining 2% being held by Independent Third Parties
“CIRC”	the China Insurance Regulatory Commission (中國保險監督管理委員會)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company,” “our Company” or “Hanhua Financial”	Hanhua Financial Holding Co., Ltd. (瀚華金控股份有限公司), a joint stock limited company incorporated in the PRC on March 13, 2013, and, except where the context indicates otherwise, includes (i) all of its subsidiaries and (ii) with respect to the period before it became the holding company of its present subsidiaries, the businesses operated by its present subsidiaries or, as the case may be, their predecessors
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Mr. Tu, Loncin Holdings, Loncin Group, Huitai and Mr. Zhang Guoxiang
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company as of the Latest Practicable Date
“Domestic Shares”	ordinary shares in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-incorporated entities
“EIT”	enterprise income tax of the PRC
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
“Euromonitor”	Euromonitor International (Shanghai) Co., Ltd., the independent industry consultant commissioned by us to conduct research on the credit guarantee industry and small loan industry in China
“Exchange Participant(s)”	a person: (a) who, in accordance with the Rules of the Exchange, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Hong Kong Stock Exchange
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited



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## DEFINITIONS

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“Guiding Opinions”	Guiding Opinions on the Pilot Operation of Small Loan Companies (關於小額貸款公司試點的指導意見) jointly issued by the CBRC and the PBOC on May 4, 2008
“Guiyang Micro-credit”	Guiyang Nanming Hanhua Micro-credit Co., Ltd. (貴陽市南明區瀚華小額貸款有限公司), a company incorporated in the PRC on April 10, 2014 and a wholly owned subsidiary of our Company
“H Share(s)”	ordinary shares issued by us, with Renminbi denominated nominal value of RMB1.00 each in the share capital of our Company, which are to be subscribed for and traded in HK dollars and for which an application has been made for listing and permission to trade on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hanhua Guarantee”	Hanhua Guarantee Corporation Limited (瀚華擔保股份有限公司), a company incorporated in the PRC on August 19, 2009 and a wholly owned subsidiary of our Company
“HK\$” or “HK dollars” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards, which collectively include Hong Kong Accounting Standards and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the H Shares offered by us for subscription pursuant to the Hong Kong Public Offering

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## DEFINITIONS

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“Hong Kong Public Offering”	the offering by our Company of initially 115,000,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in “Structure of the Global Offering”) for cash at the Offer Price (plus brokerage, SFC transaction levies and Hong Kong Stock Exchange trading fees), on and subject to the terms and conditions described in this prospectus and the Application Forms as further described in “Structure of the Global Offering — The Hong Kong Public Offering”
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters listed in “Underwriting — Hong Kong Underwriters,” being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement to be dated on or about May 30, 2014 relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and Hong Kong Underwriters), our Company, Loncin Holdings, Loncin Group and Huitai, as further described in “Underwriting — Hong Kong Public Offering”
“Huitai”	Chongqing Huitai Investment Co., Ltd. (重慶慧泰投資有限公司), a company incorporated in the PRC on July 15, 2009 and a Controlling Shareholder of our Company. For shareholder’s information, see “History, Reorganization and Corporate Structure — Corporate Structure”
“Independent Third Party(ies)”	an individual or a company who, as far as the Directors are aware after having made all reasonable enquiries is not a connected person of the Company within the meaning of the Listing Rules
“Interim Measures”	Interim Measures for the Administration of Financing Guarantee Companies (融資性擔保公司管理暫行辦法), jointly formulated and issued by CBRC, NDRC, Ministry of Industry and Information Technology, Ministry of Finance, Ministry of Commerce, PBOC, and SAIC in 2010

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## DEFINITIONS

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“International Offer Shares”	the H Shares offered pursuant to the International Offering
“International Offering”	the offer for subscription of initially 1,035,000,000 H Shares to institutional, professional, corporate and other investors, subject to adjustment and the Over-allotment Option, as further described in “Structure of the Global Offering — The International Offering”
“International Underwriters”	the Group of international underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering to be entered into on or about June 13, 2014 by, among others, the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the International Underwriters), our Company, Loncin Holdings, Loncin Group and Huitai, as further described in “Underwriting — International Offering”
“IT”	information technology
“Joint Bookrunners”	China International Capital Corporation Hong Kong Securities Limited, China Galaxy International Securities (Hong Kong) Co., Limited, Credit Suisse (Hong Kong) Limited, GF Securities (Hong Kong) Brokerage Limited, CIMB Securities Limited, CCB International Capital Limited, Haitong International Securities Company Limited, ICBC International Capital Limited, BOCOM International Securities Limited and DBS Asia Capital Limited
“Joint Global Coordinators”	China International Capital Corporation Hong Kong Securities Limited, China Galaxy International Securities (Hong Kong) Co., Limited, Credit Suisse (Hong Kong) Limited and GF Securities (Hong Kong) Brokerage Limited

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## DEFINITIONS

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“Joint Lead Managers”	China International Capital Corporation Hong Kong Securities Limited, China Galaxy International Securities (Hong Kong) Co., Limited, Credit Suisse (Hong Kong) Limited, GF Securities (Hong Kong) Brokerage Limited, CIMB Securities Limited, CCB International Capital Limited, Haitong International Securities Company Limited, ICBC International Securities Limited, BOCOM International Securities Limited and DBS Asia Capital Limited
“Joint Sponsors”	China International Capital Corporation Hong Kong Securities Limited and China Galaxy International Securities (Hong Kong) Co., Limited
“Kunming Micro-credit”	Kunming Panlong District Hanhua Micro-credit Co., Ltd. (昆明市盤龍區瀚華小額貸款有限公司), a company incorporated in the PRC on December 6, 2013 and a wholly owned subsidiary of our Company
“Latest Practicable Date”	May 26, 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Liaoning Hanhua”	Liaoning Hanhua Investment Guarantee Co., Ltd. (遼寧瀚華投資擔保有限公司), a company incorporated in the PRC on August 25, 2006 and a wholly owned subsidiary of our Company
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about June 19, 2014, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Loncin”	Loncin Group and its subsidiaries

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## DEFINITIONS

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“Loncin Group”	Loncin Group Co., Ltd. (隆鑫集團有限公司), a company incorporated in the PRC on February 13, 1996, a shareholder of Loncin Holdings and a Controlling Shareholder of our Company. For shareholder’s information, see “History, Reorganization and Corporate Structure — Corporate Structure”
“Loncin Holdings”	Loncin Holdings Co., Ltd. (隆鑫控股有限公司), a company incorporated in the PRC on January 22, 2003, a subsidiary of Loncin Group and a Controlling Shareholder of our Company. For shareholder’s information, see “History, Reorganization and Corporate Structure — Corporate Structure”
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from, and operated in parallel with, GEM
“Mandatory Provisions”	the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (到境外上市公司章程必備條款), as amended, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were originally promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems on August 27, 1994
“medium loan”	our entrusted loan product, primarily between RMB3.0 million and RMB30.0 million, which we provide to SMEs through our credit guarantee network
“Ministry of Commerce”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Ministry of Finance”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“Ministry of Industry and Information Technology”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
“Mr. Tu”	Mr. Tu Jianhua (涂建華), a non-executive Director and a Controlling Shareholder of our Company

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## DEFINITIONS

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“Nanning Micro-credit”	Nanning Hanhua Micro-credit Co., Ltd. (南寧市瀚華小額貸款有限公司), a company incorporated in the PRC on December 8, 2011 and a wholly owned subsidiary of our Company
“National Bureau of Statistics”	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Non-competition Undertaking”	the non-competition undertaking issued by our Controlling Shareholders in favor of our Group dated February 17, 2014, details of which are set out in “Relationship with our Controlling Shareholders — Delineation of Business — Non-competition Undertaking”
“Offer Price”	the final offer price per H Share (exclusive of a brokerage fee of 1%, an SFC transaction levy of 0.003% and a Hong Kong Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued, or purchased and sold, pursuant to the Global Offering
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, with any additional H Shares to be issued and sold pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option granted by us to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters pursuant to the International Underwriting Agreement, to require our Company to issue up to an aggregate of 80,000,000 additional H Shares at the Offer Price to cover, among other things, over-allocations in the International Offering, if any, exercisable at any time from the date of the International Underwriting Agreement up to (and including) the date which is the 30th day from the last day for lodging applications under the Hong Kong Public Offering
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC

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## DEFINITIONS

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“PRC GAAP”	generally accepted accounting principles in the PRC
“Predecessor Companies Ordinance”	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) which was in force before March 3, 2014
“Price Determination Date”	the date, expected to be on or around June 13, 2014 (Hong Kong time) on which the Offer Price is determined, or such later time as our Company and the Joint Global Coordinators (on behalf of the Underwriters) may agree, but in any event not later than June 17, 2014
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“province”	each being a province or, where the context requires, a provincial-level autonomous region, a special economic zone or municipality under the direct administration of the State Council of the PRC
“provincial-level city”	a provincial capital city or a municipality in the PRC
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization arrangements undergone by the Group in preparation for the Listing as described in “History, Reorganization and Corporate Structure — History, Development and Reorganization — Reorganization”
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry & Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong



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## DEFINITIONS

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“Share(s)”	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s)
“Shenyang Micro-credit”	Shenyang Financial and Commercial Development District Hanhua Technology Micro-credit Co., Ltd. (瀋陽金融商貿開發區瀚華科技小額貸款有限公司), a company incorporated in the PRC on September 30, 2011 and a wholly owned subsidiary of our Company. Before June 5, 2013, it was named as Shenyang Heping District Hanhua Micro-credit Co., Ltd. (瀋陽市和平區瀚華小額貸款有限公司)
“Sichuan Assets Management”	Sichuan Small & Medium-sized Assets Management Co., Ltd. (四川中微資產管理有限公司), a company incorporated in the PRC on October 21, 2010 and a wholly owned subsidiary of our Company
“Sichuan Hanhua”	Sichuan Hanhua Financing Guarantee Co., Ltd. (四川瀚華融資擔保有限公司), a company incorporated in the PRC on May 19, 2005 and a wholly owned subsidiary of our Company
“Sichuan Micro-credit”	Sichuan Hanhua Micro-credit Co., Ltd. (四川瀚華小額貸款有限公司), a company incorporated in the PRC on May 19, 2009 with approximately 61.43% of its equity interest being held by our Company. Details of the shareholding of the remaining approximately 38.57% equity interest are set out in the section headed “History, Reorganization and Corporate Structure — Corporate Structure”
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), as amended, supplemented or otherwise modified from time to time
“Stabilizing Manager”	China International Capital Corporation Hong Kong Securities Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Supervisor(s)”	member(s) of our Board of Supervisors

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## DEFINITIONS

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“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Tianjin Factoring”	Tianjin Small & Medium-sized International Factoring Co., Ltd. (天津中微國際保理有限公司), a company incorporated in the PRC on November 11, 2011 and a wholly owned subsidiary of our Company
“Tianjin Micro-credit”	Tianjin Hanhua Micro-credit Co., Ltd. (天津瀚華小額貸款有限公司), a company incorporated in the PRC on June 29, 2011 and a wholly owned subsidiary of our Company
“Track Record Period”	the three years ended December 31, 2011, 2012 and 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“we,” “us,” “Group” or “our Group”	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>White Form eIPO <a href="http://www.eipo.com.hk">www.eipo.com.hk</a></b>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

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## DEFINITIONS

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“Xi’an Micro-credit”	Xi’an Hanhua Micro-credit Co., Ltd. (西安市瀚華小額貸款有限公司), a company incorporated in the PRC on September 12, 2013 with 65% of its equity interest being held by our Company. Details of the shareholding of remaining 35% equity interest are set out in the section headed “History, Reorganization and Corporate Structure — Corporate Structure”
“Xinjiang Huarong”	Xinjiang Huarong Tianze Dingxin Investment LLP (新疆華融天澤鼎鑫投資合夥企業(有限合夥)), a limited liability partnership incorporated in the PRC on March 14, 2013 and a Shareholder of our Company. For shareholder’s information, see “History, Reorganization and Corporate Structure”
“Yangtze River Delta”	the region comprising Jiangsu and Zhejiang provinces and Shanghai

*In this prospectus, the terms “associate,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*For ease of reference, the names of the PRC laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains explanations of certain technical terms used in this prospectus in connection with our Group and our business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.*

“allowance coverage ratio”	equals allowance for loan loss as divided by the balance of impaired loans
“attachment bond”	a type of surety bond used in legal proceedings whereby we guarantee the ability of a party to indemnify the counterparty against damages caused by a wrongful or false attachment by the first party
“average balance”	unless otherwise indicated in this prospectus, average balance means the average month end balance during a given period
“average guarantee and consulting fee rate”	equals guarantee and consulting fee income as divided by the average balance of guarantees
“average interest and handling fee rate”	equals interest and handling fee income as divided by the average balance of loans
“bank financing guarantee”	a type of financing guarantee by which we guarantee a bank that we will repay the bank financing if the borrower we guarantee defaults
“bond insurance”	a form of external credit enhancement that generally increases the credit rating of the bonds issued
“branch network”	includes (i) the credit guarantee network, consisting of our credit guarantee subsidiaries, branch offices and sales outlets; and (ii) the micro and small loan network, consisting of our micro and small loan subsidiaries and sales outlets
“CAGR”	compound annual growth rate
“contract bond”	a type of surety bond mainly used in the construction industry by which we guarantee a project owner that a general contractor will perform its obligations under a contract

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## GLOSSARY OF TECHNICAL TERMS

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“default payment”	in respect of our credit guarantee business, payments we made on default customer’s behalf
“default payment receivables”	in respect of our credit guarantee business, the balance of the payment we made on default customer’s behalf not yet recovered
“default rate”	equals the default payment we paid on default customer’s behalf as divided by the amount of guarantees released upon maturity or full repayment
“entrusted loan”	a type of loan made from entrusted loan arrangements, in which we deposit our own funds with an intermediary bank which will on-lend the funds to borrowers we select. Upon repayment of the principal and interest on the loan, the intermediary bank transfers such amount to us
“financing guarantee”	a type of guarantee service by which we guarantee the lender that we will repay the debt if the borrower we guarantee defaults. We further divide our financing guarantee services into bank financing guarantees and non-bank financing guarantees
“guarantee insurance”	a type of guarantee we provide to third-party guarantors to share their credit risks by indemnifying them if they repay the debt on behalf of default customers they guarantee
“impaired loans”	any loans we classify as “substandard,” “doubtful” or “loss” based on our loan classification policy
“impaired loan ratio”	equals the balance of impaired loans as divided by the balance of outstanding loans
“loss ratio”	equals impairment losses on default payment receivables as divided by the amount of guarantees released
“loss/revenue ratio”	in respect of our credit guarantee business, equals impairment losses on default payment receivables divided by segment revenue from our credit guarantee business; in respect of our SME lending business, equals impairment losses on loans and advances to customers divided by segment revenue from our SME lending business

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## GLOSSARY OF TECHNICAL TERMS

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“micro and small loan”	our loan product, primarily between RMB0.5 million and RMB3.0 million, which we provide to micro and small enterprises, individual entrepreneurs and individuals through our micro and small loan network
“microenterprise(s)”	microenterprise(s), as defined in the Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises (關於印發中小企業劃型標準規定的通知) promulgated by the National Bureau of Statistics, the Ministry of Finance, the Ministry of Industry and Information Technology and the NDRC in June 2011. For example, in respect of the retail business, a microenterprise refers to an entity with fewer than ten employees or annual revenue of less than RMB1 million
“non-bank financing guarantee”	a type of financing guarantee by which we guarantee a non-bank financial institution, such as a trust company or financial leasing company, or general investors, that we will repay the debt if the borrower or issuer we guarantee defaults
“non-financing guarantee”	a type of guarantee whereby we act as guarantor to promise to pay one party, the obligee, a certain amount if the principal fails to meet certain obligations. We further divide our existing non-financing guarantee products into contract bonds and attachment bonds
“repurchase transaction”	a transaction by which a seller sells certain financial assets to investors under repurchase agreements and agrees to repurchase such assets at a pre-determined price within a specified period of time
“SME(s)”	small and medium-sized enterprise(s), as defined in the Notice on the Provisions for Classification Standards of Small and Medium-sized Enterprises (關於印發中小企業劃型標準規定的通知). For example, in respect of the retail business, a small enterprise refers to an entity with ten or more employees and annual revenue of RMB1 million or more; and a medium-sized enterprise refers to an entity with 50 or more employees and annual revenue of RMB5 million or more

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## GLOSSARY OF TECHNICAL TERMS

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“subrogation”	the substitution of one party over the rights, claims or remedies held by another party. For example, in the event that the borrower we guarantee defaults and we repay the lender on the default customer’s behalf, we will become subrogated to the lender’s claims against the borrower
“VaR”	value at risk



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## FORWARD-LOOKING STATEMENTS

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This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- our ability to control our credit risks and other risks inherent in our business;
- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- financial market developments;
- our dividend policy;
- changes in global economic conditions and material volatility in the global financial markets;
- general political and economic conditions, including those related to the PRC;

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## FORWARD-LOOKING STATEMENTS

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- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- various business opportunities that we may pursue; and
- macroeconomic measures taken by the PRC government to manage economic growth.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus including the risks and uncertainties described in the following risk factors when considering making an investment in the H Shares being offered in the Global Offering. You should pay particular attention to the fact that our business and operations are conducted exclusively in the PRC and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other countries. Our business financial conditions and results could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of the H Shares may decline due to any of the risks and uncertainties and you may lose all or part of your investment. For details regarding the PRC and other relevant matters, see “Regulatory Environment,” “Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix V — Summary of the Articles of Association.”*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**Our business is subject to extensive regulation and supervision by national, provincial and local government authorities, which may interfere with the way we conduct our business and may negatively impact our business and results of operations.**

We are subject to extensive and complex national, provincial and local laws, rules, regulations, policies and measures 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, regulations, policies and measures are issued by different central government ministries and departments as well as provincial and local government authorities, and may be enforced by different local authorities in each province in which we operate. In addition, the local authorities have broad discretion in implementing and enforcing the applicable 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, we understand that the Chongqing Finance Bureau may allow 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. Furthermore, the regulation and oversight of our industries are relatively less sophisticated than those for banking and other traditional financial services industries. As a result, there are significant uncertainties in the interpretation and implementation of such laws, rules, regulations, policies and measures, which increase our compliance burden and may potentially restrain our flexibility in conducting our business, including product innovation. We rely on verbal clarifications from local government authorities from time to time which may be inconsistent with the regulations concerned.

Given the complexity, uncertainties and frequent changes in these laws, rules, regulations, policies and measures, including changes in their interpretation and implementation, our business activities and growth may be adversely affected if we do not respond to the changes in a timely manner or fail to fully comply with the applicable laws, rules, regulations, policies and measures, including as a result of ambiguities in them. For example, due to the lack of

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specific details in the applicable regulations and the consequential difference in the interpretations of how to calculate net assets between the competent authority and us, we were found to have violated the restriction on the maximum amount of guarantees to a single customer. See “Business — Legal Proceedings and Compliance — Non-compliance Incidents.” Non-compliance may subject us to sanctions by regulatory authorities, to monetary penalties, or to restrictions on our activities or revocation of our licenses, which could have a material adverse affect on our business, financial condition and results of operations.

In addition, certain of our micro and small loan companies have certain inconsistencies with respect to the Guiding Opinions and local regulatory policies and measures in terms of their respective shareholding structure, change of shareholding structure and/or registered capital. See “Business — Legal Proceedings and Compliance — Inconsistencies with the Relevant Regulatory Policies involving the Shareholding Structure, Changes in Shareholding Structure and/or Registered Capital in Our Micro and Small Loan Subsidiaries.” As advised by our PRC legal advisors, such inconsistencies have been confirmed by competent authorities to be in compliance with relevant regulatory policies and legislative principals, and such government confirmation is unlikely to be overturned by other authorities and courts in China. However, there is no assurance that new or amended laws, regulations or rules will not be implemented or the competent authorities will not change their interpretations of existing laws, regulations or rules in the future to impose more stringent or different requirements on the shareholding structure, change of shareholding structure or registered capital of micro and small loan companies. To the extent we will not be in compliance with these requirements, we may be subject to rectification measures such as being ordered to change directors, supervisors and senior management, to adjust the shareholding structure of our micro and small loan companies, or, under extreme circumstances, such remedies. Operations of our micro and small loan companies could suffer as a result.

**We largely rely on the creditworthiness of each individual customer and/or its counter-guarantors rather than collateral.**

We provide credit guarantees and micro and small loans to SMEs and microenterprises across China. Unlike many commercial banks in China, we have developed a credit evaluation system based on our extensive experience in serving the SME and microenterprise sector that enables us to make credit decisions based on the creditworthiness of each customer rather than the value of collateral. As of December 31, 2013, 52.3% of our outstanding guarantees, 86.4% of our outstanding micro and small loans and 45.1% of our entrusted loans were not secured with collateral. We will continue to focus on providing credit-based financing solutions and expect a majority of our guarantee and loan portfolios to be unsecured for the foreseeable future. As a result, our products and services have different risk profiles compared to guarantees or loans that are secured with assets, and our ability to recover from default customers is more limited. Various factors could affect our customers’ repayment ability, such as economic and other conditions affecting our customers and their businesses and industries, the cash flow of individual customers and the amounts and terms of the loans. As our business continues to grow, our customer default rate may rise in the future, which in turn may materially and adversely affect our financial condition and results of operations.

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As one of our risk control measures, we normally require counter-guarantees from the business owners and controlling persons of the borrower as well as their family members. However, we may not be able to locate counter-guarantors after a customer defaults and there is also no assurance that these persons will have sufficient financial resources to make full payment on the default customer's behalf, or at all. See "Business — Provisioning Policies and Asset Quality."

In addition, we do always require any counter-guarantors for micro loan customers in connection with small or short-term loans. As of December 31, 2013, 35.6% of our outstanding loans were neither secured by collateral nor backed by a counter-guarantor. These credit loans are subject to increased credit risk as our recourse is more limited if the borrower defaults. For a description of how we manage and control risks in our business, see "Risk Management."

Upon a customer default, if we are unable to locate the corresponding counter-guarantors, counter-guarantors have limited or no ability to repay or the loan is not backed by any counter-guarantor, we may have to apply for a court order to attach the assets, such as land, property and machinery, of the default customer and its counter-guarantors, if any, and resort to legal proceedings to enforce our unsecured interests against these assets. In China, the procedures for applying for court orders to attach assets of another person and liquidating or otherwise realizing the value of attached assets may be protracted or ultimately unsuccessful, and the enforcement process in China may be difficult for legal and practical reasons. In general, the entire recovery process may take us 18 months or more to fully or partially realize the value of the attached assets. Furthermore, the defaulting customer and its counter-guarantors may have concealed, transferred or disposed of their assets beforehand, making it difficult or impossible for us to apply for attachment. Where the assets attached are mortgaged and registered in favor of third parties, such as a bank or another secured creditor, our interests will be ranked behind these third parties and our unsecured rights may not be enforced until secured creditors are paid in full, thereby limiting the amount recovered or even preventing us from benefiting from such assets.

### **We rely heavily on cooperation with commercial banks.**

Our business, in particular our bank financing guarantee business, relies heavily on our cooperation with commercial banks. As of December 31, 2013, we had entered into cooperation arrangements with 65 commercial banks in China, which had agreed to extend in aggregate over RMB38.0 billion of credit lines to borrowers we guarantee. Our cooperation arrangements with banks generally have a term of one year and are renewable upon expiration. If we are unable to renew any of these existing arrangements on commercially reasonable terms, or at all, when they expire, our ability to provide bank financing guarantees to our customers would be negatively impacted. In addition, our cooperation arrangements with banks are also affected by prevailing market conditions, regulatory policies and other factors beyond our control. For example, due to the collapse of several major guarantee companies in China in 2012, certain commercial banks reduced their cooperation with financing guarantee companies in that year.

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Furthermore, our cooperation arrangements are concentrated in a small number of commercial banks in China. In 2011, 2012 and 2013, our five largest cooperating banks provided 65.8%, 53.0% and 53.7%, respectively, of the total bank financing we guaranteed, while the largest cooperating bank provided 30.0%, 16.9% and 17.1%, respectively, of the total bank financing we guaranteed for the same periods. Also, the proportion of security deposits the banks require from us largely depends on our business relationship and track record with them. As a result, if our relationship with one or more of our key cooperating banks deteriorates materially or terminates, our business, financial condition and results of operations may be materially and adversely affected.

**As our customers are SMEs and microenterprises, our business is subject to greater credit risks and our credit risk management may not be adequate to protect against customer defaults.**

The business of providing guarantees or loans involves a variety of risks, including the risk that the loans we guaranteed or made will not be repaid on time or at all, and our risk management procedures may not fully eliminate these risks.

We focus on the SME and microenterprise sector in China. Many of our customers are at the early stage of their business and have limited financial resources, making them vulnerable to adverse competitive, economic or regulatory conditions. These customers may expose us to greater credit risks than larger or more established businesses with longer operating histories. For example, largely due to the challenging credit and economic conditions in China in 2012 and 2013, we experienced a significant increase in the default payments we made. As a result, the loss/revenue ratio in our credit guarantee business increased from 3.5% in 2011 to 11.2% in 2012 and to 18.0% in 2013. We also guarantee bonds issued by SMEs in China and are subject to credit risks associated with these bonds. In early 2014, China has reportedly experienced its first defaults on publicly offered or privately placed corporate bonds, which exemplified such risks on the PRC bond market. We may in the future continue to experience increased levels of customer default and related provisions and impairment losses that could materially and adversely affect our business and results of operations.

We seek to manage our credit risk exposure through customer due diligence, credit approvals, establishing credit limits, requiring security measures and portfolio monitoring. While these procedures are designed to provide us with the information needed to implement adjustments where necessary, and to take proactive corrective actions, there can be no assurance that such measures will be effective in avoiding undue credit risk. In addition, the business results in the SME sector may be adversely affected by turmoil in regional financial markets, such as has been widely reported in Wenzhou and Henan in recent years, as well as changes in global credit policies. This may result in a reduction in the amount of, or tightened approval requirements for, funding from banks or other financial institutions to SMEs in the PRC and thus may subject them to heightened liquidity risks. There is no assurance that our credit risk management system will be effective in protecting us from such unexpected credit risk exposure.

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### **Our business expansion relies heavily on our capital base.**

According to PRC laws and regulations, the total balance of outstanding financing guarantees provided by a guarantee company should not exceed ten times its net assets. A micro and small loan company may only borrow bank loans up to a certain percentage, usually 50%, of its paid-in capital. In addition, a micro and small loan company in China is prohibited from accepting any deposits from the public for the purpose of conducting banking activities. See “Regulatory Environment.” As our principal businesses are largely driven by our capital base and our SME lending business is particularly capital intensive, our business expansion will, to a significant extent, be constrained by the size of our capital base. In order to support our business growth, we may raise additional capital from time to time. However, our ability to raise additional capital may be limited by many factors, including (i) our future financial condition, results of operations and liquidity position, (ii) any government regulatory approvals, (iii) our credit rating, (iv) general market conditions for capital-raising activities, in particular by financial services companies, and (v) economic, political and other conditions in and outside of the PRC. If we are unable to obtain sufficient additional capital in a timely and cost-effective manner, we may not be able to grow our business as planned, or at all, and our financial condition and results of operations could be materially and adversely affected. In addition, any future infusions of equity capital may result in dilution of equity interest for existing shareholders.

### **Our historical financial results may not be indicative of our future performance.**

Our business achieved rapid growth during the Track Record Period following the substantial increase in our registered capital since 2010. In addition, our micro and small loan business commenced in 2008 and therefore has a limited operating history. Our guarantee and consulting fee income increased from RMB455.1 million in 2011 to RMB914.3 million in 2013, representing a CAGR of 41.7%. For detailed analysis of our financial results, in particular our profits during the Track Record Period, see “Financial Information — Results of Operations.” However, our historically high growth rate and the limited history of our micro and small loan business make it difficult to evaluate our prospects. We may not be able to sustain our historically rapid growth or may not even be able to grow our business at all. For example, our profits decreased to RMB356.7 million in 2013 from RMB517.8 million in 2012.

In addition, our return on average equity in 2011, 2012 and 2013 was 29.2%, 22.9% and 9.0%, respectively. There is no assurance that our future return on equity will be maintained at or exceed historic levels. As additional capital will be raised by us through the Global Offering, it will have an immediate dilutive effect on our return on equity. If we are unable to deploy our new capital in an efficient and timely manner, our future return on equity may decrease.

### **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 business of providing credit guarantees and loans to customers is capital-based, and our SME lending business is particularly capital intensive and involves substantial operating cash outflows in the ordinary course of its business. Our cash used in operating activities primarily consists of extending loans, making default payments and maintaining security deposits at banks.



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During the Track Record Period, our business growth was mainly supported by equity contributions which are classified as cash inflows from financing activities. We received equity contributions of RMB498.2 million, RMB60.0 million and RMB2,400.6 million in 2011, 2012 and 2013, respectively. However, the continuous growth in our credit guarantee and SME loan portfolios during the Track Record Period resulted in increased cash outflows in the form of securities deposits placed with banks and loans to customers, which were classified as cash used in operating activities. As a result of such classifications, we reported net cash used in operating activities of RMB926.5 million, RMB377.8 million and RMB2,192.8 million (comprising RMB1,699.3 million, RMB1,019.8 million and RMB3,193.7 million cash outflows from operating activities used in business expansion, respectively, offset by our cash inflows from operating activities of RMB772.8 million, RMB642.0 million and RMB1,000.9 million, respectively) in 2011, 2012 and 2013, respectively.

We plan to use approximately 70% of the net proceeds from the Global Offering for increasing the capital base of our micro and small loan business and 20% of such net proceeds for increasing the capital base of our credit guarantee business. See “Future Plans and Use of Proceeds.” The additional capital is expected to be deployed in the form of an expanded loan portfolio and increased securities deposits with banks to expand our guarantee portfolio, which will be classified as operating cash outflows, while the corresponding inflows of capital will be classified as financing activities. As a result, we expect that we will continue to report negative operating cash flows in the near term subsequent to our Listing. Negative operating cash flows may reduce our financial flexibility and our ability to obtain additional borrowings.

### **We may face increasing competition from existing and new market participants.**

China’s financial services industry for SMEs and microenterprises has experienced substantial growth in recent years, following the rapid development of the Chinese economy and the emergence of a large number of SMEs and microenterprises. According to the CBRC and China Financing Guarantee Association, there were approximately 8,350 financing guarantee companies as of June 30, 2013 and 7,840 micro and small loan companies in China as of December 31, 2013.

For our credit guarantee business, our major competitors include state-owned or foreign-invested guarantee companies which have a strong presence in the regions in which we operate. For our SME lending business, our major competitors include regional micro and small loan companies, private money lenders, wealthy individuals and rural banks who lend to micro and small businesses. Some of our competitors may benefit from lower pricing, a larger customer base, a more established business reputation, more solid business relationships with banks and government authorities, a more mature risk control mechanism or more extensive experience than we might. As we expand our presence in the PRC, we expect to compete with competitors from other regions, some of which have better knowledge of the target customers and the local business environment and may enjoy stronger relationships with local banks than we do. If we are unable to maintain our current level of profitability and market share as a result of increased competition, our business, financial condition and results of operations may be materially and adversely affected.

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**Our business model could be negatively affected by changes and fluctuations in the banking industry.**

Our business model is premised on the fact that SMEs and microenterprises are generally underserved by the banking industry because commercial banks in China have been reluctant to lend to SMEs and microenterprises without credit support, such as third-party guarantees, or adequate collateral of tangible assets, and we believe that they will remain so in the foreseeable future. This has created opportunities for us to develop and expand our business. However, new trends in the banking industry or the applicable regulatory requirements may alleviate the high transaction costs or the lack of collateral and public information generally associated with bank financing to SMEs and microenterprises in China or otherwise make this business more attractive to banks. In the event that commercial banks begin to compete with us by making loans to SMEs and microenterprises on an unsecured basis or require a lower level of credit guarantee in return for higher risk-based interest rates, we may experience less demand for our guarantee services and greater competition with respect to our SME lending business. In addition, direct competition with our cooperating banks will also undermine our relationship with them and adversely affect our business, results of operations and prospects.

In addition, our business may also be subject to the factors affecting the banking industry, such as the spike in the interbank rates and the subsequent cash crunch fears as reported in the second and third quarters of 2013, as well as the increasing non-performing loan ratios as reported by the banking industry in 2013. Such factors adversely affecting the banking industry may result in a liquidity crunch and the subsequent reductions in the amount of, or tightened approval requirements for loans available to our customers or us. As a result, we may experience reduced demand for our guarantees and less available funding. Furthermore, if our customers' business is negatively affected due to the cash crunch or tightened liquidity, our customer default risk may increase, which may materially and adversely affect our financial condition or results of operations.

**Our business is concentrated in Chongqing and Sichuan, and our financial condition and results of operations may be materially and adversely affected by a significant deterioration in our business in Chongqing and Sichuan.**

Our business is concentrated in Chongqing and Sichuan. Our business originated in, and has historically been focused on, Chongqing. We later expanded to Sichuan and other selected regions in the PRC during a period of nine years. As of December 31, 2011, 2012 and 2013, 70.9%, 69.1% and 59.7%, respectively, of our outstanding guarantees and 90.9%, 82.4% and 61.2%, respectively, of our outstanding micro and small loans originated from Chongqing and Sichuan.

The economies of Chongqing and Sichuan rely, to a significant extent, on the agriculture, retail, trading and small-scale manufacturing sectors, which historically have provided significant business opportunities for SMEs and microenterprises and accordingly driven our business growth and financial performance. A significant economic downturn in Chongqing and/or Sichuan, however, may undermine the financial condition of our customers in these areas and their ability to repay their loans guaranteed or granted by us and our financial condition and results of operations may be materially and adversely affected as a result.

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**We may not be familiar with new regions or markets we enter and may not be successful in expanding our branch network or offering new products and services.**

We have expanded our operations into 19 provinces in China as of the Latest Practicable Date. As part of our business strategies, we plan to continue to expand our branch network and enter other regional markets in the future. However, we may be unable to replicate our success in Chongqing in other major regions or new markets. In expanding our business, we may enter markets in which we have limited, or no, experience. We may not be familiar with the local business and regulatory environment and we may fail to attract a sufficient number of customers due to our limited presence in that region. In addition, competitive conditions in new markets may be different from those in our existing markets and may make it difficult or impossible for us to operate profitably in these new markets. If we are unable to manage these and other difficulties in our expansion into other regions in China, our prospects and results of operations may be adversely affected.

As we continuously adjust our business strategies in response to the changing market and evolving customer needs, our new business initiatives often lead us to offer new products and services. However, we may not be able to successfully introduce new products or services to address our customers' needs because we do not have the adequate capital resources or lack the relevant experience or expertise or otherwise. In addition, we may be unable to obtain regulatory approvals for our new products and services. Furthermore, our new products and services may involve increased and unperceived risks and may not be accepted by the market and they may not be as profitable as we anticipated, or at all. If we are unable to achieve the intended results for our new products and services, our business, financial condition, results of operations and prospects may be adversely affected.

For example, as part of our business strategies, we intend to develop and launch an Internet-based customer services platform as and when the regulatory and market conditions mature. We also intend to offer commercial contract bonds to guarantee SMEs' and microenterprises' performance of their commercial obligations. See "Business — Our Strategies." An Internet-based business platform may subject us to increased IT risks, such as system malfunctions, security breaches, Internet fraud and loss of customer data. The business of providing commercial contract bonds may involve us in dealing with a different customer base and risk profiles with which we are unfamiliar and potential collusion between our customer and the beneficiary of our guarantee. Our existing risk management procedures, internal controls, IT system and management expertise may not be adequate to address the business needs of, and reduce the reputational and legal risks inherent in, these new products and services.

**The collateral securing our guarantees or loans may not be sufficient and we may be unable to realize the value of the collateral in a timely manner, or at all.**

Although we primarily base our credit decision on the creditworthiness of a customer, depending on the outcome of our credit evaluation, we may also require our customers or their counter-guarantors to provide collateral, such as land use rights or building ownership, to secure our guarantees or loans.

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As of December 31, 2013, 47.7% of our outstanding guarantees, 13.6% of our outstanding micro and small loans and 54.9% of our entrusted loans were secured with collateral. The value of the collateral may decline due to various factors, including those affecting the PRC economy and real estate and financial markets in general. In addition, the procedures for liquidating or otherwise realizing the value of collateral of borrowers in China may be protracted or ultimately unsuccessful, and the enforcement process in China may be difficult for legal and practical reasons. Moreover, our rights over the collateral may be subordinated to other secured creditors with higher priority. As of December 31, 2013, 4.2% of the collateral securing our guarantees, typically being building ownership that have not been fully mortgaged by our borrowers, were registered with us having lower priority. If the borrowers providing collateral default, our security interest in the collateral may not be realized until creditors with higher priority have been paid in full and we may be subject to higher credit risks. There is no assurance that we will be able to realize the value of the collateral as we anticipated in a timely manner, or at all.

### **Our provisions for losses may not be adequate to cover actual losses.**

As of December 31, 2013, our provision for guarantee losses was RMB429.2 million and our allowance for impairment losses was RMB197.5 million in respect of our loan portfolio. The amount of provisions or allowance has been based on our management's assessment of, and expectations concerning, various factors affecting the quality of our guarantee and loan portfolio, such as the customers' financial condition, repayment ability, historical default rates, the anticipated realizable value of any collateral, regional economic conditions, government policies, interest rates and other factors, and the applicable PRC rules and regulations governing provisions for losses. For example, in light of the credit tightening and the collapse of certain guarantee companies in China in 2012, we have increased our provision ratio from 1.6% as of December 31, 2011 to 1.9% as of December 31, 2012 and further to 2.0% as of December 31, 2013. Many of these factors are beyond our control. If our assessment and expectations differ from actual events, or if the quality of our guarantee and loan portfolios deteriorates, our provisions or allowance may not be adequate to cover our actual losses and we may need to set aside additional provisions or allowance, which could materially and adversely affect our profitability.

### **We benefit from certain tax exemptions and government subsidies, the loss of which or a reduction in which could reduce our profits.**

During the Track Record Period, benefiting from the "Western Development Program," certain of our operating subsidiaries in Chongqing and Sichuan were subject to a 15% EIT rate, as compared to a statutory rate of 25% under the EIT Law. In addition, we also received government subsidies for providing credit guarantees to SMEs in China. In 2011, 2012 and 2013, our government subsidies amounted to RMB31.5 million, RMB26.2 million and RMB42.7 million, respectively, representing 6.6%, 5.1% and 12.0% of our profit for the same periods, respectively.

However, we cannot assure you that we will continue to receive the same preferential tax treatments or government subsidies as the relevant government policies may change over time. Any loss or reduction in preferential tax treatments or government subsidies could have an adverse effect on our results of operations, prospects and financial position.

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**Our risk management framework, policies and procedures and internal controls may not fully protect us against various risks inherent in our business.**

We have established an internal risk management framework, policies and procedures to manage our risk exposures, primarily credit risk, operational risk, compliance risk and legal risk as well as liquidity risk. These risk management policies and procedures are based upon historical behaviors and our experience in the industry. They may not be adequate or effective in managing our future risk exposures or protecting us against unidentified or unanticipated risks, which could be significantly greater than those indicated by our historical experience. Although we are continuously updating these policies and procedures, they may fail to predict future risks due to rapid changes in the market and regulatory conditions, and new markets we enter.

Although we have established internal controls to ensure our risk management policies and procedures are adhered to by our employees as we conduct our business, our internal controls may not effectively prevent or detect any non-compliance of our policies and procedures, which may have a material adverse effect on our business, financial condition and results of operations.

We have in the past identified certain deficiencies in the implementation of our internal control procedures as a result of departures from certain procedural and record-keeping requirements. There is no assurance that additional internal control deficiencies will not be identified in the future. For details of such internal control deficiencies, see “Risk Management — Certain Internal Control Deficiencies.” In response to these internal control deficiencies identified, we have adopted policies to remediate control processes and procedures in order to prevent a recurrence of the circumstances that resulted in such internal control deficiencies. There is no assurance that these steps will be successful in preventing the same or similar internal control deficiencies in the future. Failure to address our internal control and other deficiencies in a timely and effective manner may undermine the effectiveness of our risk management system, may result in inaccuracies in our financial reporting, and may also increase the potential for financial losses and non-compliance with regulations. As a result, our asset quality, business, financial condition and results of operations may be materially and adversely affected.

Effective implementation of our risk management and internal controls also depends on our employees. Due to the large size of our operations and our extensive branch network across China, we cannot assure you that this implementation will not involve human error or other mistakes, which may significantly undercut the effectiveness and performance of our risk management and internal controls, resulting in a material adverse effect on our business, results of operations and financial position.

**Employee misconduct is difficult to detect and could harm our reputation and business.**

Employee misconduct may include approving a transaction beyond authorized credit limits, hiding key customer information in the due diligence process, engaging in fraudulent or other improper activities, or otherwise not complying with laws or our risk management

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procedures. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and to detect such activities may not be effective in all cases. We cannot assure you that future incidents of employee misconduct will not subject us to serious penalties or limitations on our business activities. We could also suffer from negative publicity, reputational damage, monetary losses or litigation losses as a result of the misconduct of our employees.

**We have limited information regarding the SMEs and microenterprises and individuals to which we provide our financial services, and our ability to perform customer due diligence or detect customer fraud may be compromised as a result.**

Our credit evaluation depends primarily on customer due diligence. There is very limited information available about SMEs and microenterprises. For example, the accounting records or other financial information of our customers might not have been well maintained, their business model and procedures might not have been documented and they may not have effective internal controls as larger corporate entities. We rely on our project managers to conduct due diligence in respect of our customers and to obtain and verify the information necessary to enable us to make credit evaluations. See “Risk Management.” Lack or inadequacy of information may not only result in additional efforts and related costs, but may also undermine the effectiveness of our customer due diligence. We cannot assure you that our customer due diligence will uncover all material information necessary to make a fully informed decision, nor can we assure you that our due diligence efforts will be sufficient to detect fraud committed by our customers. If we fail to perform thorough due diligence or discover customer fraud or intentional deceit, the quality of our credit evaluation may be compromised. A failure to effectively measure and limit the credit risk associated with our guarantee and loan portfolio could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, we may be unable to monitor our customers’ actual use of the financing we guaranteed or provided, or verify if our customers have other undisclosed private money or borrowings. We may not be able to detect our customers’ suspicious or illegal transactions, such as money laundering activities, in our business and we may suffer financial and/or reputational damage as a result.

**A failure or significant delay in integrating our new information technology systems or upgrading our existing information technology systems could adversely affect our business.**

Our IT systems are integral to many aspects of our business operations, including data entry and collection, transaction processing, portfolio monitoring, risk management and customer services. We believe that in order to remain competitive and further strengthen our risk and financial management capabilities, we need to constantly upgrade our existing IT systems as we expand our business and as we introduce new products and services. We are currently deploying a new IT platform that provides firm-wide customer data collection and management as well as portfolio monitoring and reporting. See “Business — Information



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Technology.” However, we cannot assure you that we will be able to successfully integrate our new system with our business on a timely or cost-effective basis, or at all. Failure to do so may cause disruption of our operations and adversely affect our competitiveness and our results of operations. We may also face IT risks arising from the improper performance or malfunction of our IT system.

**Our continued success is dependent on senior management and our ability to attract and retain qualified personnel.**

Our success has been, and in the future will be, dependent on the continued services of our executive directors and senior management, referred to in “Directors, Supervisors, Senior Management and Employees.” There is no assurance, however, that any or all of the senior management will continue their employment with us. If any senior management personnel are unable or unwilling to continue their service, we may not be able to find a suitable replacement easily and in a timely manner. The loss of the services of any senior management personnel and the failure to find a suitable replacement might disrupt our business and could have an adverse impact on our ability to manage or operate the business effectively.

Our performance is also dependent on the talents and efforts of highly-skilled individuals. As a result, our continued ability to effectively compete, manage and expand our business depends on our ability to retain and motivate our existing employees and attract new talented and diverse employees. Given our relatively lean human resources structure, the loss of services of any employee holding an important position or possessing industry expertise or experience, including those relating to matters such as risk management, credit evaluation, sales and marketing, collection, and accounting and financial management, could have a material adverse effect on our results of operations, business and prospects. Competition in the financial services industry for qualified employees has often been intense, and we may also need to offer higher compensation and other benefits to attract new personnel. A failure to attract and retain qualified personnel and any significant increase in staffing costs could have a negative impact on our ability to maintain our competitive position and grow our business.

**The future development and implementation of anti-money laundering laws in China may increase our obligation to supervise and report transactions with our customers, thereby increasing our compliance efforts and costs and exposing us to criminal measures or administrative sanctions for non-compliance.**

We believe, based on advice from our PRC legal advisors, that we are not currently subject to PRC anti-money laundering laws and regulations and are not required to establish specific identification and reporting procedures relating to anti-money laundering. PRC laws and regulations relating to anti-money laundering have evolved significantly in recent years and may continue to develop. In the future, we may be required to supervise and report transactions with our customers for anti-money laundering or other purposes, which may increase our compliance efforts and costs and may expose us to potential criminal measures or administrative sanctions if we fail to establish and implement the required procedures or otherwise fail to comply with the relevant laws and regulations.



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### **Our Controlling Shareholders' interests may not be aligned with our interests or the interests of other Shareholders.**

Our Controlling Shareholders will be able to exercise 32.15% of the voting rights of our Company immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). As such, the Controlling Shareholders have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors, timing and amount of dividends or other distributions, if any, and other significant corporate actions. In the event that the interests of the Controlling Shareholders conflict with those of our other Shareholders, or if the Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of public Shareholders, those other Shareholders may be left in a disadvantageous position.

### **RISKS RELATING TO DOING BUSINESS IN THE PRC**

#### **China's economic, political and social conditions, as well as regulatory policies, significantly affect the financial markets in China, as well as our liquidity, access to capital and ability to operate our business.**

We are incorporated, and our operations and assets are primarily located, in the PRC. Accordingly, our results of operations, financial condition and prospects are subject to the economic, political and legal developments in China. China's economy differs from the economies of developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained or is sustainable. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may negatively affect us. For example, our financial condition and results of operations may be adversely affected by the following factors:

- an economic downturn in China or any regional market in China;
- inaccurate assessment of the economic conditions of the markets in which we operate;
- economic policies and initiatives undertaken by the PRC government;
- changes in the PRC or regional business or regulatory environment affecting the SME and microenterprise sector;
- changes to prevailing market interest rates;

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## RISK FACTORS

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- a higher rate of bankruptcy; and
- the deterioration of the creditworthiness of SMEs and microenterprises in general.

In addition, an unfavorable financial or economic environment in recent years, including as a result of continued global financial uncertainties and the Eurozone sovereign debt crisis, have had and may continue to have an adverse impact on investors' confidence and financial markets in China. Moreover, concerns over capital market volatility, issues of liquidity, inflation, geopolitical issues, the availability and cost of credit and concerns about the rate of unemployment have resulted in adverse market conditions in China, which may materially and adversely affect our business and operations.

We may not in all cases be able to capitalize on the economic reform measures adopted by the PRC government. Changes in the economic, political and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof) or restrictive financial measures, could have an adverse effect on the overall economic growth of the PRC, which could subsequently hinder our current or future business, growth strategies, financial condition and results of operations.

**The PRC government's control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares.**

Currently, Renminbi still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following the completion of the Global Offering, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

**Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in the PRC could limit the legal protections available to the Shareholders.**

PRC laws and regulations govern our operation in the PRC. We and all of our subsidiaries are organized under PRC laws. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedent value and can only be used as a

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reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of the PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the governmental agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. All of these uncertainties may limit the legal protections available to our investors and Shareholders.

**The national and regional economies in the PRC and our prospects may be adversely affected by natural disasters, acts of God and the occurrence of epidemics.**

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including the cities where we operate, such as Chengdu and Chongqing, are under the threat of earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, SARS, H5N1 avian flu, the human swine flu, also known as Influenza A (H1N1) or the recent cases of H7N9. For instance, two serious earthquakes hit Sichuan province in May 2008 and April 2013 and resulted in significant loss of lives and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H5N1 or the H7N9 avian flu, especially in the cities where we have operations, may result in material disruption of our business, which in turn may adversely affect our financial condition and results of operations.

**Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares.**

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China's Individual Income Tax Law (中華人民共和國個人所得稅法). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside reduce, or provide

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## RISK FACTORS

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an exemption for, the relevant tax obligations. Generally, a convenient tax rate of 10% shall apply to the dividends paid by a company listed in Hong Kong to foreign individuals according to the tax treaties between the PRC and Hong Kong. When a tax rate of 10% is not applicable, the withholding company shall: (1) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (2) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%; and (3) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For Non-PRC Resident Enterprises that do not have establishments or premises in China, or have establishments or premises in China but their income is not related to such establishments or premises, under the EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders Which are Overseas Non-resident Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by the State Administration of Taxation, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant Non-PRC Resident Enterprise.

Despite the arrangements mentioned above, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders will be subject to PRC individual income tax at a flat rate of 20%.

In addition, there remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by the PRC's tax authorities, including the taxation of capital gains by Non-PRC Resident Enterprises, individual income tax on dividends to non-PRC resident individual holders of our H Shares and on gains realized on the sale or other disposition of our H Shares. The PRC's tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our H Shares may be materially affected.

### **Payment of dividends is subject to restrictions under PRC law.**

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or HKFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including during periods in which we are profitable. Any distributable profit not distributed in a given year is retained and made available for distribution in subsequent years.

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Moreover, because the calculation of distributable profit under PRC GAAP is different from the calculation under HKFRSs in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under HKFRSs, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries.

Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders, including during periods in which we are profitable.

**Holders of H Shares may experience difficulties in effecting service of legal process and enforcing judgments against us, our Directors, Supervisors or senior management and to take action on the basis of violations of the Listing Rules.**

We are a company incorporated under the laws of the PRC and all of our assets and subsidiaries are located in the PRC. Substantially all of our Directors, Supervisors and senior management reside within the PRC. The assets of these Directors, Supervisors and senior management are also located within the PRC. As a result, it may not be possible to effect service of process upon most of our Directors, Supervisors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. On July 14, 2006, the Supreme People's Court of the PRC and the government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under this arrangement, where any designated People's Court of the PRC or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement remain uncertain.

### **RISKS RELATING TO THE GLOBAL OFFERING**

**There has been no prior public market for our H Shares and their liquidity and market price may be volatile.**

Prior to the Global Offering, there was no public market for our H Shares. The initial offer price range for our H Shares was the result of negotiations among us and the Joint Global Coordinators (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied for the

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## RISK FACTORS

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listing of, and permission to deal in, our H Shares on the Hong Kong Stock Exchange. A listing on the Hong Kong Stock Exchange, however, does not guarantee that an active trading market for our H Shares will develop or, if it does develop, will be sustained following the Global Offering or that the market price of our H Shares will not decline following completion of the Global Offering. In addition, there can be no assurance that the Global Offering will result in the development of an active and liquid public trading market for our H Shares. Furthermore, the price and trading volume of our H Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows may affect the volume and price at which our H Shares will be traded.

**Since there will be a gap of several days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.**

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be four Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

**Because the Offer Price is higher than our net tangible book value per Share, you will incur immediate dilution.**

The Offer Price of our Offer Shares is higher than the net tangible book value per Share issued to existing holders of our Shares. Therefore, all investors and purchasers of our Offer Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value and existing holders of our Shares will receive an increase in net tangible book value per Share of their Shares. If we issue additional equity securities or equity-linked securities in the future, investors and purchasers of Shares may experience further dilution in their ownership percentage.

**Future sales, or market perception of sales, of substantial amounts of our H Shares or other securities relating to our H Shares in the public market could materially and adversely affect the prevailing market price of our H Shares.**

Future sales by our Shareholders of substantial amounts of our H Shares or other securities relating to our H Shares in the public markets after the Global Offering, or the perception that these sales may occur, could adversely affect market prices of our H Shares prevailing from time to time. In addition, Domestic Shares can be converted into H Shares after Listing subject to relevant laws and regulations and approvals. See “Information about this Prospectus and the Global Offering — Restrictions on the Offer and Sale of the Offer Shares and the Use of this Prospectus” for a more detailed discussion of restrictions that may apply to future sales of our H Shares. After these restrictions lapse, the market price of our H Shares



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may decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, the issuance of new H Shares or other securities relating to our H Shares, the conversion of substantial amounts of Domestic Shares into H Shares or the perception that such sales, conversion or issuances may occur. This could also materially and adversely affect our ability to raise capital at a time and at a price we deem appropriate.

**We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.**

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering to further develop our micro and small loan business and credit guarantee business and to offer new products and services. For details of our intended use of proceeds, see “Future Plans and Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

**If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our H Shares, the market price for our H Shares and trading volume may decline.**

The trading market for our H Shares will be influenced by research or reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publish negative opinions about us, the market price for our H Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume of our H Shares to decline.

**We cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this prospectus with respect to the PRC, the PRC economy and the industries in which we operate.**

We have derived certain facts, forecasts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the industries in which we operate, from the industry report prepared by Euromonitor, various publicly available official governmental sources and other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the underwriters or any of our or their respective affiliates or advisors, and, therefore, we cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC. Such facts, forecasts and statistics include the facts, forecasts and statistics used in “Summary,” “Risk Factors,” “Industry Overview,” “Business” and “Financial Information.” Because of possibly flawed or

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ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts, forecasts and statistics.

**You should read the entire prospectus carefully, and we strongly caution investors not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.**

There has been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our H Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus, the Application Forms and any announcement we made.



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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

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### MANAGEMENT PRESENCE

According to Rules 8.12 and 19A.15 of the Listing Rules, the Company must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since our head office and substantially all of our business operations are based, managed and conducted in the PRC, we do not, and for the foreseeable future, will not, have executive Directors who are ordinarily resident in Hong Kong, for the purposes of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules. Currently, all of our executive Directors reside in the PRC.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules. We have made arrangements to maintain effective communication between the Stock Exchange and us as follows:

- (i) both of the Company's authorized representatives, Mr. Zhang Guoxiang, a PRC resident, and Ms. Lai Siu Kuen, a Hong Kong resident, will act as our principal channel of communication with the Stock Exchange. Although Mr. Zhang Guoxiang resides in the PRC, he possesses valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Accordingly, the authorized representatives of the Company will be able to meet with the relevant members of the Stock Exchange on short notice;
- (ii) both of the authorized representatives of the Company have means for contacting all Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact a Director on any matters;
- (iii) each Director has provided his mobile phone number, office phone number, fax number and e-mail address to the authorized representatives of the Company and the Stock Exchange, and in the event that any Director expects to travel or otherwise be out of office, he will provide the phone number of the place of his accommodation to the authorized representatives;
- (iv) each of our Directors who does not ordinarily reside in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time;
- (v) Ms. Lai Siu Kuen, one of the Company's joint company secretaries, who is a Hong Kong resident, will, among other things, act as the principal channel of communication of the Company with the Stock Exchange and be available to meet the Stock Exchange; and

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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

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- (vi) We have retained the services of a compliance adviser in compliance with Rules 3A.19 of the Listing Rules. The compliance adviser will, among other things and in addition to the Company's authorized representatives, act as an additional channel of communication of the Company with the Stock Exchange and be available to answer enquiries from the Stock Exchange. We will ensure that there are adequate and efficient means of communication among the Company, the Company's authorized representatives, Directors, other officers and the compliance adviser.

### APPOINTMENT OF JOINT COMPANY SECRETARIES

#### Rule 8.17

According to Rule 8.17 of the Listing Rules, the issuer must appoint a company secretary who satisfies Rule 3.28.

#### Rule 3.28

According to Rule 3.28 of the Listing Rules, the secretary of the Company must be a person who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a Member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing "relevant experience," the Stock Exchange will consider the individual's:

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Future Ordinance, Companies Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

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## WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

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Our Company has appointed Mr. Cui Weilan as one of the joint company secretaries. Mr. Cui Weilan is experienced in financial industry in the PRC, and has a thorough understanding of the operation of the Board and our Company. Since Mr. Cui Weilan does not possess the acceptable professional or academic qualifications as stipulated in Rule 3.28 of the Listing Rules, our Company has appointed Ms. Lai Siu Kuen, a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom, as one of the joint company secretaries. Over a period of three years from the Listing Date, our Company proposes to implement the following measures to assist Mr. Cui Weilan to become a company secretary with the requisite qualifications or relevant experience as required under the Listing Rules:

Mr. Cui Weilan will endeavor to attend relevant training courses on the Listing Rules and familiarize himself with the Listing Rule during the three-year period from the Listing Date.

Ms. Lai Siu Kuen will assist Mr. Cui Weilan to enable him to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as a company secretary of the Company.

Mr. Cui Weilan will communicate regularly with Ms. Lai Siu Kuen on matters relating to corporate governance, the Listing Rules as well as other laws and regulations which are relevant to us and our affairs. Ms. Lai Siu Kuen will work closely with, and provide assistance for Mr. Cui Weilan in the discharge of his duties as a joint company secretary.

Mr. Cui Weilan has been appointed for an initial period of three years from the Listing Date, provided that he will be assisted by Ms. Lai Siu Kuen. Upon expiry of the three-year period, an evaluation of the qualifications and experience of Mr. Cui Weilan and the need for on-going assistance would be made.

We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver will be revoked immediately if Ms. Lai Siu Kuen ceases to provide assistance and guidance to Mr. Cui Weilan during the three-year period. In the event that Mr. Cui Weilan has obtained relevant experience under Rule 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement will no longer be required by the Company.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus contains particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable inquiries, that, to the best of their knowledge and belief, the information in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

### **CSRC APPROVAL**

The CSRC has given its approval for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange on February 10, 2014. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Company or the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

### **THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as of any subsequent time.

### **UNDERWRITING**

For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters subject to the agreement on the Offer Price between us and the Joint Global Coordinators (on behalf of the Underwriters). The International Offering is expected to be underwritten by the International Underwriters. For further details about the Underwriters and the underwriting arrangements, see "Underwriting."

### **RESTRICTIONS ON THE OFFER AND SALE OF THE OFFER SHARES AND THE USE OF THIS PROSPECTUS**

Each person acquiring the Hong Kong Offer Shares will be required to confirm, or by his application for Hong Kong Offer Shares will be deemed to confirm, that he is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Hong Kong Offer Shares in circumstances that contravene any such restrictions.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus and/or the related Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and/or the related Application Forms and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Applications Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” and the relevant Application Forms.

### **CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING**

#### **Application for Listing on the Hong Kong Stock Exchange**

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, including (i) the Offer Shares and (ii) any H Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on June 19, 2014.

Save as disclosed in this prospectus, no part of our share capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

#### **H Share Register and Stamp Duty**

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on the H Share register to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Dealings in the H Shares registered on the H Share register will be subject to Hong Kong stamp duty. See “Appendix III — Taxation and Foreign Exchange.”

### **Professional Tax Advice Recommended**

Applicants for the Hong Kong Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing, purchasing, holding and dealing in H Shares or any rights attaching to them. It is emphasized that none of us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and none of their respective directors, officers, employees, advisors, agents or representatives, nor any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of H Shares resulting from the subscription, purchase, holding or dealing in H Shares or exercising any rights attached to them.

### **Registration of Subscription, Purchase and Transfer of H Shares**

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our shareholders, and we agree with each shareholder, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;
- (ii) agrees with us, each of our shareholders, Directors, Supervisors, managers and senior officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and senior officers, agree with each of our shareholders to refer all disputes and claims concerning the Company’s business on the basis of the rights or obligations provided for in the Articles of Association or in the Company Law or other relevant laws and administrative regulations to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive. See “Appendix V — Summary of the Articles of Association;”
- (iii) agrees with us and each of our shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorizes us to enter into a contract on his or her behalf with each of our Directors and senior officers whereby such Directors and senior officers undertake to observe and comply with their obligations to our shareholders as stipulated in the Articles of Association.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **OVER-ALLOTMENT OPTION AND STABILIZATION**

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in “Structure of the Global Offering — The International Offering — Over-allotment Option” and “Underwriting — Stabilization,” respectively.

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedure for applying for Hong Kong Offer Shares is set forth in “How to Apply for the Hong Kong Offer Shares” and in the Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set forth in “Structure of the Global Offering.”

### **EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into U.S. dollars and of Hong Kong dollars into U.S. dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any Hong Kong dollar or U.S. dollar amounts or the Hong Kong dollar amounts could actually be converted into any U.S. dollar amounts (as the case may be) at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars have been made at the rate of HK\$1.0000 to RMB0.7955, the PBOC rate prevailing on May 23, 2014, RMB6.2363 to U.S.\$1.0000 and HK\$7.7532 to U.S.\$1.0000, the exchange rates set forth in the H.10 weekly statistical release of the Federal Reserve Board of the United States on May 23, 2014. Further information on exchange rates is set forth in “Appendix III — Taxation and Foreign Exchange” to this prospectus.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of the PRC nationals, entities (including certain of our subsidiaries), departments, facilities, certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name shall prevail.

### **ROUNDING**

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth or hundredth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Zhang Guoxiang (張國祥)	1-7-2, 23 Liuzhou Street Heping District Shenyang Liaoning Province PRC	Chinese
Lin Feng (林鋒)	1-1 Unit 1, 34 Songqiao Road Yubei District Chongqing PRC	Chinese
<i>Non-executive Directors</i>		
Tu Jianhua (涂建華)	Auxiliary No. 5 2 Shipingqiao Cross Street Jiulongpo District Chongqing PRC	Chinese
Duan Xiaohua (段曉華)	500 Songqiao Road Yubei District Chongqing PRC	Chinese
Liu Jiaoyang (劉驕楊)	6-1, Unit 1, Building 17 Longhuayuan Neighbourhood No. 4 Longhua Avenue Jiulongpo District Chongqing PRC	Chinese
Liu Tingrong (劉廷榮)	4-1, 3 East Gecheng County Road Chengkou County Chongqing PRC	Chinese



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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Wang Fangfei (王芳霏)	127 Xilu Village Gushan Township Yongkang Zhejiang Province PRC	Chinese
Feng Yongxiang (馮永祥)	11-4, 20 Yangjiaping Main Street Jiulongpo District Chongqing PRC	Chinese
Zhou Xinyu (周新宇)	10 Baiyun Road Xicheng District Beijing PRC	Chinese
Liu Bolin (劉博霖)	2836 Nanyou Road Nanshan District Shenzhen Guangdong Province PRC	Chinese
<i>Independent non-executive Directors</i>		
Bai Qinxian (白欽先)	2-4-2, 20-2 Chongshan Middle Road Huanggu District Shenyang Liaoning Province PRC	Chinese
Deng Zhaoyu (鄧昭雨)	203, Building No. 5 Kangleli Sub-district Xuanwu District Beijing PRC	Chinese
Qian Shizheng (錢世政)	Room 402, No. 16, 505 Long Unit Guoding Road Yangpu District Shanghai PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Ng Leung Sing (吳亮星)	Flat D, 28/F, Block 1 The Grand Panorama 10 Robinson Road Hong Kong	Chinese
Yuan Xiaobin (袁小彬)	1-1, Building No. 19 Auxiliary No. 8 556 Hongjin Avenue Yubei District Chongqing PRC	Chinese
<i>Supervisors</i>		
Li Ruping (李如平)	5-4, Auxiliary No. 17 49 Keyuan Road Jiulongpo District Chongqing PRC	Chinese
Zhou Daoxue (周道學)	2-1, Unit 2, Block 4 5 Nanzhu Road Dazhulin Township Yubei District Chongqing PRC	Chinese
Chen Zhonghua (陳中華)	12-4, Unit 3, Block 1 98 Xiejiawan Main Street Jiulongpo District Chongqing PRC	Chinese

For further information, see “Directors, Supervisors, Senior Management and Employees.”

**PARTIES INVOLVED**

**Joint Sponsors**

China International Capital Corporation Hong Kong  
Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

China Galaxy International Securities (Hong Kong) Co.,  
Limited  
Unit 3501-3507, 35/F  
COSCO Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

**Joint Global Coordinators**

China International Capital Corporation Hong Kong  
Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

China Galaxy International Securities (Hong Kong) Co.,  
Limited  
Unit 3501-3507, 35/F  
COSCO Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

Credit Suisse (Hong Kong) Limited  
Level 88, International Commerce Centre  
One Austin Road West, Kowloon  
Hong Kong

GF Securities (Hong Kong) Brokerage Limited  
29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Joint Bookrunners**

China International Capital Corporation Hong Kong  
Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

China Galaxy International Securities (Hong Kong) Co.,  
Limited  
Unit 3501-3507, 35/F  
COSCO Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

Credit Suisse (Hong Kong) Limited  
Level 88, International Commerce Centre  
One Austin Road West, Kowloon  
Hong Kong

GF Securities (Hong Kong) Brokerage Limited  
29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

CIMB Securities Limited  
Units 7706-08  
Level 77 International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

CCB International Capital Limited  
12/F., CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

Haitong International Securities Company Limited  
22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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ICBC International Capital Limited  
37/F, ICBC Tower  
3 Garden Road  
Hong Kong

BOCOM International Securities Limited  
9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

DBS Asia Capital Limited  
17th Floor, The Center  
99 Queen's Road Central  
Hong Kong

**Joint Lead Managers**

China International Capital Corporation Hong Kong  
Securities Limited  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

China Galaxy International Securities (Hong Kong) Co.,  
Limited  
Unit 3501-3507, 35/F  
COSCO Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

Credit Suisse (Hong Kong) Limited  
Level 88, International Commerce Centre  
One Austin Road West, Kowloon  
Hong Kong

GF Securities (Hong Kong) Brokerage Limited  
29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

---

CIMB Securities Limited  
Units 7706-08  
Level 77 International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

CCB International Capital Limited  
12/F., CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

Haitong International Securities Company Limited  
22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

ICBC International Securities Limited  
37/F, ICBC Tower  
3 Garden Road  
Hong Kong

BOCOM International Securities Limited  
9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

DBS Asia Capital Limited  
17th Floor, The Center  
99 Queen's Road Central  
Hong Kong

**Auditors and Reporting  
Accountants**

KPMG  
Certified Public Accountants  
8/F, Prince's Building  
10 Chater Road  
Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Legal Advisors to the  
Company**

*as to Hong Kong and United States law*

Clifford Chance  
28/F, Jardine House  
One Connaught Place  
Central  
Hong Kong

*as to PRC law*

DeHeng Law Offices  
12/F, Tower B, Focus Place  
No. 19 Finance Street  
Xicheng District  
Beijing  
PRC

**Legal Advisors to the  
Underwriters**

*as to Hong Kong and United States law*

Jones Day  
31/F, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*as to PRC law*

Fangda Partners  
21/F, China World Tower  
1 Jian Guo Men Wai Avenue  
Chaoyang District  
Beijing  
PRC

**Receiving Banks**

Bank of China (Hong Kong) Limited  
1 Garden Road  
Hong Kong

Wing Lung Bank Limited  
16/F, Wing Lung Bank Building  
45 Des Voeux Road Central  
Central  
Hong Kong

Bank of Communications Co., Ltd. Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered Office</b>	24-4, 6 Jianbei 1st Branch Road Jiangbei District Chongqing PRC
<b>Head Offices in the PRC</b>	1/F, A Building, No. 2 Fortune Tower No. 15 Caifu Avenue Chongqing PRC  and  13/F, East Tower, World Financial Center No. 1 East Third Ring Middle Road Chaoyang District Beijing PRC
<b>Principal Place of Business in Hong Kong</b>	8th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
<b>Company's Website</b>	<b><u><a href="http://www.hanhua.com">www.hanhua.com</a></u></b> <i>(This website and the information contained on this website do not form part of this prospectus)</i>
<b>Joint Company Secretary</b>	Mr. Cui Weilan 8th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong  Ms. Lai Siu Kuen (FCIS, FCS) 8th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong



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## CORPORATE INFORMATION

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<b>Authorized Representative</b>	Mr. Zhang Guoxiang (Executive Director) 1-7-2, 23 Liuzhou Street Heping District Shenyang Liaoning Province PRC  Ms. Lai Siu Kuen (Joint Company Secretary) 8th Floor, Gloucester Tower The Landmark, 15 Queen's Road Central Hong Kong
<b>Audit Committee</b>	Mr. Qian Shizheng (Independent Non-executive Director) (Head) Ms. Liu Jiaoyang (Non-executive Director) Mr. Yuan Xiaobin (Independent Non-executive Director)
<b>Nomination, Remuneration and Assessment Committee</b>	Mr. Deng Chaoyu (Independent Non-executive Director) (Head) Mr. Zhang Guoxiang (Chairman and Executive Director) Mr. Bai Qinxian (Independent Non-executive Director)
<b>Development Strategy and Investment Management Committee</b>	Mr. Zhang Guoxiang (Chairman and Executive Director) (Head) Mr. Tu Jianhua (Non-executive Director) Mr. Zhou Xinyu (Non-executive Director)
<b>Compliance Advisor</b>	China Galaxy International Securities (Hong Kong) Co., Limited Unit 3501-3507, 35/F COSCO Tower, Grand Millennium Plaza 183 Queen's Road Central Sheung Wan Hong Kong
<b>H Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

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## CORPORATE INFORMATION

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### Principal Bankers

China Construction Bank Corporation (Headquarters)  
No. 25 Financial Street  
Xicheng District  
Beijing  
PRC

China Development Bank Corporation (Headquarters)  
No. 29 Fuchengmenwai Street  
Xicheng District  
Beijing  
PRC

China Merchants Bank Co., Ltd. (Headquarters)  
No. 7088 Shennan Boulevard  
Futian District  
Shenzhen  
Guangdong Province  
PRC

China Everbright Bank Co., Ltd. (Headquarters)  
No. 25 Taipingqiao Ave  
Xicheng District  
Beijing  
PRC

China CITIC Bank Co., Ltd. (Headquarters)  
Fuhua Plaza, Building C  
No. 8 Chaoyangmen North Street  
Dongcheng District  
Beijing  
PRC

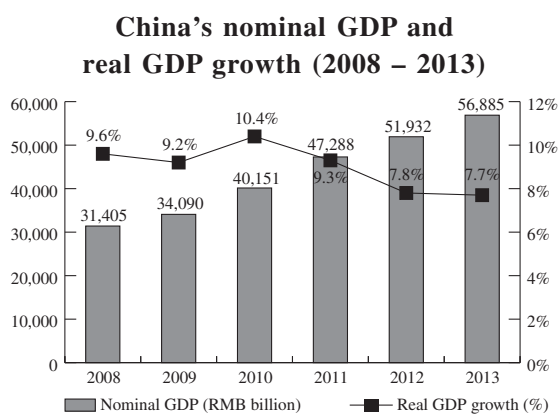
## INDUSTRY OVERVIEW

*The information in this section has been derived from an independent report prepared by Euromonitor. The Euromonitor report is based on information from its database, publicly available sources, industry reports, data obtained from interviews and other sources. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of their respective directors, officers, affiliates, advisors or representatives, or any other party involved in the Global Offering, and no representation is given as to its accuracy. We, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of their respective directors, officers, affiliates, advisors or representatives, and any other party involved in the Global Offering make no representation as to the completeness, accuracy or fairness of such information and accordingly such information should not be unduly relied upon.*

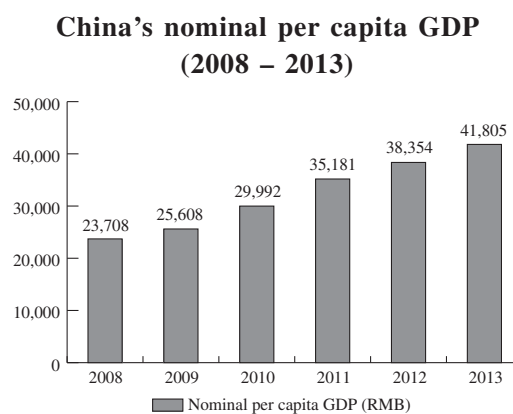
### MACRO ENVIRONMENT IN CHINA

According to the National Bureau of Statistics, from 2008 to 2013, China's nominal GDP increased from RMB31,404.5 billion to RMB56,884.5 billion, with a CAGR of 12.6%. Beginning in 2010, China surpassed Japan to become the world's second-largest economy behind the United States. China's real GDP growth, though experiencing a slowdown due to being affected by the Eurozone debt crisis since 2011, still maintained a level that was notably higher than that of most major developing and developed countries, making China one of the fastest-growing major economies in the world.

During this period, the PRC central government also set its policy direction towards transforming China's growth strategy by promoting urbanization and increasing personal income (particularly for mid- and low-income groups) to drive domestic consumption, as evidenced by the directives set forth in the 12th Five-Year Plan for China's National Economic and Social Development. As a result, China's nominal per capita GDP rose from RMB23,708 in 2008 to RMB41,805 in 2013, representing a CAGR of 12.0%.



Source: National Bureau of Statistics



Source: National Bureau of Statistics

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## INDUSTRY OVERVIEW

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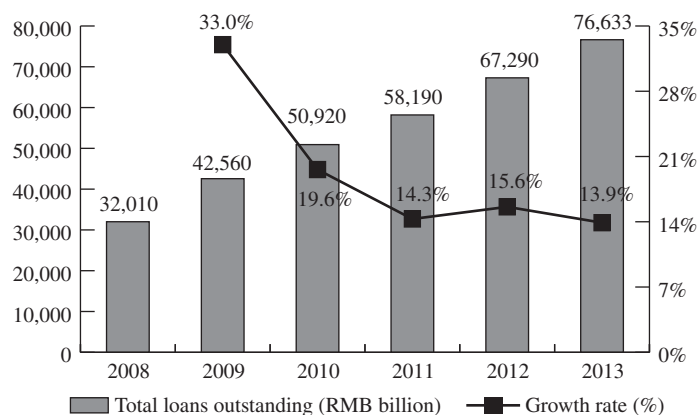
### CHINA'S FINANCING AND BANKING ENVIRONMENT

China's financial services industry, particularly the banking industry, has experienced robust growth in the last decade along with its overall economic growth. Total added value (the balance of total output of enterprises from operation deducted by the material products and labor value transferred/consumed during operation) of China's financial services industry increased from RMB435.3 billion in 2001 to RMB2,495.8 billion in 2011, representing a CAGR of 19.1%, which was higher than China's real GDP growth in the same period.

Since the start of its economic reform in 1978, China has established multi-dimensional banking institutions that include the "big-five" state-owned banks, large commercial banks, city/rural commercial banks and credit cooperatives. While the banking industry forms the backbone of China's financial services industry, non-banking financial institutions (including pawnshops, guarantee companies and micro and small loan companies) in China have also achieved rapid growth and are able to offer flexible, expedient and diversified financial services to SMEs that are able to meet their financing needs.

According to the PBOC, the balance of the total outstanding loans for all PRC financial institutions increased from RMB32.0 trillion as of December 31, 2008 to RMB76.6 trillion as of December 31, 2013, representing a CAGR of 19.1%. Despite the general tightening of monetary policy since 2011, year-on-year growth in outstanding loans for all PRC financial institutions as of the end of 2011, 2012 and 2013 was still at 14.3%, 15.6% and 13.9%, respectively.

**Balance of total outstanding loans and year-on-year growth rates**



*Source: the PBOC*

According to the major index of commercial banks as published by the CBRC on its official website, the non-performing loans of the commercial banks in China experienced an increasing trend, recording RMB526.5 billion, RMB539.5 billion and RMB563.6 billion, RMB592.1 billion, respectively, for the four quarters in 2013. According to the monthly financial statistics reports published by the PBOC on its official website, the weighted average monthly inter-bank rates in the PRC was 6.58% in June 2013, a 3.66% increase from that of 2.92% in May 2013. Though such rate decreased to 3.54% in July 2013, it raised concerns

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## INDUSTRY OVERVIEW

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about the PRC banking industry in general. For the relevant risks in relation to such market concerns, see “Risk Factors — Risks Relating to Our Business and Industry — Our business model could be negatively affected by changes and fluctuations in the banking industry.”

In the Decision on Major Issues Concerning Comprehensively Deepening Reforms (中共中央關於全面深化改革若干重大問題的決定) as adopted at the close of the Third Plenary Session of the 18th CPC Central Committee (中國共產黨第十八屆中央委員會第三次全體會議), it is provided that the financial industry will be further opened up; qualified private capital will be allowed to establish medium and small financial institutions, including banks, under enhanced supervision; and financial innovation will be encouraged, with a more diverse financial market layers and products.

### CHINA’S SME SEGMENT

According to Euromonitor, since the beginning of China’s economic “reform and the opening-up policies” in 1978, SMEs have become China’s most vibrant and one of the fastest-growing economic segments. Since 2010, SMEs contributed over 60% of China’s GDP and over 50% of the government’s tax income in China, and created approximately 80% of total employment in the urban areas. SMEs have become an indispensable force in promoting economic and employment growth, driving technological and enterprise system innovation and contributing to China’s economic transformation.

According to SAIC, there were more than 50 million SMEs and microenterprises in China as of December 31, 2011. SMEs play an important part in the national economy. From June 2007 to June 2012, the SMEs with a registered capital of less than RMB10 million recorded the fastest growth, contributing 89.1% of growth out of the total number of enterprises.

According to the National Bureau of Statistics, the number of SMEs under the “industrial enterprises above the designated size” category in China increased from 422,925 in 2008 to 449,130 in 2010, with a CAGR of 2%, while their total revenue, as a percentage of the total revenue for all the “industrial enterprises above the designated size,” remained above 60% from 2008 to 2010, indicating the overall health of SMEs across all sectors. (“Industrial enterprises above the designated size” is officially defined by PRC state authorities as industrial companies having revenue of RMB5 million or above prior to 2011, and RMB20 million or above since 2011.)

Notwithstanding its importance to China’s economic growth, the financing needs of SMEs have been largely underserved by traditional financial institutions, and there exists a significant need for financial services companies targeting small and microenterprises in China. PBOC uses different monetary measures, such as limiting the total loan amount and increasing the minimum amount of reserves of commercial banks, to conduct market intervention for macroeconomic purposes. As a result, China’s commercial banks at times are restrained from conducting their lending business solely on the basis of operational and commercial considerations. Meanwhile, SMEs have become the most vibrant force in China’s market economy, greatly contributing to China’s economic growth and employment. The continuous, healthy development of the SME segment is vital to China’s continued social and economic development.

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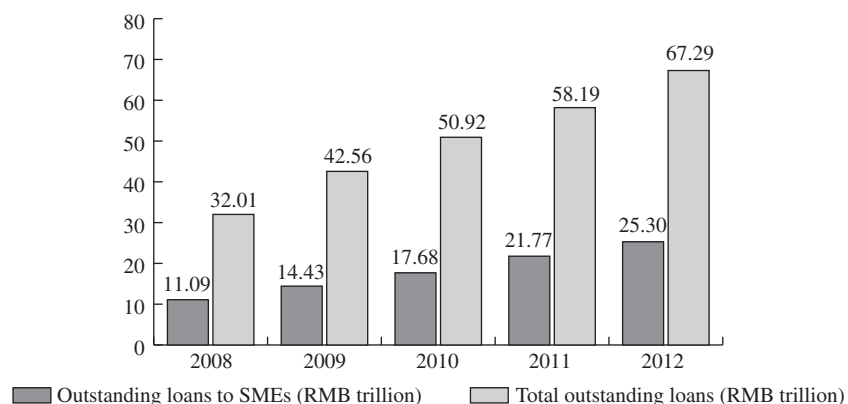
## INDUSTRY OVERVIEW

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For the purpose of establishing market dominance through better resource allocation, most commercial banks principally target large, state-owned companies and focus their financial services on key clients, industries, regions and products. Though in recent years traditional banks are attaching greater importance to serving SMEs and microenterprises under government guidance, they are still reluctant to lend to SMEs and microenterprises because: (i) the major bank loans, being asset-based loans and credit loans, often require borrowers to provide asset collateral and a full set of credit records, respectively, both of which SMEs and microenterprises generally lack; and (ii) the management and operations of SMEs and microenterprises are difficult for banks to evaluate as they are typically less structured or formalized compared to large, state-owned companies. Even for some commercial banks targeting SMEs, they are still largely focused on serving large, state-owned companies, similar to other major banks. As a result, there remains a significant need for financial services to SMEs and microenterprises in China.

According to the PBOC, while the balance of the total outstanding loans to SMEs from PRC financial institutions increased from RMB11.1 trillion in 2008 to RMB25.3 trillion in 2012, with a CAGR of 22.9%, they represented only 34.6% and 37.6% of the balance of the total outstanding loans of PRC financial institutions in 2008 and 2012, respectively.

### Balance of the outstanding loans from all financial institutions in China



Source: PBOC

In recent years, the PRC government has encouraged commercial banks in China to provide loans to SMEs and microenterprises. As stipulated in the CBRC Guidance Opinion Regarding Furthering Financial Services for Small and Micro Enterprises (中國銀監會關於進一步做好小微企業金融服務工作之指導意見), the CBRC has required all banking and financial institutions to ensure that (i) the loan growth with respect to micro and small enterprises will not be less than the average growth for other loans; and (ii) amount of new SME loans for a specific period shall not be less than that for the same period last year.

### FINANCING GUARANTEE INDUSTRY IN CHINA

The history of China's financing guarantee industry began in 1993, when the State Council approved the establishment of China National Investment and Guaranty Co., Ltd. (中國投資擔保有限公司). Although the financing guarantee industry grew slowly before 2000

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## INDUSTRY OVERVIEW

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with a limited number of guarantee companies (most of which were owned by the government), it has since evolved into an established, regulated, well-recognized and fast-growing segment of China's financial services industry, dominated by private sector entities.

### Policy Environment

The PRC government recognizes the mismatch between the banking industry's lack of focus on the SME segment and the significant financing demand of SMEs. Therefore, in recent years, the PRC government has published a series of policies and guidance to promote active participation of the financing guarantee industry to bridge the gap between commercial banks and the SME segment. For example:

- the CBRC has urged local governments to implement preferential policies and expand tax exemptions or reduction policies toward credit guarantee companies;
- regional credit guarantee associations are under government guidance to actively promote cooperation between private guarantee companies and commercial banks;
- in March 2010, as approved by the State Council, seven central government departments, including the CBRC and the NDRC, jointly issued the Temporary Regulations on Administration of Financing Guarantee Companies (融資性擔保公司管理暫行辦法), which officially established a more formalized regulatory framework for China's financing guarantee industry;
- in May 2012, the Ministry of Finance and the Ministry of Industry and Information Technology jointly issued a revised version of the Regulations on Administration of SME Credit Guarantee Funds, proposing to offer subsidies to financing guarantee companies of 1%, 2% and 3% of their annual average balance of the guarantees extended to medium-sized enterprises, small enterprises and microenterprises, respectively, subject to other restrictions and approvals;
- the PRC central government has initiated the construction of a credit system for the financing guarantee industry, and has required local authorities to set up re-guarantee centers (which are not profitable or competitive with financing guarantee institutions) to utilize a re-guarantee system that will take a bigger role in sharing the risks encountered by private financing guarantee companies. According to the report prepared by Euromonitor, as of December 31, 2012, 15 provincial regions have established provincial-level credit re-guarantee centers covering 18 provinces; and
- in March 2013, the Ministry of Industry and Information Technology further issued the Implementation Program for Special Action to Support Small and Microenterprises, where it agreed to support over 500 guarantee and re-guarantee companies to provide guarantee services for small and microenterprises.

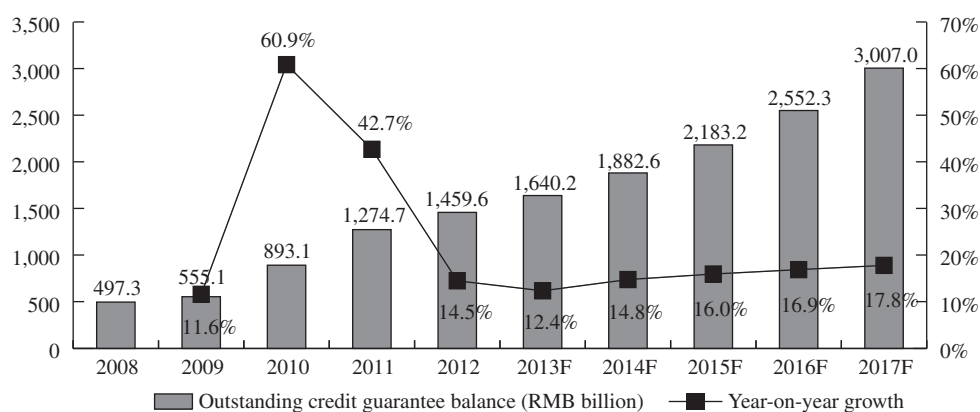
## INDUSTRY OVERVIEW

After a phase of rapid growth, China's financing guarantee industry began to show trends of polarization under pressure from the business contraction affecting the SME segment in 2011, which resulted in the defaults of several leading guarantee companies in late 2011. An industry-wide overhaul, led by the government, was carried out in many provinces and cities locally, imposing higher standards in capital requirement and financial conditions for market entry and eliminating illegally-operated and unqualified guarantee companies. Moreover, since late 2012, the CBRC has begun revising the 2010 Temporary Regulations on Administration of Financing Guarantee Companies, issuing new provisions that address the sustainability of financing guarantee companies, profit model and further refining the rules and regulations governing the industry to improve the regulatory requirements for the development of the industry.

### Market Trends and Growth Drivers

According to the CBRC, the total balance of outstanding financing guarantees in China increased from RMB497.3 billion to RMB1,459.6 billion from 2008 to 2012, representing a CAGR of 30.9%. Although the growth has significantly slowed down in 2012 following the economic slowdown and tightening of market regulations, it still reported a year-on-year growth rate of 14.5%. Given that the financing guarantee industry is noticeably better regulated after the government-led overhaul in 2012, which was driven by continuous substantial demand from the SME segment for non-bank financing services and government policy support, Euromonitor is of the view that the total balance of the outstanding financing guarantees in China will continue to grow from RMB1,459.6 billion in 2012 to RMB3,007.0 billion by 2017, with a CAGR of 16.4%.

**Balance of the outstanding credit guarantee (2008 – 2017F)**



Source: CRBC, Euromonitor



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## INDUSTRY OVERVIEW

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The financing guarantee industry has also played an active role in meeting the financing needs of SMEs and microenterprises. According to the CBRC, the balance of the outstanding loans to SMEs backed by financing guarantees accounted for over 70% of the total balance of the outstanding loans backed by financing guarantees, and this proportion increased from 73.1% in 2008 to 78.4% in 2012.

In summary, Euromonitor considers that China's financing guarantee industry will continue to be driven by the following key growth factors:

- the vital role of SMEs and microenterprises for China's social and economic development and the government's support for their continuous growth;
- the continued reliance on non-bank financial institutions to bridge the gap between the banking system's lack of focus on the SME segment and the significant financing demand of SMEs;
- the continued policy support from government towards a healthy development and functioning of China's financing guarantee industry; and
- an increasingly structured and formalized regulatory environment to eliminate illegal and unqualified players in the financing guarantee market.

### Competitive Landscape

#### *Financing guarantee industry*

There is a large number of financing guarantee companies in China. According to the CBRC, at the end of 2011, China had a total of 8,402 financing guarantee companies, an increase of 39.2% from the previous year. At the end of 2012, the number of financing guarantee companies increased by 2.2% from that in 2011 to 8,590, of which 22.2% were state-owned and 77.8% were private or foreign-owned. Private and foreign-owned companies far outnumbered state-owned companies, reflecting increasing private capital inflow into this business sector.

As the balance of a financing guarantee company's outstanding financing guarantees cannot exceed ten times its net assets and paid-in capital is a key component of that, in practice the amount of a financing guarantee company's paid-in capital determines the amount of financing it can guarantee and, consequently, its revenues. As such, a company's paid-in capital is one of the most important factors in measuring its strength.

According to the report prepared by Euromonitor, at the end of 2012, the entire financing guarantee industry recorded a paid-in capital of RMB828.2 billion. Among all industry participants, 54 enterprises had a paid-in capital of over RMB1 billion, 4,150 enterprises had a paid-in capital of RMB100 million to RMB1 billion and the remaining 3,673 enterprises had a paid-in capital of RMB20 million to RMB100 million.

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## INDUSTRY OVERVIEW

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The financial guarantee industry in China is relatively highly fragmented. With the tightening of the regulatory requirements, and the recent downturn of financing extended to guarantee companies from commercial banks resulting from the collapse of certain major guarantee companies, Euromonitor considers that, going forward, the few large guarantee companies that continue to enjoy the support of commercial banks will continue to expand their businesses, and the resources and advantages are likely to become concentrated in a smaller number of large and medium-sized guarantee companies.

The following table sets forth the ranking of the five largest credit guarantee companies in China by registered capital as of March 31, 2014:

Ranking	Company	Type	Registered capital as of March 31, 2014 (RMB billion)
1 . . . . .	Anhui Guarantee Group Co., Ltd	State-owned	7.0
2 . . . . .	China United SME Guarantee Corporation	Joint venture	5.1
3 . . . . .	Hebei Financing Investment Holding Group Co., Ltd	State-owned	4.5
4 . . . . .	China National Investment & Guaranty Co Ltd	Joint venture	4.5
5 . . . . .	<b>Hanhua Financial Holding Co Ltd.</b>	<b>Wholly domestic- owned and private</b>	<b>4.1</b>

*Source: Euromonitor*

A financing guarantee company's geographic presence is another important factor in measuring its strength. According to Euromonitor, most financing guarantee companies operate in one or two provinces where their headquarters are based, due to the fact that: (i) the procedures for setting up a branch office in different provincial regions are complex, requiring the approval from regulatory authorities located in the province of the headquarters and the province of the planned branch office; (ii) inter-regional or nationwide operations place higher requirements on a company's management team, as regulations require a nationwide company to have at least two independent directors, a chief compliance officer and a chief risk officer; and (iii) regulatory authorities in certain regions have more stringent registered capital requirements for companies with multi-regional operations. Therefore, a financing guarantee company with nationwide operations usually has greater capital strength and a larger distribution network capable of serving a much larger customer group.

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## INDUSTRY OVERVIEW

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In terms of presence and locations of operation, according to Euromonitor, Hanhua Financial Holding Co., Ltd. ranks first in the industry with a presence in 21 provinces as of March 31, 2014. The following table sets out the ranking of the top five guarantee companies in China by geographical coverage as of March 31, 2014:

<b>Ranking</b>	<b>Company</b>	<b>Type</b>	<b>Geographical presence as of March 31, 2014</b>
1 . . . . .	<b>Hanhua Financial Holding Co., Ltd.</b>	<b>Wholly domestic-owned and private</b>	<b>21<sup>(1)</sup></b>
2 . . . . .	High Technology Investment Group Limited	Private	16
3 . . . . .	Fullerton Guarantee Limited	Foreign	10
4 . . . . .	Credit Orienwise Group Ltd.	Private	9
5 . . . . .	Chongqing Sanxia Guarantee Group	State-owned	6

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*Source: Euromonitor*

- (1) As of March 31, 2014, Hanhua Financial Holding Co., Ltd. held licenses in 19 provinces and had branch establishments in two other provinces pending license approval. For the remaining four companies listed in the above table, the number shown in the column related to geographical presence represents only the number of provinces with branch presence, without regard to licensing status.

### THE SMALL LOAN INDUSTRY IN CHINA

The Development of the micro and small loan industry in China can be divided into three phases:

- 1994-1999: the pilot scheme for rural credit loan businesses started in 1994, principally as a tool to lessen poverty rates;
- 1999-2005: PRC government became more actively involved in developing the micro and small loan business; and
- 2005 to present: micro and small loan businesses have become more commercialized; starting from May 2008, pursuant to the Guiding Opinions on the Pilot Operation of Small Loan Companies promulgated by the PBOC and the CBRC, micro and small loan companies were granted legal status and became a platform for private capital and financial institutions servicing SMEs and microenterprises.

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## INDUSTRY OVERVIEW

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### Major Participants in China's Small Loan Market

In China, institutions that offer micro and small loans mainly include non-governmental organizations, city/rural banks and small loan companies. These three types of institution are governed by different regulatory agencies, laws and regulations, and vary in flexibility with regard to their operations:

- **Non-governmental organizations** – which can only take donations and cannot finance (through share capital or debt) or take deposits. Their scope of operation is strictly limited to the geographical area where they are licensed.
- **City/rural banks** – which are similar to other commercial banks and can take deposits and provide all-round financial services. City/rural banks can make equity and debt financing under the supervision of the CBRC. As financial institutions, the Ministry of Commerce and the NDRC governs them, and they are required to have at least three years' operating experience, be profitable in the most recent two consecutive years, and extend at least 60% of their total loans to the agriculture sector.
- **Small loan companies** – which, as defined by the CBRC, can be either a limited liability company or a company limited by shares. In general, a small loan company is not allowed to receive deposits and its bank loans may not exceed 50% of its paid-in capital. A small loan company normally offers unsecured, uncollateralized loans to SMEs and personal customers, with a loan amount to a single client generally not exceeding 5% of its paid-in capital (adjustable according to local regulations).

### Policy Environment

Various banking laws and regulations in China are generally not applicable to micro and small loan companies. The CBRC and the PBOC have published guidance rules on micro and small loan companies, which were further expanded and codified into local rules and regulations by the competent local authorities. In general, a micro and small loan company is regulated locally at the provincial or the municipal level.

Local governments have launched a series of supporting policies to encourage SME lending, such as the Implementation Opinions on Financial Support to Small and Micro Enterprises Development (關於金融支持小微企業發展的實施意見) and Guidance Opinions on Financial Support to Economic Structure Adjustment and Reform and Upgrade (關於金融支持經濟結構調整和轉型升級的指導意見), both of which were promulgated by the State Council, while local regulatory agencies hope small loan companies can play a bigger role in helping SMEs with financing problems and strengthening business innovation to achieve better performance.

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## INDUSTRY OVERVIEW

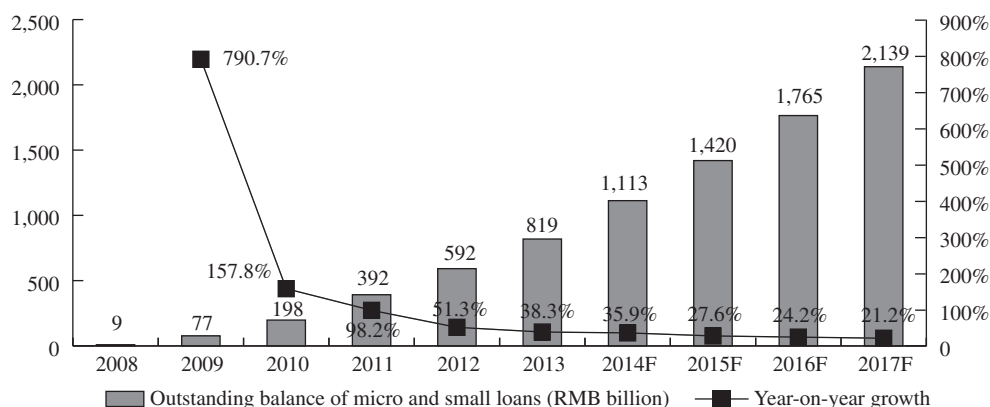
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### Market Trends

According to the PBOC, China's small loan industry grew at a substantial annual growth rate during the period of 2009–2013, representing a CAGR of 80.8%. In 2013 the small loan industry extended an aggregate of RMB227 billion of additional loans compared to 2012, with a balance of outstanding loans of RMB819 billion as of the end of 2013. Despite its rapid growth, the small loan industry's total balance of outstanding loans is still insignificant as a percentage of China's total outstanding loans. As of the end of 2013, the balance of outstanding loans made by small loan companies accounted for only 1.06% of the total balance of the outstanding loans. The small loan industry recorded substantial growth in new loans and outstanding loans in 2013.

According to Euromonitor, China's small loan industry is expected to continue to grow after already recording substantial growth. Euromonitor projects that the growth rate of the small loan industry will remain over 20% as SMEs and microenterprises in China continue to face the widespread difficulty of financing through the banking sector. Euromonitor forecasts that the balance of outstanding loans of the small loan industry will grow at a CAGR of 26.5%, and is likely to reach RMB2,138.8 billion by 2017, nearly four times the amount recorded at the end of 2012.

**Balance of outstanding micro and small loans**



Source: PBOC, Euromonitor

### Competitive Landscape

From a macro perspective, small loan companies are in competition with commercial banks, with a major disadvantage of being prohibited from receiving deposits from the general public as a source of funding. Typically, small loan companies have to resort to either shareholders' equity or bank borrowings not exceeding 50% of their paid-in capital, although certain local governments have relaxed the ceiling to 100%.

In order to properly service the financing needs of the SMEs and microenterprises, commercial banks would have to increase their branch network and employ additional personnel to cater to the local SMEs and microenterprises, which would mean more frequent loan applications, leading to an increase in overall costs.

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## INDUSTRY OVERVIEW

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Micro and small loan companies are generally monitored and regulated by the relevant local governmental authorities. Since there is no nationwide supervising authority for micro and small loan companies, they are generally restricted from operating across regions. For a small loan company to expand its business to other regions, it must register a new company in its target regional market, which is a more complicated and more time-consuming process than setting up a branch office. Therefore, most micro and small loan companies in China are still operating within one city, and the small loan business is highly regional. Yet it is this local level characteristic that makes it easier for small loan companies to service local SMEs and microenterprises as compared to commercial banks. Moreover, small loan companies typically offer micro and small loans in a more convenient, efficient and personal manner, and are subject to more simplified evaluation, approval and procedural formalities as opposed to commercial banks.

The small loan industry is fragmented. According to Euromonitor, at the end of 2013, there were a total of 7,839 small loan companies in China, an increase of approximately 1,759 companies from 6,080 at the end of 2012, with a total paid-in capital of RMB713.3 billion, averaging RMB91.0 million per company.

According to the Guiding Opinions on the Pilot Operation of Small Loan Companies jointly issued by the PBOC and the CBRC, the maximum leverage ratio of a small loan company is 50%, which means that a small loan company is generally allowed to finance up to 50% of its paid-in capital from bank borrowings. As such, the paid-in capital of a small loan company directly determines its lending ability and, therefore, constitutes a key factor in assessing a small loan company's overall strength. The following table sets forth the ranking by registered capital of the five largest small loan companies in China as of March 31, 2014:

Ranking	Company	Type	Registered capital as of March 31, 2014 (RMB billion)
1 . . . . .	United Asia Finance Co Ltd.	Foreign	4.4
2 . . . . .	Bangxin Huirong Investment Holding Co Ltd	State-owned	4.2
3 . . . . .	<b>Hanhua Financial Holding Co., Ltd.</b>	<b>Wholly domestic- owned and private</b>	<b>2.5</b>
4 . . . . .	Alibaba Small-loan Co., Ltd.	Private	1.8
5 . . . . .	Wuhan Jiangnan District Zhonglianxin Small-loan Co., Ltd. <sup>(1)</sup>	State-owned	1.5

Source: Euromonitor

(1) Its promoter is a state-owned company.

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## INDUSTRY OVERVIEW

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As small loan companies are regulated at a local level and cross-region business establishment is a complicated and time-consuming process, the majority of micro and small loan companies operate only in one city; nationwide presence is uncommon in the industry. Only a few participants, including Bangxin Huirong Investment Holding Co Ltd, United Asia Finance Co Ltd. and Hanhua Financial Holding Co., Ltd., have operations in multiple regions, giving them a significant competitive advantage in terms of business scale, diversity of customer base, brand recognition and product launch. The following table sets out the five largest small loan companies by the number of provincial-level cities covered by their branch network as of March 31, 2014:

Ranking	Company	Type	Geographical presence (according to the number of provincial-level cities covered by their branch network) as of March 31, 2014
1 . . . . .	Bangxin Huirong Investment Holding Co Ltd	State-owned	20
2 . . . . .	United Asia Finance Co Ltd.	Foreign	11
<b>3 . . . . .</b>	<b>Hanhua Financial Holding Co., Ltd.</b>	<b>Wholly domestic-owned and private</b>	<b>8<sup>(1)</sup></b>
4 . . . . .	Fullerton Guarantee Co., Ltd.	Foreign	3
5 . . . . .	Alibaba Small-loan Co., Ltd.	Private	2

*Source: Euromonitor*

(1) Only the loan subsidiaries of Hanhua Financial Holding Co., Ltd. are included.

### MACRO ENVIRONMENT IN CHONGQING AND WESTERN CHINA

Chongqing is the largest in size and the most populous among the four directly administered municipalities in the PRC, covering an area of 82,400 square kilometers with a residential population of over 33 million as of December 31, 2013. In 2007, Chongqing was approved by the PRC government as a trial area for China's Coordinated Urban and Rural Development Comprehensive Reform (全國統籌城鄉綜合配套改革試驗區) and designated as one of the five national central cities (國家中心城市), together with Beijing, Shanghai, Tianjin and Guangzhou.

Due to the Western Development Strategy (西部大開發戰略) implemented by the PRC government, which aims to develop the western areas of China, including six provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan), five autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang) and one municipality (Chongqing), and the rising production costs in coastal areas of eastern China, industries in eastern China are in the process of gradually relocating to western China, and Chongqing also takes advantage of this relocation.

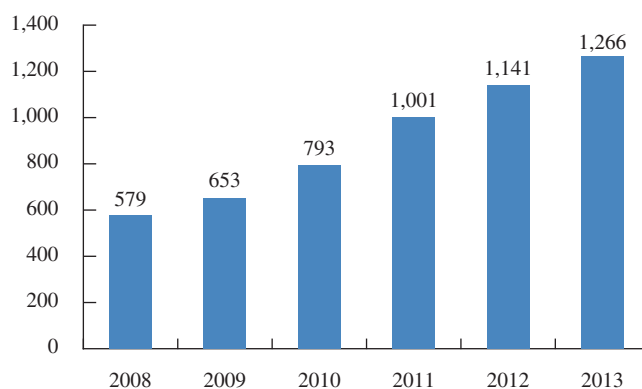
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## INDUSTRY OVERVIEW

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Chongqing has experienced accelerated economic growth over the past five years. According to the Statistical Communique of Chongqing on the 2013 National Economic and Social Development (2013年重慶市國民經濟和社會發展統計公報), from 2008 to 2013, Chongqing's nominal GDP grew at a CAGR of 16.9%, which is higher than the 12.6% CAGR of national nominal GDP for the same period. The per capita nominal GDP of Chongqing in 2013 was RMB42,795, which was also higher than the national per capita nominal GDP.

### Chongqing's nominal GDP (2008-2013, RMB in billion)



*Source: Statistical Communique of Chongqing on the 2013 National Economic and Social Development*

The Chongqing municipal government has been actively developing Chongqing into an economic and financial center in the upper reaches of the Yangtze River, and the development of Chongqing's financial industry has achieved significant progress and has increasingly contributed to Chongqing's overall economic growth. According to the Statistical Communique of Chongqing on the 2013 National Economic and Social Development, in 2013, the added value of Chongqing's financial industry was approximately RMB106.8 billion, increased by 15.6% from 2012, which accounted for 8.4% of Chongqing's GDP.

### THE FINANCIAL GUARANTEE INDUSTRY IN CHONGQING AND SICHUAN

According to Chongqing Finance Bureau, as of December 31, 2013, there were 160 guarantee companies in Chongqing with total assets of RMB40.5 billion, net assets of RMB31.3 billion and paid-in capital of RMB29.7 billion. The total amount of outstanding financing guarantees for companies in Chongqing was RMB151.6 billion as of December 31, 2013.

According to the Financing Guarantee Association of Sichuan (四川省融資擔保業協會), as of December 31, 2013, there were 509 guarantee companies in Sichuan with total assets of RMB67.0 billion, net assets of 54.0 billion and paid-in capital of RMB47.4 billion. The total amount of outstanding financing guarantee balance of guarantee companies in Sichuan was RMB233.8 billion as of December 31, 2013, increased by 23.7% from that as of December 31, 2012.



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## INDUSTRY OVERVIEW

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### THE SMALL LOAN INDUSTRY IN CHONGQING AND SICHUAN

According to the Chongqing Association of Microcredit (重慶市小額貸款公司協會), as of December 25, 2013, there were 225 small loan companies in Chongqing. The outstanding loan balance of small loan companies in Chongqing was RMB51.4 billion as of December 25, 2013, an increase of 44% over the outstanding loan balance as of December 31, 2012. The total amount of loans extended by small loan companies in Chongqing was RMB152.3 billion in 2013, an increase of RMB44.8 billion over the outstanding loan balance in 2012.

According to the Sichuan Association of Microcredit (四川省小額貸款公司協會), as of December 31, 2013, there were 344 small loan companies in Sichuan. The outstanding loan balance of small loan companies in Sichuan was RMB58.7 billion as of December 31, 2013, an increase of 55.1% over the outstanding loan balance as of December 31, 2012. The total amount of loans extended by small loan companies in Sichuan was RMB106.3 billion in 2013, an increase of 56.7% over the outstanding loan balance in 2012.

### SOURCE

We appointed an independent third party, Euromonitor, to conduct a customized and detailed analysis of the credit guarantee and micro and small loan industries in China in order to evaluate the existing market scale and future market potential, and provide an objective and fair overview of China's credit guarantee and micro and small loan industries in its report.

Euromonitor primarily adopted the top-down research method, assisted by information collected through the bottom-up research method to prepare its report. It conducted primary research and secondary research and used its internal database as a major data source for its report. Primary research involves visits to observers from credit guarantee and micro and small loan companies and banks, China's national or regional associations, governmental or semi-official agencies and other sectors, and interviews with different stakeholders. Secondary research relates to employment of professional analysts to collect information from various publications. Euromonitor seeks to ensure the accuracy of the projections included in its report by conducting both quantitative and qualitative analyses on the market size and growth trends, and using data from government authorities, industry public information and industry interviews, cross-checked with historical market information, as the basis for its projections. Euromonitor used various sources of information, which accuracy was verified, and analyzed, and compared each interviewee's information and opinion to avoid bias.

We paid Euromonitor RMB534,240 for its research services, which we believe reflects the prevailing market rate. Except for Euromonitor's report, we have not appointed anyone else to prepare any other research report for the listing report or this prospectus.

We prepared this section of this prospectus based on Euromonitor's report so as to provide our prospective investors with a comprehensive description of our industry. This prospectus also records some information excerpted from Euromonitor's report, which can be referred to in "Summary," "Risk Factors," "Industry Overview," "Business" and "Financial Information."

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## REGULATORY ENVIRONMENT

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

#### Regulatory authorities of the financing guarantee industry

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

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

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

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

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

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## REGULATORY ENVIRONMENT

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

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

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

#### *Nationwide regulatory policies*

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

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

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

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## REGULATORY ENVIRONMENT

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

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

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

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

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

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

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## REGULATORY ENVIRONMENT

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

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

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

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

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

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

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

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## REGULATORY ENVIRONMENT

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

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

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

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

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

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

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



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

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

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

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

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

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



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

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

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

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

<u>Type of financing guarantee company</u>	<b>Minimum registered capital  (RMB in millions)</b>
• operating across provinces	300
• operating guarantee business within Liaoning province	100
• operating guarantee business within a city of Liaoning province	30
• operating guarantee business within a county of Liaoning	20

- Guarantee companies with registered capital of over RMB100 million can set up branches in Liaoning. A guarantee company should submit its application for

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

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

#### Regulatory authorities of the small loan industry

##### *Nationwide regulatory authorities*

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

##### *Local regulatory authorities*

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

#### Regulatory policies of the small loan industry

##### *National guiding opinions*

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

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

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

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

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

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

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

### *Local regulatory policies and measures*

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

#### *(1) Chongqing*

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

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

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



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### (2) Sichuan Province

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

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

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

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

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

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



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

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

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

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

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

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(5) *Tianjin*

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

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

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

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

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

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

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

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

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## REGULATORY ENVIRONMENT

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



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

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

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

- The Shaanxi Financial Affairs Office is the competent authority for small loan companies in Shaanxi Province. The Shaanxi Financial Affairs Office, Industry and Commerce Administration of Shaanxi Province, the PBOC Xi'an Branch, the Shaanxi CBRC and other departments together form the office for pilot operation of small loan companies in Shaanxi Province, and are responsible for providing guidance on the pilot operation of small loan companies in Shaanxi Province. The people's government at each of the respective county, prefecture and administrative committees of the development zone (equal to county with extended power) is the entity responsible for conducting supervision and risk management for small loan companies.
- The source of registered capital of small loan companies must be genuine and lawful and fully paid-up in one lump sum. The registered capital of a limited liability company may not be less than RMB30 million while that for a company limited by shares may not be less than RMB60 million. The maximum registered capital for a small loan company may not exceed RMB300 million.

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- Senior management personnel of a small loan company must have at least two years of banking experience, with no criminal or bad credit record. They must pass the appointment qualification examination for senior management held by the financial affairs office of the province.
- The small loan company must identify a bank within Shaanxi Province as its cooperating partner by entering into a cooperation agreement, which it must file with the regulatory authority for small loan companies within the relevant county, prefecture and the administrative committees of the development zone. The cooperating bank of the small loan company is responsible for monitoring the capital flows of the small loan company as well as for providing relevant data and information for the respective regulatory authority of the people's government at each of the county, prefecture level and administrative committees of the development zone, as and when required.
- For a small loan company with a registered capital of RMB80 million or more which records a profit for two consecutive years and a return on assets of over 5%, it may open branches outside its registered place of business upon approval. A small loan company without prior approval shall not conduct small loan lending business outside its prescribed area.
- The percentage of shareholding of the major capital contributor of a small loan company may not exceed 35% in principle, while each of the remaining single contributors may not contribute less than RMB2 million. Small loan companies are encouraged to maintain a diversified shareholding structure.
- The shares of a small loan company may be transferred according to law. However, shares held by the major capital contributor may not be transferred within three years after the company's inception, and those held by other shareholders may not be transferred within two years. Directors, supervisors and senior executives of the company may not transfer their shares during their term of office.
- The source of funds of small loan company must be paid-up capital from the shareholders, endowment and financing from not more than two banking financial institutions. A small loan company cannot raise funds internally or externally, and may not accept public deposits, or accept public deposits in a disguised form. The funds obtained by a small loan company from banking financial institutions may not exceed 50% of its net capital.
- A small loan company must ensure that its adequacy ratio of provisions for asset losses remains above 100%.
- The interest rate of a small loan company shall not exceed the rate set by the judiciary department and cannot be less than 0.9 times the benchmark interest rate announced by the PBOC. The specific floating range will be determined by the small loan company based on market-oriented principles.

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- The balance of loans of a single borrower may not exceed 5% of the net capital of a small loan company. A single loan means: not more than RMB400,000 with a registered capital of less than RMB50 million; not more than RMB600,000 with a registered capital from RMB50 million to RMB100 million; not more than RMB1 million with a registered capital of at least RMB100 million.

(8) *Yunnan Province (including Kunming)*

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

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

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## REGULATORY ENVIRONMENT

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respective affiliated parties in aggregate shall not exceed 10% of the total registered capital. If the shares held by a single shareholder have to exceed the ceiling as necessary, the company shall report the case to Yunnan Provincial Finance Office for examination and decision.

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

- (c) The equity of the small loan company can be transferred, inherited and endowed in accordance with the law, while the equity held by the promoter shall not be transferred within three years after the company's inception and shares by other shareholders may not be transferred within two years. Directors, supervisors and senior executives of the company may not transfer or pledge their equity during their term of office.
- Small loan companies shall not engage in businesses other than those which have been approved.
  - The balance of funds raised by a small loan company from the banking financial institutions may not exceed 50% of its net capital. A small loan company cannot raise funds internally or externally, and may not accept public deposits, or accept public deposits in a disguised form.
  - The small loan company shall insist on the principle of serving “Three Rural Issues” to provide loans for supporting farmers, agriculture and economic development of rural areas as well as the development of local competitive and distinctive industries. The loans granted to “Three Rural Issues” shall not be less than 50% of the total loans.
  - The small loan companies shall stick to the “Small and Diverse” principle. The balance of loans of a single borrower may not exceed 5% of the net capital of a small loan company. Loans shall not be provided to its shareholders, directors, supervisors, senior managers and their perspective affiliates.
  - The small loan companies shall select one bank which has signed the cooperation contract with Yunnan Provincial Finance Office to open an account one week before its official operation and deposit their registered capital into the bank which is mainly used to grant small loans and shall not be used for other purposes. The account opening bank should closely cooperate with Yunnan Provincial Finance Office to enhance the supervision over fund transfers of the small loan company. If the account opening bank does not fulfill its responsibility, Yunnan Provincial Finance Office can deprive it of its qualification as a cooperative bank.

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- During its period of existence, if the small loan company has breached any regulations, the Yunnan Provincial Finance Office or the authorized competent administration body of the province (municipal) will interview with the company and order it to make corrections within a specific time; if the cases are particularly significant, the Yunnan Provincial Finance Office will report to the administrative department for industry and commerce and other relevant departments to take action against the company in accordance with applicable law. Where a crime is committed, criminal liability will be investigated.

(9) *Guizhou Province (including Guiyang)*

*The Notice of the General Office of the People's Government of Guizhou Province on the Pilot Operation of Small Loan Companies* (貴州省人民政府辦公廳關於開展小額貸款公司試點工作的通知) was issued by the General Office of the People's Government of Guizhou Province on October 28, 2008; the *Opinions of the People's Government of Guizhou Province on Further Accelerating the Development of Small Loan Companies* (貴州省人民政府辦公廳關於進一步促進全省小額貸款公司又好又快發展的意見) was issued by the General Office of the People's Government of Guizhou Province on September 12, 2012; and the *Approval Reply on Designating Additional Responsibilities to the Financial Affairs Office of Provincial Government* (關於省政府金融工作辦公室增加職責的批覆) was issued by the office of Guizhou Province Organization Committee on November 23, 2012. Key contents of the above regulatory policies are as follows:

- The Guizhou Financial Affairs Office is the competent authority for small loan companies in Guizhou Province. It is responsible for examining and approving the incorporation, change and withdrawal of small loan companies as well as the supervision and management of small loan companies.
- Registered capital, equity structure and daily supervision
  - (a) The shares of the major promoter of a small loan company and any of its affiliates shall be not more than 33% of the total registered capital of the company.
  - (b) If a company is a limited liability company, its registered capital shall not be less than RMB5 million; and if it is a company limited by shares, its registered capital shall not be less than RMB10 million.
  - (c) Upon approval by the competent authorities, small loan companies may operate the following businesses:
    - (i) all small loan businesses;
    - (ii) discounted note businesses; and
    - (iii) other approved businesses.

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## REGULATORY ENVIRONMENT

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- (d) Shares held by shareholders of a small loan company may not be transferred within two years from the date of incorporation of the company, and those held by directors and senior management personnel may not be transferred during their term of office.

Changes of shareholders holding over 5% equity require prior approval from competent authorities.

- (e) The maximum loans grant to a single borrower by a small loan company must not exceed 15% of the registered capital of the company. The maximum loans granted to a single client as a group enterprise shall not exceed 20% of the registered capital of the company.
- (f) A small loan company must establish a prudent and normative asset classification system and provision system, accurately divide the quality of assets, make full provision for doubtful accounts, and guarantee that its provision for asset losses adequacy ratio is not less than 100%.

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

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

<u>Laws and Regulations</u>	<u>Brief Description</u>
<b>(A) National</b>	
Interim Measures for the Administration of Financing Guarantee Companies (融資性擔保公司管理暫行辦法)	Depending on the degree of risk of a project, the guarantee fee charged by the financing guarantee companies can be determined through negotiation between the financing guarantee company and the guaranteed company of their own accord, provided it does not violate relevant regulations of the state.
Tentative Measures of the Ministry of Finance of the People's Republic of China on the Risk Management for SME Financing Guarantee Institutions (中小企業融資擔保機構風險管理暫行辦法)	The guarantee institutions can implement floating premium according to the degree of risk of a project to be guaranteed, which is generally limited to within 50% of the bank lending rate in the same period to reduce the burden on SMEs. No related responsibilities for exceeding the upper limit of the guarantee rate are stipulated by the Measures.

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## REGULATORY ENVIRONMENT

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### Laws and Regulations

### Brief Description

Opinions on Strengthening the Construction of SME Credit Guarantee System (關於加強中小企業信用擔保體系建設意見)

To promote the sustainable development of guarantee institutions, the guarantee rate will be linked up with the operating risk costs for guarantee institutions mainly engaged in SME loan guarantee. The standard rate of guarantee can be implemented as 50% of the bank lending rate in the same period. A specific guarantee rate can float up or down, the standard rate depending on the risk degree of a project, and can also be decided through consultation between the two parties. No related responsibilities for exceeding the upper limit of the guarantee rate are stipulated by the Opinions.

### (B) Local

Tianjin –

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

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



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## REGULATORY ENVIRONMENT

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



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## REGULATORY ENVIRONMENT

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Laws and Regulations	Brief Description
<p>Sichuan –</p> <p>Interim Measures of Sichuan Province for the Administration of Financing Guarantee Companies (四川省融資性擔保公司管理暫行辦法)</p>	<ul style="list-style-type: none"><li>• Depending on the degree of risk of a project, the guarantee fee charged by financing guarantee companies can be determined through negotiation between the financing guarantee company and the guaranteed company of their own accord, provided it does not violate the relevant state regulations.</li><li>• A financing guarantee company acting in violation of the law, regulations or these interim measures may be punished in accordance with the penalty provisions of relevant laws and regulations; if there are no such provisions prescribed by relevant laws and regulations, the company may be liable under the relevant provisions of the Interim Measures. If the case constitutes a crime, the company will be investigated according to law.</li></ul>
<p>Beijing –</p> <p>Interim Measures of Beijing Municipality for the Administration of Financing Guarantee Companies (北京市融資性擔保公司管理暫行辦法)</p>	<ul style="list-style-type: none"><li>• Depending on the degree of risk of a project, the guarantee fee charged by the financing guarantee companies can be determined through negotiation between the financing guarantee company and the guaranteed company of their own accord, provided it does not violate relevant regulations of the state.</li><li>• A financing guarantee company acting in violation of the provisions as prescribed by laws, regulations or these interim measures may be liable in accordance with the relevant penalty provisions. If the case constitutes a crime, the company will be investigated by a juridical authority for criminal responsibility according to law.</li></ul>

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## REGULATORY ENVIRONMENT

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### Laws and Regulations

### Brief Description

Shenzhen –

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

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

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## REGULATORY ENVIRONMENT

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### **Laws and Regulations**

### **Brief Description**

Liaoning –

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

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

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

### **Laws and Regulations**

### **Brief Description**

#### **(A) National**

Certain Opinions on the Court's Trial for Lending Cases (關於人民法院審理借貸案件的若干意見)

The lending interest rate of private lending may be greater than a bank's interest rate, but it cannot exceed four times the interest rate normally charged by a bank for a loan of similar credit and tenor. If the rate exceeds this ceiling, the excess interest will not be protected by law. This proposal does not provide for the relevant legal liability for exceeding the upper limit of guaranteed rates.

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## REGULATORY ENVIRONMENT

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### Laws and Regulations

### Brief Description

Guiding Opinions on Small-loan Company Trial Operations by CBRC and PBOC (中國銀行業監督管理委員會、中國人民銀行關於小額貸款公司試點的指導意見)

- Small loan companies operate on the basis of market-oriented principles. The loan interest rate is unspecified, but it cannot exceed the prescribed ceiling of the justice department. The lowest threshold is 0.9 times the benchmark lending rate published by the PBOC.

The specific floating rate should be determined independently in accordance with market-oriented principles. Loan period, repayment terms and other provisions of the contract should be negotiated by both lender and borrower.

- Guiding Opinions on Small-loan Company Trial Operations do not provide for the related legal liability of small loan companies if their loans exceed the ceiling set by the justice department.

### (B) Local

Guangxi –

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

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

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## REGULATORY ENVIRONMENT

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<b>Laws and Regulations</b>	<b>Brief Description</b>
Jilin –  Interim Regulations on Small-loan Company Trial Operations in Jilin Province (吉林省小額貸款公司試點暫行管理辦法)	<ul style="list-style-type: none"><li>• Small loan companies operate on the basis of market-oriented principles. The loan interest rate is unspecified, but it cannot exceed the limit prescribed by the justice department. The lowest limit is 0.9 times the benchmark lending rate published by the PBOC. The specific floating rate should be determined independently in accordance with market-oriented principles. Loan period, repayment terms and other provisions of the contract should be negotiated by both lender and borrower.</li><li>• If any small loan company violates the regulations in Interim Regulations on Small-loan Company Trial Operations in Jilin Province, the local authorities should take measures such as to issue a risk warning, arrange a meeting with senior management or initiate regulatory inquiries; if the violation is significant, the authorities should report it to the provincial financial office and procure a warrant to order the company to suspend its business, abrogate the vocational qualification of its senior management, and urge them to timely correct their wrongdoings and prevent asset risk.</li></ul>
Liaoning –  Interim Regulations on Small-loan Company Trial Operations in Liaoning Province (遼寧省小額貸款公司試點暫行管理辦法)	<ul style="list-style-type: none"><li>• The loan interest rate of a small loan company cannot exceed the prescribed ceiling of the justice department. The lowest rate is 0.9 times the benchmark lending rate proclaimed by PBOC.</li><li>• For those small loan companies that violate the relevant provisions in Interim Regulations on Small-loan Company Trial Operations in Liaoning Province, the provincial finance office will consider specific circumstances in giving suggestions or warnings, or order them to suspend their business, abrogate the vocational qualifications of their senior management, and urge them to timely correct any wrongdoing; if the violation is significant, the provincial finance office may determine that the company is not qualified to carry on its business, and inform the administrative departments for industry and commerce that it should revoke the company's business license.</li></ul>

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## REGULATORY ENVIRONMENT

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### Laws and Regulations

### Brief Description

Sichuan –

Interim Administrative  
Measures for Small Loan  
Companies in Sichuan  
Province (四川省小額貸款公  
司管理暫行辦法)

- Small loan companies operate on the basis of market-oriented principles. The loan interest rate cannot exceed the prescribed ceiling set by the justice department; and the minimum rate is 0.9 times the benchmark lending rate proclaimed by PBOC. Therefore, the specific floating rate within those parameters may be determined independently in accordance with market-oriented principles. Usury is prohibited. Loan period, repayment terms and other provisions of the contract should be negotiated by both lender and borrower.
  
- For those small loan companies that violate the relevant provisions in Interim Administrative Measures for Small-loan Companies in Sichuan Province, the competent authorities designated by the city (town) government and county (city, district) government have the authority to take measures such as issuing a risk warning, arranging a meeting with their directors or senior management, initiating regulatory inquiries or ordering them to suspend their business and urging them to timely correct their wrongdoing, so as to prevent asset risk; if the violation is significant, the relevant government sector should revoke the company's business license according to relevant law.

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## REGULATORY ENVIRONMENT

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

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## REGULATORY ENVIRONMENT

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### Laws and Regulations

### Brief Description

Chongqing –

Interim Regulations on Small-loan Company Trial Operations in Chongqing (重慶市小額貸款公司試點管理暫行辦法)

- Small loan companies operate on the basis of market-oriented principles. The loan interest rate is not specified, but the maximum four times the benchmark lending rate published by the PBOC, and the minimum is 0.9 times that. The specific floating rate is determined independently in accordance with market-oriented principles.
- During the operational process of a small loan company, under any of the following circumstances, the city finance office will order the company to make corrections; if the violation is significant, the city finance office will submit it to the industrial and commercial administration department and other relevant departments to impose fines on the company, order it to suspend business to remedy the situation or revoke its business license according to relevant law; if the violation is a crime, the company will be liable for criminal charges: (1) for establishing a branch without the authority's approval; (2) for unauthorized alteration or termination of its operation; (3) for exceeding the approved business scope and engaging in unauthorized operating activities that need to be authorized by the relevant laws, administrative regulations or the State Council; or (4) for violating interest rate policy.

Chongqing –

A Notice about Further Strengthening the Regulation on Small Loan Company's Loan Interest Rate by Chongqing Municipal Finance Office (重慶市金融工作辦公室關於進一步加強小額貸款公司貸款利率管理的通知)

Strictly comply with the regulations on interest rates. The company's lending rates of its proprietary and mandatory service should be strictly controlled within four times the benchmark lending rate published by the PBOC in the same period. If with respect to its loans a company charges its clients both interest and expenses (referred to as interest fee below), the sum of interest and expenses shall not exceed four times the benchmark lending rate published by the PBOC in the same period. However, the Regulation does not further provide specific legal liabilities if the loan interest rate of a small loan company exceeds four times that of the benchmark lending rate published by the PBOC in the same period.



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## REGULATORY ENVIRONMENT

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### ANTI-MONEY LAUNDERING LAWS IN CHINA

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

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

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

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

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

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## REGULATORY ENVIRONMENT

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

In 2013, we commenced offering guarantees for capital preservation public funds. The discussion below sets forth certain regulatory environment of capital preservation public funds in the PRC.

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

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

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

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## REGULATORY ENVIRONMENT

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

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

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### BACKGROUND

We have over nine years of operating history, offering a variety of credit-based financial solutions to service the financing and business needs of SMEs and microenterprises across China. Our history dates back to 2004, when our predecessor, Chongqing Hanhua Credit Guarantee Co., Ltd. (重慶瀚華信用擔保有限公司), was established as a limited liability company in Chongqing, PRC, with a registered capital of RMB100 million, primarily engaging in providing guarantee services to SMEs and microenterprises. Chongqing Hanhua Credit Guarantee Co., Ltd. was subsequently renamed as Hanhua Guarantee (Group) Co., Ltd. (瀚華擔保集團有限公司) in 2008 and Hanhua Guarantee Co., Ltd. (瀚華擔保有限公司) in 2011 (for illustration purpose, references to “Hanhua Guarantee Co., Ltd.” used in this section shall include references to our predecessor under its previous names). Upon completion of the Reorganization, Hanhua Guarantee Co., Ltd. was converted into a joint stock limited liability company and renamed as Hanhua Financial Holding Co., Ltd. (瀚華金控股份有限公司).

### MILESTONES OF OUR HISTORY

The following are significant milestones during our development process:

<b>Year</b>	<b>Events</b>
<b>2004</b>	<ul style="list-style-type: none"><li>• Our predecessor began to engage in providing guarantee services to SMEs mainly in Chongqing</li></ul>
<b>2005</b>	<ul style="list-style-type: none"><li>• We expanded our credit guarantee business to Sichuan</li></ul>
<b>2006</b>	<ul style="list-style-type: none"><li>• We expanded our credit guarantee business to Liaoning and Beijing</li></ul>
<b>2008 to 2009</b>	<ul style="list-style-type: none"><li>• We began to engage in providing micro and small loan services to SMEs and microenterprises mainly in Chongqing and Sichuan</li></ul>
<b>2009 to 2012</b>	<ul style="list-style-type: none"><li>• We expanded our micro and small loan business to Tianjin, Shenyang and Nanning</li></ul>
<b>2013 to Latest Practicable Date</b>	<ul style="list-style-type: none"><li>• Our credit guarantee network grew to cover 15 provinces in the PRC</li><li>• We underwent the Reorganization and were converted into a joint stock limited liability company in March 2013</li><li>• Our registered capital increased to RMB3.43 billion by May 2013</li><li>• We launched a new guarantee product and provided guarantee service to a capital preservation public fund</li><li>• We expanded our micro and small loan business to Changchun, Xi'an, Kunming and Guiyang, and our micro and small loan network grew to cover nine provincial-level cities in the PRC</li><li>• We expanded our credit guarantee business to Anhui, Yunnan, Shanghai and Jilin provinces and our credit guarantee network grew to cover 19 provinces in the PRC</li></ul>

### HISTORY, DEVELOPMENT AND REORGANIZATION

#### Establishment and Development

Upon establishment in 2004, Hanhua Guarantee Co., Ltd. had a registered capital of RMB100 million, which was owned as to 60% and 40%, respectively, by Hainan Xinghuayuan Trading Investment Co., Ltd. (海南星華源貿易投資有限公司) and Hainan Gelindao Investment Co., Ltd. (海南格林島投資有限公司), both of which were controlled by relatives of Mr. Tu.

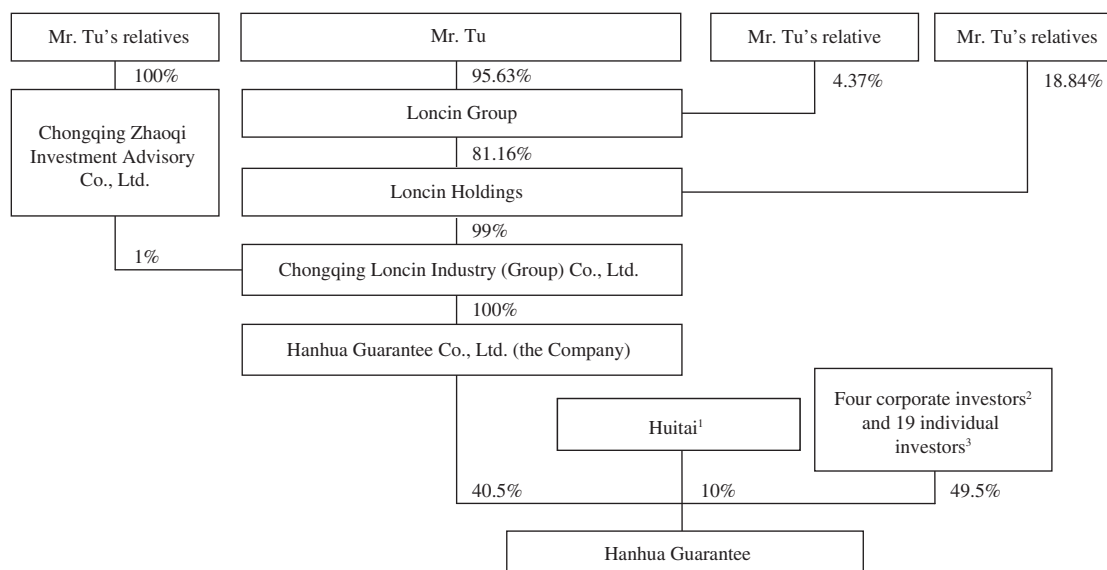
## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Since the establishment of Hanhua Guarantee Co., Ltd. and until September 2009, a series of equity transfers among certain companies controlled by Mr. Tu's relatives and equity contributions were conducted, as a result of which the registered capital of Hanhua Guarantee Co., Ltd. was increased to RMB250 million.

According to a promoter agreement dated July 28, 2009 entered into among Hanhua Guarantee Co., Ltd. and 24 investors (further details of which are set out in the corporate structure chart and the corresponding notes below), Hanhua Guarantee was established as a joint stock limited liability company on August 19, 2009 with a registered capital of RMB1 billion.

In September 2009, Chongqing Loncin Industry (Group) Co., Ltd. (重慶隆鑫工業(集團)有限公司), a subsidiary of Loncin Holdings, which is a subsidiary of Loncin Group (held as to 95.63% by Mr. Tu and the remainder by Mr. Tu's relative), acquired 100% of the equity interest of Hanhua Guarantee Co., Ltd. from its then existing shareholders for a consideration of RMB250 million (equal to the then registered capital of Hanhua Guarantee Co., Ltd.). The consideration for this acquisition came from the capital accumulated from the businesses carried out by Chongqing Loncin Industry (Group) Co., Ltd. in the industrial sector.

The following sets out the corporate structure of our Company and Hanhua Guarantee following completion of the above equity transfer:



*Notes:*

1. Huitai was held as to 50% by Zhang Guoxiang (one of our executive Directors) and as to 50% by Li Ruping (one of our Supervisors). Mr. Tu had the right to determine all significant matters on Huitai, including Huitai's voting right. For more details, see "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme."
2. Among the four corporate investors, Chongqing Jiulong Materials Recovery Ferrous Co., Ltd., which held approximately 6.3% of the then equity interest of Hanhua Guarantee, was held as to 55% by Wang Fangfei (one of our non-executive Directors); Chongqing Boxin Investment Co., Ltd., which held approximately 2.7% of the then equity interest of Hanhua Guarantee, was partially held by a number of then employees of Hanhua Guarantee Co., Ltd. and Hanhua Guarantee. The other investors were Independent Third Parties.

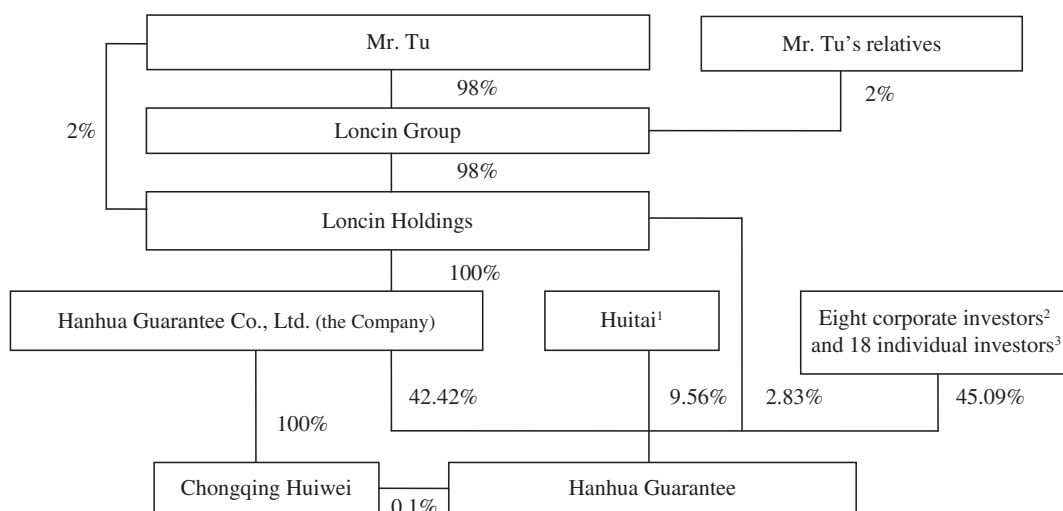
## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

3. Among the 19 individual investors, Zhou Daoxue (one of our Supervisors) held approximately 2.7% of the then equity interest of Hanhua Guarantee; Wang Mingyue (daughter of Liu Tingrong, one of our non-executive Directors) held approximately 11.7% of the then equity interest of Hanhua Guarantee, Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors) held approximately 3.6% of the then equity interest of Hanhua Guarantee. The other investors were Independent Third Parties.

Since the establishment of Hanhua Guarantee, our guarantee business and micro and small loan business were mainly conducted through Hanhua Guarantee and its subsidiaries.

From September 2009 to early 2013, through a series of equity transfers within Loncin, Loncin Holdings became the sole direct shareholder of Hanhua Guarantee Co., Ltd. During the same period, a series of equity contributions were also conducted among the then existing shareholders of Hanhua Guarantee and several external investors, as a result of which the registered capital of Hanhua Guarantee was increased to RMB2,095.5 million. During the same period, 17 rounds of equity transfers were also conducted among the then existing shareholders of Hanhua Guarantee and several external investors. None of the equity interest involved in these equity transfers or equity injections exceeded 3% of the equity interest of Hanhua Guarantee. All the above equity transfers and equity injections were completed as of January 31, 2013 on an irrevocable basis. As a result, except for the Company, Loncin Holdings, Huitai and Chongqing Huiwei, the remaining approximately 45.09% equity interest of Hanhua Guarantee were held by eight corporate investors and 18 individual investors.

The following chart illustrates the corporate structure of our Company and Hanhua Guarantee as of January 2013 prior to the Reorganization:



Notes:

1. Huitai was held as to 50% by Zhang Guoxiang (one of our executive Directors) and as to 50% by Li Ruping (one of our Supervisors). Mr. Tu had the right to determine all significant matters on Huitai, including Huitai's voting right. For more details, see "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme."

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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2. Among the eight corporate investors, Chongqing Jiulong Investment Co., Ltd (“Chongqing Jiulong”), which held approximately 8.19% of the then equity interest of Hanhua Guarantee, was held as to 55% by Wang Fangfei (one of our non-executive Directors); Chongqing Puzhao Hengyi Investment Co., Ltd. (“Puzhao Hengyi”), which held approximately 1.89% of the then equity interest of Hanhua Guarantee, was held as to 80% by Feng Yonglin (brother of Feng Yongxiang, one of our non-executive Directors) and as to 10% by Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors). The other corporate investors were Independent Third Parties.
3. Among the 18 individual investors, Zhou Daoxue (one of our Supervisors) held approximately 2.83% of the then equity interest of Hanhua Guarantee; Wang Mingyue (daughter of Liu Tingrong, one of our non-executive Directors) held approximately 9.54% of the then equity interest of Hanhua Guarantee, Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors) held approximately 1.89% of the then equity interest of Hanhua Guarantee. The other individual investors were Independent Third Parties.

### Reorganization

In February 2013, we underwent the Reorganization in preparation for the Global Offering, with the principal steps as follows:

#### **1. Debt/Profit-to-Equity Conversion**

As of December 31, 2012, Hanhua Guarantee Co., Ltd. had outstanding debt owed to Loncin Holdings with a value of approximately RMB266.5 million. Such amount, together with the then undistributed profits of Hanhua Guarantee Co., Ltd., which, in the aggregate, amounted to approximately RMB125.5 million, were converted into RMB392 million of registered capital of Hanhua Guarantee Co., Ltd. pursuant to the debt/profit-to-equity conversion covenant dated February 2, 2013 entered into between Hanhua Guarantee Co., Ltd. and Loncin Holdings. The above conversion was completed as of February 4, 2013 on an irrevocable basis and the registered capital of Hanhua Guarantee Co., Ltd. was increased to RMB692 million.

#### **2. Capital Increase of Hanhua Guarantee Co., Ltd. by way of Equity Interest Swap and Cash Contribution**

Pursuant to the capital increase agreement dated February 21, 2013 entered into among Hanhua Guarantee Co., Ltd., 28 then existing shareholders of Hanhua Guarantee, and Huang Jie (黃潔) (one of the then existing shareholders of Sichuan Micro-credit):

##### *(i) Equity Interest Swap:*

- (a) each of the 28 then existing shareholders of Hanhua Guarantee agreed to contribute their respective equity interest in Hanhua Guarantee, valued at an aggregate value of approximately RMB1,505.7 million, into Hanhua Guarantee Co., Ltd. as to approximately RMB935.5 million credited as registered capital and the remaining approximately RMB570.2 million as capital reserve; and

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

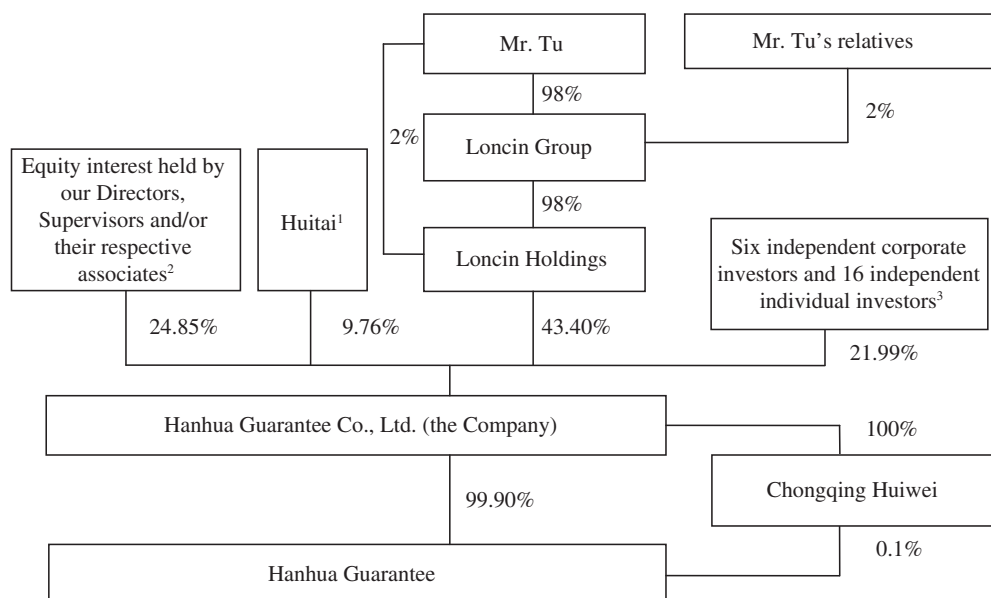
- (b) Huang Jie agreed to contribute her equity interest in Sichuan Micro-credit, valued at an aggregate value of approximately RMB21.1 million, into Hanhua Guarantee Co., Ltd. as to approximately RMB13.1 million credited as registered capital and the remaining approximately RMB8.0 million as capital reserve.

(ii) *Cash Contribution:*

Each of the 28 then existing shareholders of Hanhua Guarantee and Huang Jie agreed to contribute cash to Hanhua Guarantee Co., Ltd. in the aggregate amount of approximately RMB541.5 million, out of which approximately RMB336.4 million was credited as registered capital and the remaining approximately RMB205.1 million as capital reserve.

The above capital increase was completed as of February 25, 2013, as a result of which the registered capital of Hanhua Guarantee Co., Ltd. was increased to approximately RMB1,977.0 million, and Hanhua Guarantee came to be held as to 99.9% by Hanhua Guarantee Co., Ltd. and 0.1% held by Chongqing Huiwei.

The following chart illustrates the corporate structure of our Company and Hanhua Guarantee upon completion of the aforesaid equity interest swaps, cash contributions and equity transfers:



*Notes:*

- Huitai was held as to 50% by Zhang Guoxiang (one of our executive Directors) and as to 50% by Li Ruping (one of our Supervisors). Mr. Tu had the right to determine all significant matters on Huitai, including Huitai's voting right. For more details, see "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme." As Huitai will remain majority-owned by Zhang Guoxiang upon the Listing, its interest in our Company will be deemed as an interest held by our Connected Person.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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2. The interests held by our Directors, Supervisors and/or their respective associates include:
  - (A) Chongqing Jiulong, who held approximately 8.36% of the then equity interest of Hanhua Guarantee Co., Ltd., was held as to 55% by Wang Fangfei (one of our non-executive Directors).
  - (B) Zhou Daoxue (one of our Supervisors) held approximately 2.89% of the then equity interest of Hanhua Guarantee Co., Ltd.
  - (C) Puzhao Hengyi, which held approximately 1.93% of the then equity interest of Hanhua Guarantee Co., Ltd., was held as to 80% by Feng Yonglin (brother of Feng Yongxiang, one of our non-executive Directors) and as to 10% by Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors).
  - (D) Wang Mingyue (daughter of Liu Tingrong, one of our non-executive Directors) held approximately 9.74% of the then equity interest of Hanhua Guarantee Co., Ltd.
  - (E) Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors) held approximately 1.93% of the then equity interest of Hanhua Guarantee Co., Ltd.
3. The corporate and individual investors were Independent Third Parties.

### ***3. Promoter Agreement and Establishment of Joint Stock Limited Liability Company***

Pursuant to the promoter agreement dated March 11, 2013 entered into among the then existing shareholders of Hanhua Guarantee Co., Ltd., Hanhua Guarantee Co., Ltd. was converted into a joint stock limited liability company and was renamed Hanhua Financial, with a registered capital of approximately RMB2,769.9 million.

### ***4. Capital Contribution to the Company by 148 Management Members and Employees***

148 management members and employees of our Group (previously shareholders of Chongqing Boxin Investment Co., Ltd., which used to be one of the shareholders of Hanhua Guarantee) became our Shareholders pursuant to the capital increase agreement dated March 13, 2013 entered into among the then existing shareholders of the Company and these management and employees (five of them are our Directors and/or Supervisors). Upon completion of the above-mentioned capital increase, the 148 management members and employees contributed an aggregate amount of RMB92.07 million to the Company by way of cash contribution, of which approximately RMB80.1 million was credited as registered capital and the remaining approximately RMB11.9 million as capital reserve, following which, the registered capital of the Company was increased to RMB2.85 billion. The capital contribution was fully paid as of March 15, 2013 on an irrevocable basis.

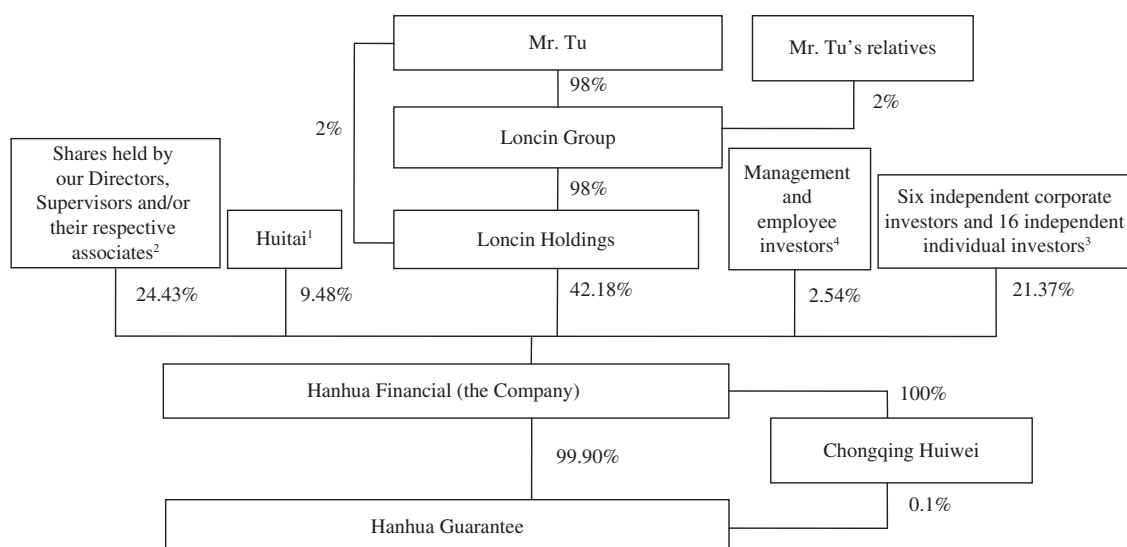
## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

There had been no change as to the number of shares held by the 148 management members and employees since their capital contribution. The shareholding percentage of each of the 148 management members and employees was diluted proportionately subsequent to the two rounds of capital subscription after Reorganization; more details are set out below.

Based on the investment amount of RMB92.1 million and the Shares expected to be held by the 148 management members and employees upon the completion of the Global Offering, the cost per Share paid by these management and employees is approximately RMB1.15, representing a discount of 6.73% and 29.48% to the minimum and maximum Offer Price of HK\$1.55 and HK\$2.05, respectively.

Under the capital increase agreement, no special rights that were not available to other Shareholders were given to these management and employees.

The corporate structure of our Company and Hanhua Guarantee immediately after the Reorganization is as follows:



*Notes:*

1. Huitai was held as to 50% by Zhang Guoxiang (one of our executive Directors) and as to 50% by Li Ruping (one of our Supervisors). Mr. Tu had the right to determine all significant matters on Huitai, including Huitai's voting right. For more details, see "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme." As Huitai will remain majority-owned by Zhang Guoxiang upon the Listing, its interest in our Company will be deemed as an interest held by our Connected Person.
2. The interests held by our Directors, Supervisors and/or their respective associates include:
  - (A) Chongqing Jiulong, who held approximately 8.12% of the then equity interest of Hanhua Financial, was held as to 55% by Wang Fangfei (one of our non-executive Directors).
  - (B) Zhou Daoxue (one of our Supervisors) held approximately 2.81% of the then equity interest of Hanhua Financial.
  - (C) Zhang Guoxiang (one of our executive Directors), Li Ruping (one of our Supervisors), Lin Feng (one of our executive Directors), Chen Zhonghua (one of our Supervisors) and Liu Jiaoyang (one of our non-executive Directors) held approximately 0.0972%, 0.0774%, 0.0722%, 0.0155% and 0.0155% of the then equity interest of Hanhua Financial, respectively.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (D) Puzhao Hengyi, which held approximately 1.87% of the then equity interest of Hanhua Financial, was held as to 80% by Feng Yonglin (brother of Feng Yongxiang, one of our non-executive Directors) and as to 10% by Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors).
  - (E) Wang Mingyue (daughter of Liu Tingrong, one of our non-executive Directors) held approximately 9.47% of the then equity interest of Hanhua Financial.
  - (F) Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors) held approximately 1.87% of the then equity interest of Hanhua Financial.
- 3. The corporate and individual investors were Independent Third Parties.
  - 4. 143 management members and employees who became our Shareholders pursuant to the capital increase agreement dated March 13, 2013 were not Connected Persons. (The remaining five are our Directors and/or Supervisors and are specified in note 2 above.)

### **Approvals**

Our PRC legal advisors confirm that we have obtained all the necessary approvals from, and have duly filed with, the relevant PRC government authorities with respect to the above Reorganization. The Reorganization complies with all applicable laws, rules and regulations.

### **Capital Subscription After Reorganization**

#### ***1. Capital Subscription on May 13, 2013***

Pursuant to an investment agreement dated May 10, 2013 entered into among the Company, Xinjiang Huarong, Chongqing Renhe, Loncin Holdings and Huitai, Xinjiang Huarong and Chongqing Renhe agreed to contribute an amount of RMB200 million and RMB120 million (determined by arm's length negotiations with reference to the accounts of Hanhua Financial prepared in accordance with PRC GAAP with the base date as of and for the year ended December 31, 2012 and audited by Tianjian Accounting Firm), respectively, to our Company, of which RMB100 million and RMB60 million, respectively, was credited as registered capital with the remaining credited as capital reserve. Following the capital increase, our registered capital was increased to RMB3.01 billion. This round of capital contribution was fully paid as of May 10, 2013 on an irrevocable basis and the relevant filings was completed on May 13, 2013.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Set forth below is a summary of this round of capital subscription:

	<u>Name</u>	<u>Date of Investment</u>	<u>Amount of Considerations Paid</u>	<u>Completion Date</u>	<u>Shareholding in the Company by each Investor upon Completion of Global Offering</u>	<u>Background of the Investor</u>	<u>Shareholders of the Investor (Independent Third Party, except as otherwise indicated)</u>
1	Xinjiang Huarong	May 10, 2013	RMB200 million	May 13, 2013	2.18% (assuming the Over-allotment Option is not exercised)  2.12% (assuming the Over-allotment Option is exercised in full)	Xinjiang Huarong was established as a limited partnership enterprise in the PRC on March 14, 2013. It is primarily engaged in equity investments in unlisted companies, equity investments in listed companies by way of subscription of shares and assignment of equity interest and other related advisory services.	Merchant Fortune Asset Management Co., Ltd.: 79.21%  China Hua-Rong Asset Management Co., Ltd.: 14.85%  Hua-Rong Tian-Ze Investment Co., Ltd.: 5.94%
2	Chongqing Renhe	May 10, 2013	RMB120 million	May 13, 2013	1.31% (assuming the Over-allotment Option is not exercised)  1.27% (assuming the Over-allotment Option is exercised in full)	Chongqing Renhe was established as a limited liability company in the PRC on February 15, 2001. It is primarily engaged in the manufacturing and sales of mechanical parts.	Zhou Daolun (brother of Zhou Daoxue (one of our Supervisors)): 65%  Wang Xia: 35%

Based on the investment amount of RMB320 million and the Shares expected to be held by Xinjiang Huarong and Chongqing Renhe upon the completion of the Global Offering, the cost per Share paid by Xinjiang Huarong and Chongqing Renhe is approximately RMB2.0, representing a premium of 62.20% and 22.64% to the minimum and maximum Offer Price of HK\$1.55 and HK\$2.05 respectively.

Xinjiang Huarong is independent from our Group and our Connected Persons. As Chongqing Renhe is 65% beneficially owned by a close relative of Zhou Daoxue (who is our Supervisor and therefore a Connected Person), Chongqing Renhe is deemed to be not independent from our Group and our Connected Persons.

Under the investment agreement, no special rights that were not available to other Shareholders were given to Xinjiang Huarong and Chongqing Renhe. Each of Xinjiang Huarong and Chongqing Renhe undertook that it would not transfer the equity interest it held in our Company if required by relevant laws, rules and regulations, or competent government authorities.

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

### 2. Capital Subscription on May 28, 2013

Pursuant to the investment agreement dated May 27, 2013 entered into among the following eleven investors (together, the “Eleven Investors”), and the Company, the Eleven Investors agreed to contribute an aggregate amount of RMB945 million (determined by arm’s-length negotiations based on the accounts of Hanhua Financial with the base date as of and for the year ended December 31, 2012 and audited by the Tianjian Accounting Firm) to Hanhua Financial, of which RMB420 million was credited as registered capital with the remaining credited as capital reserve. Following the capital increase, our registered capital was increased to RMB3.43 billion. This round of capital contribution was fully paid as of May 27, 2013 on an irrevocable basis and the relevant filings was completed on May 28, 2013.

Set forth below is a summary of this round of capital subscription:

	Name	Date of Investment	Amount of Considerations Paid	Completion Date	Shareholding in the Company by each Investor upon Listing	Background of the Investor	Shareholders of the Investor (Independent Third Party, except as otherwise indicated)
1	Sichuan Hongrun Trading Co., Ltd. (四川泓潤商貿有限公司)	May 27, 2013	RMB270 million	May 28, 2013	2.62% (assuming the Over-allotment Option is not exercised)  2.54% (assuming the Over-allotment Option is exercised in full)	Sichuan Hongrun was established as a limited liability company in the PRC on February 7, 2013. It is primarily engaged in the wholesaling and retailing of merchandises, import and export of goods and technologies.	Liu Bolin (one of our Directors): 75%  Chongqing Longhe Technology Co., Ltd: 25%
2	Chongqing Pingwei Technology (Group) Co., Ltd. (重慶平偉科技(集團)有限公司)	May 27, 2013	RMB225 million	May 28, 2013	2.18% (assuming the Over-allotment Option is not exercised)  2.12% (assuming the Over-allotment Option is exercised in full)	Chongqing Pingwei Technology (Group) Co., Ltd was established as a limited liability company in the PRC on November 5, 1996. It is primarily engaged in the electronics, computer software and hardware and automotive components sectors.	Du Ping: 75%  Yang Taisheng: 25%
3	Chongqing Longli Real Estate Development Co., Ltd. (重慶市龍力房地產開發有限公司)	May 27, 2013	RMB123.75 million	May 28, 2013	1.20% (assuming the Over-allotment Option is not exercised)  1.16% (assuming the Over-allotment Option is exercised in full)	Chongqing Longli Real Estate Development Co., Ltd was established as a limited liability company in the PRC on April 25, 2003. It is primarily engaged in property development.	Wang Bin: 60%  Wang Huadong: 40%

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

	Name	Date of Investment	Amount of Considerations Paid	Completion Date	Shareholding in the Company by each Investor upon Listing	Background of the Investor	Shareholders of the Investor (Independent Third Party, except as otherwise indicated)
4	Fan Xiulian (范秀蓮)	May 27, 2013	RMB56.25 million	May 28, 2013	0.55% (assuming the Over-allotment Option is not exercised)  0.53% (assuming the Over-allotment Option is exercised in full)	Fan Xiulian is an independent third party to the Company.	N/A
5	Wang Junmin (王俊民)	May 27, 2013	RMB56.25 million	May 28, 2013	0.55% (assuming the Over-allotment Option is not exercised)  0.53% (assuming the Over-allotment Option is exercised in full)	Wang Junmin is an independent third party to the Company.	N/A
6	Shandong Binhai Huifu Investment L.L.P. (山東濱海匯富投資中心(有限合夥))	May 27, 2013	RMB56.25 million	May 28, 2013	0.55% (assuming the Over-allotment Option is not exercised)  0.53% (assuming the Over-allotment Option is exercised in full)	Shandong Binhai Huifu Investment L.L.P. was established as a limited partnership enterprise in the PRC on April 19, 2013. It is primarily engaged in equity investments in entities through internal resources, investment management and investment advisory services.	Shandong Binhai Investment Management Co., Ltd.: 1%  12 independent limited partners: 99%
7	Chongqing Xinjiali Lamp Co., Ltd. (重慶新嘉利燈具有限公司)	May 27, 2013	RMB45 million	May 28, 2013	0.43% (assuming the Over-allotment Option is not exercised)  0.42% (assuming the Over-allotment Option is exercised in full)	Chongqing Xinjiali Lamp Co., Ltd. was established as a limited liability company in the PRC on March 1, 2013. It is primarily engaged in the design, manufacture and sales of automotive lighting, motorcycles lighting, automotive parts and motorcycle accessories.	Huang Yuming: 95%  Chen Hejie: 5%

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

	Name	Date of Investment	Amount of Considerations Paid	Completion Date	Shareholding in the Company by each Investor upon Listing	Background of the Investor	Shareholders of the Investor (Independent Third Party, except as otherwise indicated)
8	Chongqing Qianneng Industry (Group) Co., Ltd. (重慶潛能實業(集團)有限公司)	May 27, 2013	RMB45 million	May 28, 2013	0.43% (assuming the Over-allotment Option is not exercised)  0.42% (assuming the Over-allotment Option is exercised in full)	Chongqing Qianneng Industry (Group) Co., Ltd. was established as a limited liability company in the PRC on March 24, 2000. It is primarily engaged in the manufacturing and sales of oil purifiers and components, import and export of goods and technologies, equity investments through internal resources and leasing of self-owned properties.	Zhang Longyi: 65.3% Zhang Peng: 20% He Daiqun: 14.7%
9	Chongqing Auto Muffler Co., Ltd. (重慶汽車消聲器有限責任公司)	May 27, 2013	RMB22.5 million	May 28, 2013	0.22% (assuming the Over-allotment Option is not exercised)  0.21% (assuming the Over-allotment Option is exercised in full)	Chongqing Auto Muffler Co., Ltd. was established as a limited liability company in the PRC on February 22, 2001. It is primarily engaged in the manufacturing, processing and sales of mufflers of automotive and motorcycles, automotive parts and motorcycle accessories.	Chen Shijie: 55% Qi Xiaodong: 25% Li Ruhui: 10% Lan Yongyi: 10%
10	Shenyang Huining Investment Co., Ltd. (瀋陽慧寧投資有限公司)	May 27, 2013	RMB22.5 million	May 28, 2013	0.22% (assuming the Over-allotment Option is not exercised)  0.21% (assuming the Over-allotment Option is exercised in full)	Shenyang Huining Investment Co., Ltd. was established as a limited liability company in the PRC on May 20, 2013. It is primarily engaged in industrial investment and investment advisory services.	Chen Xi: 80% Chen Tiebing: 20%
11	Yan Kai (嚴凱)	May 27, 2013	RMB22.5 million	May 28, 2013	0.22% (assuming the Over-allotment Option is not exercised)  0.21% (assuming the Over-allotment Option is exercised in full)	Yan Kai is an independent third party to the Company.	N/A

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

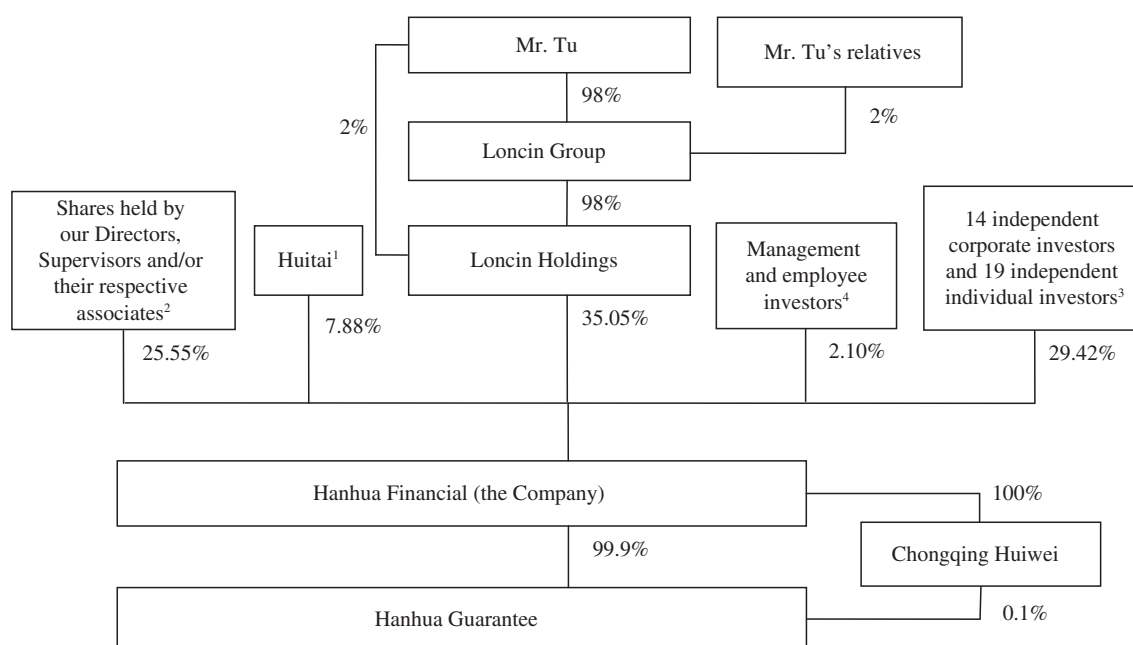
Based on the investment of approximately RMB945 million and the Shares expected to be held by the Eleven Investors upon the completion of the Global Offering, the cost per Share paid by each of the Eleven Investors is approximately RMB2.25, representing a premium of 82.48% and 37.97% to the minimum and maximum Offer Price of HK\$1.55 and HK\$2.05 respectively.

Sichuan Hongrun Trading Co., Ltd. is held by Liu Bolin (one of our non-executive Directors) and the remaining investors are independent from our Group and our Connected Persons.

Under the investment agreement, no special rights that were not available to other Shareholders were given to the Eleven Investors. Each of the Eleven Investors undertook that it would not transfer the equity interest it held in our Company if required by relevant laws, rules and regulations, or competent government authorities.

Given that our Company is not permitted to engage in financing guarantee business directly based on its business license and only holds equity interest in its subsidiaries, which include several financing guarantee subsidiaries having the requisite business license to conduct financing guarantee business, our Company is not required to obtain regulatory approvals in relation to any changes in shareholding structures, including those changes made during the Capital Subscriptions after Reorganization described above and the Global Offering.

The corporate structure of our Company and Hanhua Guarantee immediately after the completion of the above capital subscriptions will be as follows:





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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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*Notes:*

1. Huitai was held as to 50% by Zhang Guoxiang (one of our executive Directors) and as to 50% by Li Ruping (one of our Supervisors). Mr. Tu had the right to determine all significant matters on Huitai, including Huitai's voting right. For more details, see "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme." As Huitai will remain majority-owned by Zhang Guoxiang upon the Listing, its interest in our Company will be deemed as an interest held by our Connected Person.
2. The interests held by our Directors, Supervisors and/or their respective associates include:
  - (A) Chongqing Jiulong, who held approximately 6.8% of the then equity interest of Hanhua Financial, was held as to 55% by Wang Fangfei (one of our non-executive Directors).
  - (B) Zhou Daoxue (one of our Supervisors) held approximately 2.3% of the then equity interest of Hanhua Financial.
  - (C) Zhang Guoxiang (one of our executive Directors), Li Ruping (one of our Supervisors), Lin Feng (one of our executive Directors), Chen Zhonghua (one of our Supervisors) and Liu Jiaoyang (one of our non-executive Directors) held approximately 0.08072%, 0.06431%, 0.06002%, 0.01286% and 0.01286% of the then equity interest of Hanhua Financial, respectively.
  - (D) Chongqing Renhe, which held approximately 1.7% of the then equity interest of Hanhua Financial, was held as to 65% by Zhou Daolun, brother of Zhou Daoxue (one of our Supervisors).
  - (E) Sichuan Hongrun Trading Co., Ltd, which held approximately 3.5% of the then equity interest of Hanhua Financial, was held as to 75% by Liu Bolin (one of our non-executive Directors).
  - (F) Puzhao Hengyi, which held approximately 1.56% of the then equity interest of Hanhua Financial, was held as to 80% by Feng Yonglin (brother of Feng Yongxiang, one of our non-executive Directors) and as to 10% by Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors).
  - (G) Wang Mingyue (daughter of Liu Tingrong, one of our non-executive Directors) held approximately 7.87% of the then equity interest of Hanhua Financial.
  - (H) Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors) held approximately 1.56% of the then equity interest of Hanhua Financial.
3. The corporate and individual investors were Independent Third Parties. Three independent individual investors subscribed for the Shares during the capital subscription on May 28, 2013. A total of eight independent corporate investors subscribed for the Shares during the capital subscriptions on May 13, 2013 and on May 28, 2013.
4. 143 management members and employees who became our Shareholders pursuant to the capital increase agreement dated March 13, 2013 were not Connected Persons (the remaining five are our Directors and/or Supervisors and are specified in note 2 above).

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### CONTROLLING SHAREHOLDERS

#### 1. Loncin Holdings

As of the Latest Practicable Date, Mr. Tu, one of our non-executive Directors, held 98% of the equity interest of Loncin Group, which held 98% of the equity interest of Loncin Holdings. Mr. Tu also indirectly held the remaining 2% of the equity interest of Loncin Holdings as of the Latest Practicable Date.

During the Track Record Period, we have, on occasion, not paid at the due time the social security fund and the housing provident fund for certain employees either because their employment relationships had not been transferred to us or these employees were only interns without formal employment contracts with us. Loncin Holdings, Loncin Group and Mr. Tu, have jointly and severally undertaken to fully indemnify us for any charges, late fees and expenses as well as fines imposed by the relevant government authorities which are associated with our historical incidents of untimely payments of social security funds and the housing provident fund.

#### 2. Huitai

As of the Latest Practicable Date, Mr. Zhang Guoxiang (one of our executive Directors) held approximately 62.09% of the equity interest of Huitai, with the remaining 37.91% owned by the other 14 Directors, Supervisors and senior management.

Since the establishment of Huitai in 2009 and before the implementation of the Share Incentive Scheme in 2013, Mr. Tu had the right to determine all significant matters on Huitai, including Huitai's voting right in respect of all matters of Hanhua Guarantee which are subject to shareholder's approval. After the implementation of the Share Incentive Scheme in 2013 and until the expiration of three years after the completion of the Global Offering, Huitai agreed to follow Loncin Holdings in exercising its voting right in respect of all matters of our Company which are subject to shareholders' approval. As confirmed by our PRC legal advisors, this arrangement is valid and enforceable under PRC laws and regulations. The terms of this arrangement was determined, at the time of the agreement, with reference to the prevailing practice applicable to PRC offerings which requires a three-year lock-up of shares held by controlling shareholders following an initial public offering. The parties consider the three-year term as reasonable and acceptable and will consider whether to continue to lock up their shares after the expiration of the three-year term.

For more details of Mr. Tu, Loncin Group, Loncin Holdings, Huitai and Mr. Zhang Guoxiang, see "Relationship with our Controlling Shareholders" and "Directors, Supervisors, Senior Management and Employees."

### MAJOR ACQUISITIONS AND DISPOSALS

We did not conduct any major acquisitions or major disposals during the Track Record Period.

### PRINCIPAL SUBSIDIARIES

#### 1. Credit Guarantee Business

As of the Latest Practicable Date, the Company carried out its credit guarantee business mainly through its wholly owned subsidiary, Hanhua Guarantee, which wholly owns the following three subsidiaries: (i) Sichuan Hanhua; (ii) Liaoning Hanhua; and (iii) Beijing Hanhua.

Sichuan Hanhua was established on May 19, 2005 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB600 million. Liaoning Hanhua was established on August 25, 2006 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB300 million. Beijing Hanhua was established on August 11, 2006 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB300 million.

Each of the above subsidiaries has obtained approval for providing financing guarantee services from its respective competent government authority.

#### 2. SME Lending Business

As of the Latest Practicable Date, the Company carried out its SME lending services mainly through the following subsidiaries: (i) Nanning Micro-credit; (ii) Chongqing Micro-credit; (iii) Sichuan Micro-credit; (iv) Tianjin Micro-credit; (v) Shenyang Micro-credit; (vi) Changchun Micro-credit; (vii) Xi'an Micro-credit; (viii) Kunming Micro-credit; and (ix) Guiyang Micro-credit. For the details of the shareholding structure of each of the above subsidiaries, see “— Corporate Structure.”

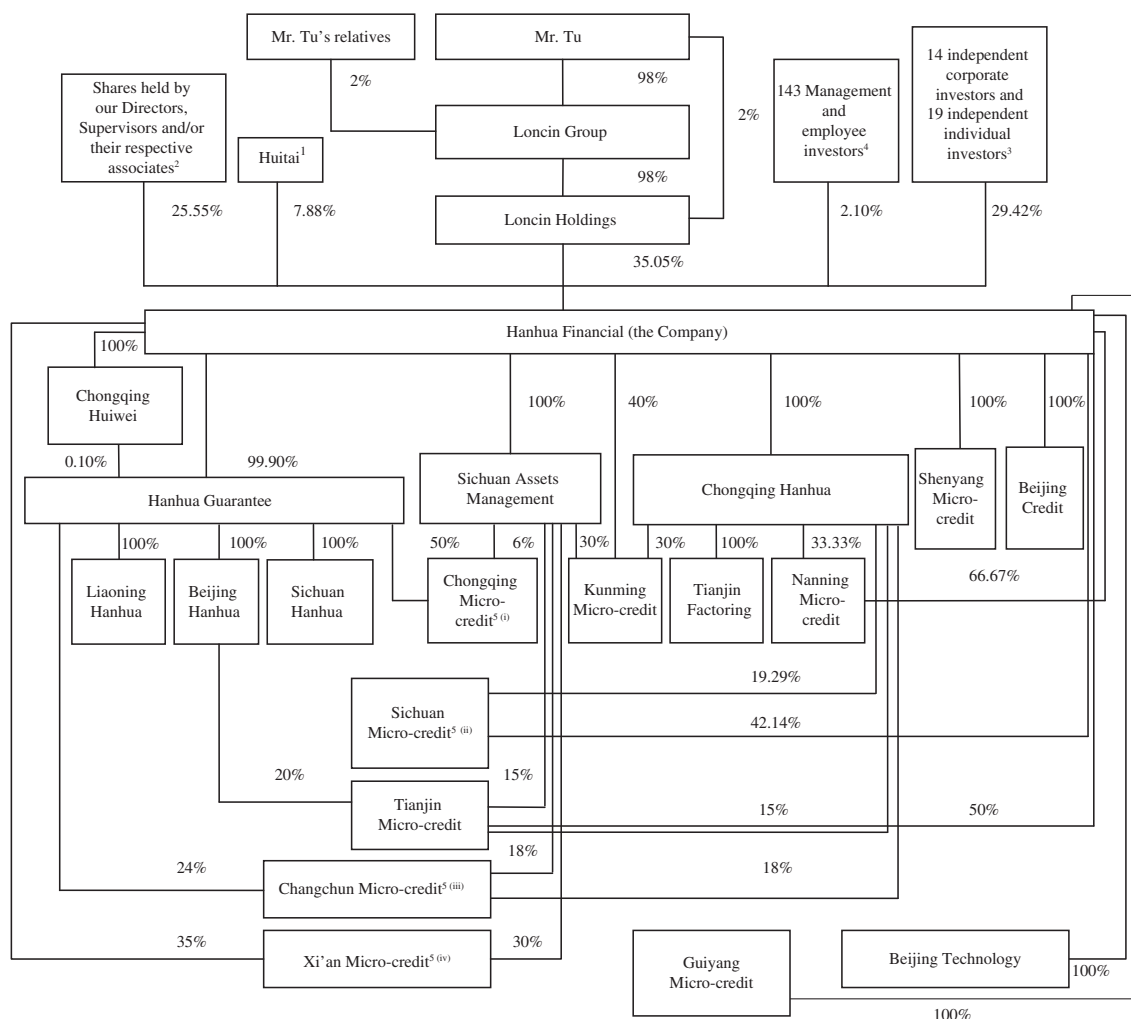
Nanning Micro-credit was established on December 8, 2011 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB150 million. Chongqing Micro-credit was established on September 25, 2008 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB500 million. Sichuan Micro-credit was established on May 19, 2009 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB700 million. Tianjin Micro-credit was established on June 29, 2011 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB100 million. Shenyang Micro-credit was established on September 30, 2011 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB300 million. Changchun Micro-credit was established on January 25, 2013 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB150 million. Xi'an Micro-credit was established on September 12, 2013 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB400 million. Kunming Micro-credit was established on December 6, 2013 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB200 million. Guiyang Micro-credit was established on April 10, 2014 in the PRC, and as of the Latest Practicable Date had a registered capital of RMB50 million. Each of our subsidiaries has obtained approval for providing loan services from its respective competent government authority.

For more details of the business conducted by our subsidiaries, see “Business.”

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## CORPORATE STRUCTURE

The following chart sets out our ownership and corporate structure immediately prior to the Global Offering:



### Notes:

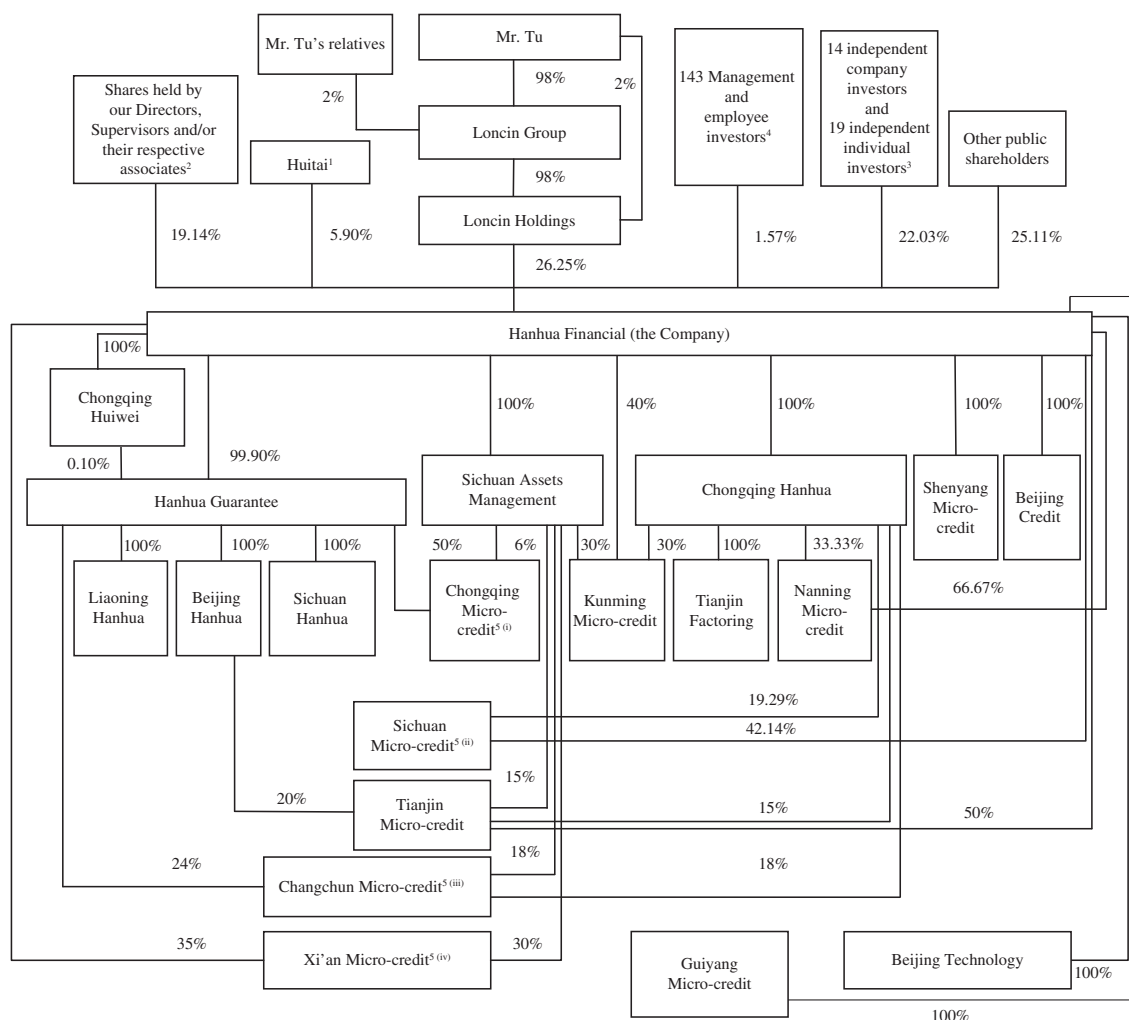
- In June 2013, Li Ruping (one of our Supervisors) transferred approximately 45.9% of his equity interest in Huitai in total to Zhang Guoxiang (one of our executive Directors), Lin Feng (one of our executive Directors) and twelve other senior management members under the Share Incentive Scheme, as a result of which, Zhang Guoxiang, Lin Feng and Li Ruping held approximately 62.1%, 5.6% and 4.1% of Huitai, respectively, and the other 12 senior management members held the remaining 28.2% of Huitai. Huitai agreed to follow Loncin Holdings in exercising its voting right. For more details, see “Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme.” As Huitai will remain majority-owned by Zhang Guoxiang upon the Listing, its interest in our Company will be deemed as an interest held by our Connected Person.
- The interests held by our Directors, Supervisors and/or their respective associates include:
  - Chongqing Jiulong, who held approximately 6.75% of the then equity interest of Hanhua Financial, was held as to 55% by Wang Fangfei (one of our non-executive Directors).

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (B) Zhou Daoxue (one of our Supervisors) held approximately 2.34% of the then equity interest of Hanhua Financial.
  - (C) Zhang Guoxiang (one of our executive Directors), Li Ruping (one of our Supervisors), Lin Feng (one of our executive Directors), Chen Zhonghua (one of our Supervisors) and Liu Jiaoyang (one of our non-executive Directors) held approximately 0.08072%, 0.06431%, 0.06002%, 0.01286% and 0.01286% of the then equity interest of Hanhua Financial, respectively.
  - (D) Chongqing Renhe, which held approximately 1.75% of the then equity interest of Hanhua Financial, was held as to 98% by Zhou Hongyu, nephew of Zhou Daoxue (one of our Supervisors).
  - (E) Sichuan Hongrun Trading Co., Ltd, which held approximately 3.50% of the then equity interest of Hanhua Financial, was held as to 75% by Liu Bolin (one of our non-executive Directors).
  - (F) Puzhao Hengyi, which held approximately 1.56% of the then equity interest of Hanhua Financial, was held as to 80% by Feng Yonglin (brother of Feng Yongxiang, one of our non-executive Directors) and as to 10% by Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors).
  - (G) Wang Mingyue (daughter of Liu Tingrong, one of our non-executive Directors) held approximately 7.87% of the then equity interest of Hanhua Financial.
  - (H) Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors) held approximately 1.56% of the then equity interest of Hanhua Financial.
3. The corporate and individual investors are Independent Third Parties.
4. Our management members and employees who became our Shareholders pursuant to the capital increase agreement dated March 13, 2013. None of them was a director, supervisor or chief executive or otherwise falling within the definition of Connected Person.
5. In respect of each of the three non-wholly owned subsidiaries of the Company, their respective equity interest not held by our Group are held by Independent Third Parties:
- (i) the remaining 44% of the equity interest are held by Chongqing Yuanda Yinwu Co., Ltd. (重慶遠大印務有限公司) (10%), Chongqing East China Materials (Group) Co., Ltd. (重慶華南物資(集團)有限公司) (10%), Shanghai Baohe Industrial Co., Ltd. (上海寶合實業股份有限公司) (10%), Chongqing Taoranju Food Culture (Group) Co., Ltd. (重慶陶然居飲食文化(集團)有限公司) (6%), Chongqing Huiyuan Investment Co., Ltd. (重慶惠遠投資有限公司) (4%), Wu Fanfan (吳凡凡) (2%), Chongqing Road & Bridge Engineer Co., Ltd. (重慶市涪陵路橋工程有限公司) (1%) and Li Qiujun (李秋君) (1%);
  - (ii) the remaining 38.57% of the equity interest are held by Li Tong (李彤) (2.85%); Chengdu Huachuan Highway Construction Group Co., Ltd. (成都華川公路建設集團有限公司) (14.29%); Sichuan Chuanzhixin Commercial Trading Co., Ltd. (四川川之信商貿有限公司) (7.14%) and Chengdu Metallic Materials Co., Ltd. (成都市金屬材料有限公司) (14.29%);
  - (iii) the remaining 40% of the equity interest are held by Zhang Yayun (張亞云) (10%), Wang Jinghui (王景惠) (7%), Zhao Lixin (趙麗新) (7%), Zhang Minghao (張洺豪) (6%), Zhao Junfeng (趙俊鋒) (5%), Sun Shaohong (孫紹紅) (3%) and Zhang Ligong (張立功) (2%); and
  - (iv) the remaining 35% of the equity interest are held by Xi'an Tiexing Industrial and Commercial Co., Ltd. (西安鐵興工貿有限責任公司) (10%), Xi'an Wanlong Materials Trade Co., Ltd. (西安萬龍物資貿易有限公司) (10%), Baoji Jinyuan Investment Development Co., Ltd. (寶雞市金源投資發展有限公司) (10%) and Zhang Xiaonan (張曉南) (5%).

## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets out our ownership and corporate structure immediately after the Global Offering assuming the Over-allotment Option is not exercised:



### Notes:

1. Zhang Guoxiang (one of our executive Directors), Lin Feng (one of our executive Directors) and Li Ruping (one of our Supervisors) will hold approximately 62.1%, 5.6% and 4.1% of Huitai, respectively. Huitai agreed to follow Loncin Holdings in exercising its voting right. For more details, see “Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme.” As Huitai will remain majority-owned by Zhang Guoxiang upon Listing, its interest in our Company will be deemed as an interest held by our Connected Person.
2. The interests to be held by our Directors, Supervisors and/or their respective associates include:
  - (A) Chongqing Jiulong, who will hold approximately 5.24% of the equity interest of Hanhua Financial, is held as to 55% by Wang Fangfei (one of our non-executive Directors).
  - (B) Zhou Daoxue (one of our Supervisors) will hold approximately 1.81% of the equity interest of Hanhua Financial.
  - (C) Zhang Guoxiang (one of our executive Directors), Li Ruping (one of our Supervisors), Lin Feng (one of our executive Directors), Chen Zhonghua (one of our Supervisors) and Liu Jiaoyang (one of our non-executive Directors) will hold approximately 0.06267%, 0.04993%, 0.04660%, 0.00999% and 0.00999% of the equity interest of Hanhua Financial, respectively.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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- (D) Chongqing Renhe, which will hold approximately 1.36% of the equity interest of Hanhua Financial, is held as to 98% by Zhou Hongyu, nephew of Zhou Daoxue (one of our Supervisors).
  - (E) Sichuan Hongrun Trading Co., Ltd, which will hold approximately 2.72% of the equity interest of Hanhua Financial, is held as to 75% by Liu Bolin (one of our non-executive Directors).
  - (F) Puzhao Hengyi, which will hold approximately 1.21% of the then equity interest of Hanhua Financial, is held as to 80% by Feng Yonglin (brother of Feng Yongxiang, one of our non-executive Directors) and as to 10% by Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors).
  - (G) Wang Mingyue (daughter of Liu Tingrong, one of our non-executive Directors) will hold approximately 6.11% of the equity interest of Hanhua Financial.
  - (H) Yu Zhaoheng (mother of Feng Yongxiang, one of our non-executive Directors) will hold approximately 1.21% of the equity interest of Hanhua Financial.
3. The corporate and individual investors are Independent Third Parties.
4. Our management members and employees who became our Shareholders pursuant to the capital increase agreement dated March 13, 2013. None of them was a director, supervisor or chief executive or otherwise falling into the definition of Connected Person.
5. In respect of each of the non-wholly owned subsidiaries of the Company, their respective equity interest not held by our Group are held by Independent Third Parties:
- (i) the remaining 44% of the equity interest are held by Chongqing Yuanda Yinwu Co., Ltd. (重慶遠大印務有限公司) (10%), Chongqing East China Materials (Group) Co., Ltd. (重慶華南物資(集團)有限公司) (10%), Shanghai Baohe Industrial Co., Ltd. (上海寶合實業股份有限公司) (10%), Chongqing Taoranju Food Culture (Group) Co., Ltd. (重慶陶然居飲食文化(集團)有限公司) (6%), Chongqing Huiyuan Investment Co., Ltd. (重慶惠遠投資有限公司) (4%), Wu Fanfan (吳凡凡) (2%), Chongqing Road & Bridge Engineer Co., Ltd. (重慶市涪陵路橋工程有限公司) (1%) and Li Qiujun (李秋君) (1%);
  - (ii) the remaining 38.57% of the equity interest are held by Li Tong (李彤) (2.85%); Chengdu Huachuan Highway Construction Group Co., Ltd. (成都華川公路建設集團有限公司) (14.29%); Sichuan Chuanzhixin Commercial Trading Co., Ltd. (四川川之信商貿有限公司) (7.14%) and Chengdu Metallic Materials Co., Ltd. (成都市金屬材料有限公司) (14.29%);
  - (iii) the remaining 40% of the equity interest are held by Zhang Yayun (張亞云) (10%), Wang Jinghui (王景惠) (7%), Zhao Lixin (趙麗新) (7%), Zhang Minghao (張洺豪) (6%), Zhao Junfeng (趙俊鋒) (5%), Sun Shaohong (孫紹紅) (3%) and Zhang Ligong (張立功) (2%); and
  - (iv) the remaining 35% of the equity interest are held by Xi'an Tiexing Industrial and Commercial Co., Ltd. (西安鐵興工貿有限責任公司) (10%), Xi'an Wanlong Materials Trade Co., Ltd. (西安萬龍物資貿易有限公司) (10%), Baoji Jinyuan Investment Development Co., Ltd. (寶雞市金源投資發展有限公司) (10%) and Zhang Xiaonan (張曉南) (5%).



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## BUSINESS

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### OVERVIEW

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

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

<u>Financing Guarantee</u>	<u>Non-financing Guarantee</u>
Bank financing guarantees	Contract bonds
Non-bank financing guarantees	Attachment bonds

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

As of March 31, 2014, we were the largest credit guarantee company in terms of the number of provinces covered by our credit guarantee network, and the third-largest lender of micro and small loans in China in terms of the number of provincial-level cities covered by our micro and small loan network; and we ranked fifth and third, respectively, in the industry by the respective paid-in capital of our credit guarantee business and micro and small loan business, according to Euromonitor.

### Credit Guarantee

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

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



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As of December 31, 2011, 2012 and 2013, our outstanding financing guarantees totaled RMB12,193.7 million, RMB13,399.1 million and RMB20,154.1 million, respectively, and our outstanding non-financing guarantees totaled RMB2,018.8 million, RMB1,287.1 million and RMB1,146.1 million, respectively. In 2011, 2012 and 2013, segment revenue from our credit guarantee business amounted to RMB467.2 million, RMB807.8 million and RMB964.5 million, respectively.

### **SME Lending**

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

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

As of December 31, 2011, 2012 and 2013, our total outstanding loans and advances to customers totaled RMB1,665.3 million, RMB2,045.6 million and RMB4,777.4 million, respectively. In 2011, 2012 and 2013, segment revenue from our SME lending business amounted to RMB403.1 million, RMB335.5 million and RMB612.2 million, respectively.

As of December 31, 2013, 52.3% of our outstanding guarantees, 86.4% of our outstanding micro and small loans and 45.1% of our entrusted loans were not secured with collateral. As a majority of SMEs and microenterprises in China have significant financing needs that have been largely underserved by the banking industry, our ability to provide credit-based financing solutions differentiates us from many traditional commercial banks in China, which are typically geared towards asset-based lending.

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

### OUR STRENGTHS

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

#### **A leading integrated financial services company in China with national presence**

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

We have established one of the most extensive branch networks. According to Euromonitor, as of March 31, 2014, we were the largest credit guarantee company in China in terms of the number of provinces covered by our credit guarantee network; and the third largest micro and small loan company in China in terms of the number of provincial-level cities covered by our micro and small loan network.

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

- **Extensive network coverage difficult for competitors to match:** As of the Latest Practicable Date, our credit guarantee network covered 19 provinces and our micro and small loan network covered nine provincial-level cities in China. Our success in expanding our branch network across major economic regions in China is premised upon our ability to quickly replicate our industry experience gained from established regions with locally adapted implementation, supported by centralized risk management and information systems, streamlined business processes and standardized local management structure. We believe that our integrated and extensive nationwide network is difficult for our competitors to match.
- **Close relationship with commercial banks in China:** Effective cooperation with commercial banks is key to our bank financing guarantee business. Our established track record, strong financial and operational strength and strong brand name have gained us confidence from various commercial banks in China and allowed us to develop close business relationships with them. As of December 31, 2013, we had entered into cooperation agreements with 65 commercial banks in China which had agreed to extend in aggregate over RMB38.0 billion of credit lines to borrowers we guarantee.

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- **Great potential in expanding cooperation with non-bank financial institutions:** During the Track Record Period, we partnered with non-bank financial institutions, such as trust companies, financial leasing companies, the Chongqing Financial Assets Exchange and insurance companies, for providing non-bank financing guarantees. In addition, we received an “AA” long-term corporate rating with positive outlook from Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. in 2013 and an “AA” long-term corporate rating from Pengyuan Credit Rating Co., Ltd. in 2013, which enable us to guarantee corporate bond offerings in China, further enhancing our ability to cooperate with non-bank business partners. As of December 31, 2013, our outstanding non-bank financing guarantees increased to RMB4,260.6 million, compared to RMB1,478.9 million as of December 31, 2012.
- **A diverse customer base:** We believe that the strategic and extensive coverage of our branch network enables us to provide our geographically distributed and diverse groups of customers with customized, expedient and service-oriented services, which further enhance our brand recognition and customer loyalty. In 2013, we serviced approximately 3,700 guarantee customers and 13,800 micro and small loan customers.

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

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

- “Famous Trademark in China” by the SAIC in 2011, the first among all Chongqing-based financial services companies;
- “Top 50 Privately-owned Enterprises in Chongqing” by the Chongqing government in 2012; and
- “The Most Credible SME Credit Guarantee Company” in 2012 by Conference of National SME Credit Guarantee and Re-Guarantee Entities Association (全國中小企業信用擔保再擔保機構負責人聯席會議).

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

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

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- enabled us to build a strong brand reputation as a preferred partner for (i) SMEs and microenterprises seeking financing solutions in China and (ii) commercial banks and other financial institutions which intend to increase their exposure to the SME and microenterprise industry in China;
- enabled us to utilize our industry knowledge and expertise to better meet the diverse financing needs of SMEs and microenterprises by developing and offering customized, credit-based financing solutions that are more flexible and efficient compared to those offered by traditional commercial banks; and
- allowed us to build long-term and enduring relationships with our SME and microenterprise customers.

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

Leveraging our over nine years of operating history in serving the financing needs of SMEs and microenterprises across China as well as our specialized insight into the business and credit environment they face, we have been able to provide various financing solutions based primarily on the creditworthiness of our customers, differentiating us from many traditional commercial banks in China. As of December 31, 2013, 52.3% of our outstanding guarantees, 86.4% of our outstanding micro and small loans and 45.1% of our entrusted loans were not secured by collateral. As a majority of SMEs and microenterprises in China may lack acceptable collateral that traditional commercial banks often require but have significant financing needs that have been largely underserved by the banking industry in China, our credit-based financing solutions help bridge the “credit gap” between creditworthy SMEs/microenterprises and traditional commercial banks.

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

Through our effective credit evaluation and risk management system, together with our ability to maintain a guarantee and loan portfolio with (i) a highly diverse customer base across China, (ii) manageable transaction sizes and (iii) a relatively short maturity period, we have been effective in minimizing our credit and concentration risks. The default rate was 0.4%, 1.2% and 1.6%, respectively, in our credit guarantee business in 2011, 2012 and 2013 and the impaired loan ratio was 4.2%, 3.1% and 2.6%, respectively, in our SME lending business, as of December 31, 2011, 2012 and 2013.

### Experienced and motivated management team

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

- **Experience and expertise:** A majority of our senior management team has over 15 years of experience in the legal and financial industries, such as banking, securities and insurance industries. Some of our senior management also possess extensive working experience in well-reputed national or multinational financial institutions, who bring in valuable industry awareness and risk management skills to enhance our management capability. In addition, a majority of our senior management team has served our Company for an average of seven years and gained extensive experience in servicing SMEs and microenterprises. Our management is committed to establishing a capable and motivated leadership team that cultivates a market-oriented corporate culture, encourages innovation and operating efficiency and focuses on staying sensitive to changing conditions in the SME and microenterprise sector and regulatory developments in the financial services industry.
- **Reputation:** We believe that our senior management is highly regarded in the industry. In particular, our president, Mr. Zhang Guoxiang, was awarded “The Leader for the PRC SME Credit Guarantee Companies” in 2009 and “Person of the Year (2011) in the micro-credit industry” in 2012 and “Top ten economic figures in Chongqing” in 2011.
- **Professional workforce:** We have a highly diligent and professional workforce. As of December 31, 2013, 80.0% of our employees had a bachelor’s or higher degree in finance, accounting, law, management and other related studies. Our group of employees remains relatively stable and we believe that our employees have gained valuable insights in the SME and microenterprise sector and the credit environment in the different regions that they serve.
- **Aligned with shareholder interests:** Most members of our senior management team hold equity stakes in our Company, sharing the same interests as our shareholders.
- **Performance-driven culture:** Our employees are properly trained on a regular basis. We have a performance-based and career-driven corporate culture, which provides greater personal autonomy to our employees and encourages sales and marketing staff to source and service their customers as if it were their own personal business. We believe our ability to retain professional and motivated employees has contributed to our success by maintaining and improving upon the strict standards of our risk management system, as well as by providing trustworthy and professional financing solutions to our customers.

### **Strong financial and operational strength**

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

#### ***Strong financial strength:***

- **Substantial capital base:** We have one of the largest capital bases in the industry. As of March 31, 2014, we ranked fifth and third, respectively, in the industry by our paid-in capital for credit guarantee business and micro and small loan business in China, according to Euromonitor.
- **Strong financial performance:** We have a strong track record of revenue and profit growth, together with an attractive return on equity. Our net fee and interest income grew from RMB870.3 million in 2011 to RMB1,576.7 million in 2013, representing a CAGR of 34.6%. Our return on average equity (equal profit divided by the average balance of total equity as of the beginning and end of a period) was 29.2%, 22.9% and 9.0% in 2011, 2012 and 2013, respectively.

#### ***Strong operational strength:***

- **Efficiency ratio:** We believe we have established a lean and efficient operating platform, which allows us to enjoy high operating leverage and remain competitive on product pricing. Our cost/income ratio (equal administrative expenses divided by the net fee and interest income) was 28.7%, 31.2% and 44.6% in 2011, 2012 and 2013, respectively. The significant increase in cost/income ratio in 2013 was primarily due to a non-cash share-based payment expense of RMB144.2 million as a result of our newly-implemented share incentive scheme in June 2013.
- **Solid ratings:** Based on our strong capital base, effective risk management measures and proven business growth, we received an “AA” long-term corporate rating with positive outlook from Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. in 2013 and an “AA” long-term corporate rating from Pengyuan Credit Rating Co., Ltd. in 2013. We also received an “AAA-” credit rating from China Lianhe Credit Rating Co., Ltd. in 2012.

### OUR STRATEGIES

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

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

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

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

#### *Strategic expansion of our branch network*

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

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



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

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

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

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

- ***Non-bank financing guarantee:*** Historically, we have achieved market leadership in our bank financing guarantee and micro and small loan segments and expanded into the emerging non-bank financing guarantee products, such as bond insurance, repurchase transaction guarantees, guarantee insurance, trust loan guarantees and finance lease guarantees. We believe non-bank financial institutions will play an increasingly important role in China's financial market as it continues to mature and open up, offering a greater variety of financing alternatives to support the business growth of SMEs in China. We intend to strengthen our cooperation with corporate bond issuers and non-bank financial institutions, such as trust companies, financial leasing companies, factoring firms, securities firms and asset management firms to further expand our non-bank financing guarantee business.
- ***Commercial contract bonds:*** A well-recognized brand name that is associated with credit assurance and credit reliability is critical to the successful offering of capital efficient and non-financing guarantee products. As we continue to gain greater nationwide brand recognition as a reliable credit partner among financial institutions, SMEs and microenterprises, we intend to leverage our established experience in offering contract bonds to expand into the development and offering of commercial contract bonds to guarantee SMEs' and microenterprises' performance of their commercial obligations.



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

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

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

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

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

- developing customized and multiphased risk management systems to capture a more comprehensive coverage over our business processes and accommodate a more specified business and product delineation;
- enhancing our risk management tools through the incorporation of additional quantifiable metrics, such as VaR, to perform risk analysis and determine the risk exposure in our asset portfolio; and
- developing a real-time risk monitoring and alert system.

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

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

***Exploring new sales and marketing channels***

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

***Attracting, retaining, motivating and developing talented and experienced professionals***

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

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

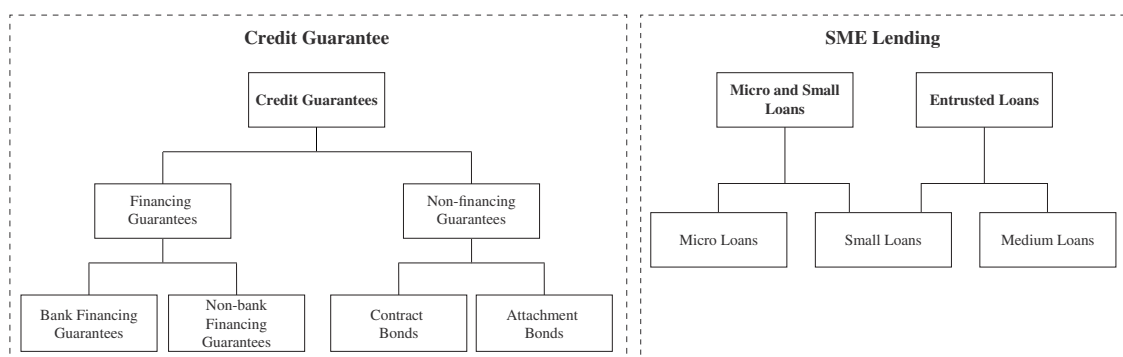
- enhance our human resources management to meet our growth plans and our business needs;
- focus on attracting and retaining qualified professionals by offering a performance-based and market-driven compensation structure that rewards performance and results, and implement an employee share incentive scheme to incentivize existing employees, subject to applicable regulations; and

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

### PRODUCTS AND SERVICES

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



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

	Year ended December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
<b>(RMB in millions, except percentages)</b>						
<b>Credit Guarantee</b>						
Net guarantee and consulting fee income . . .	452.7	52.0%	784.5	68.6%	913.1	57.9%
Net interest and handling fee income <sup>(1)</sup> . . .	14.5	1.7	23.3	2.1	51.4	3.3
	<u>467.2</u>	<u>53.7</u>	<u>807.8</u>	<u>70.7</u>	<u>964.5</u>	<u>61.2</u>
<b>SME Lending</b>						
Net interest and handling fee income . . . . .	403.1	46.3	335.5	29.3	612.2	38.8
<b>Total</b> . . . . .	<b><u>870.3</u></b>	<b><u>100.0%</u></b>	<b><u>1,143.3</u></b>	<b><u>100.0%</u></b>	<b><u>1,576.7</u></b>	<b><u>100.0%</u></b>

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

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### Credit Guarantee

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

- *Financing guarantees:* bank financing guarantees and non-bank financing guarantees; and
- *Non-financing guarantees:* contract bonds and attachment bonds.

Segment revenue from our credit guarantee business totaled RMB467.2 million, RMB807.8 million and RMB964.5 million in 2011, 2012 and 2013, respectively, representing 53.7%, 70.7% and 61.2% of our net fee and interest income, respectively.

### *Financing Guarantee*

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

We primarily offer two types of financing guarantees:

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

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

	As of December 31,		
	2011	2012	2013
Net assets of credit guarantee business			
(RMB in millions) . . . . .	2,514.7	2,849.8	3,506.3
Balance of outstanding financing guarantees			
(RMB in millions) . . . . .	12,193.7	13,399.1	20,154.1
Leverage ratio <sup>(1)</sup> . . . . .	4.8	4.7	5.7

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

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

### *Bank financing guarantee*

Bank financing guarantee is the core of our credit guarantee business. As of December 31, 2011, 2012 and 2013, our bank financing guarantees totaled RMB11,881.4 million, RMB11,920.2 million and RMB15,893.5 million, respectively, representing 97.4%, 89.0% and 78.9% of our total financing guarantees, respectively. During the same periods, fee income from our bank financing guarantees accounted for 50.2%, 65.2% and 52.1% of our total net fee and interest income. The continued increase in our bank financing guarantees during the Track Record Period was primarily due to our increased capital base and expanded credit guarantee network across China.

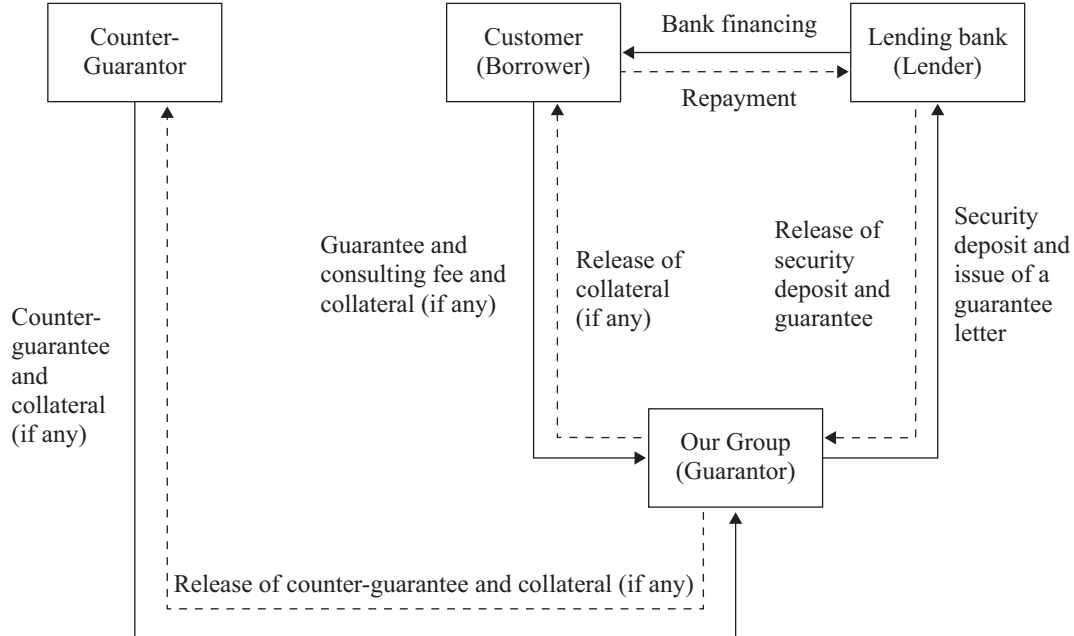
Bank financing guarantee refers to the guarantees we provide to banks for our customers to obtain various bank financing, principally bank loans. We primarily guarantee bank financing ranging from RMB3.0 million to RMB30.0 million based on our risk assessment and return requirements. Most of the bank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

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



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

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

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

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

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

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

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

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

	Year ended December 31,		
	2011	2012	2013
	(RMB in millions)		
Standard bank financing guarantees . . . . .	9,900.8	11,879.9	13,895.5
Fully secured bank financing guarantees . . . . .	383.4	1,234.8	867.7
<b>Total . . . . .</b>	<b>10,284.2</b>	<b>13,114.7</b>	<b>14,763.2</b>

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

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

<b>Key Term</b>	<b>Summary</b>
<i>Term of cooperation</i>	Usually one year and renewable upon expiration.
<i>Total guarantee amount</i>	The maximum amount of financing we can guarantee depends on our track record, credit standing and capital base. Normally, the maximum amount is set out in the framework agreement at a fixed amount. At times, the maximum amount is set at an amount multiplying the security deposits placed with the relevant bank.
<i>Security deposits</i>	Usually 5% to 15% of the bank financing amount we guarantee, to be deposited with the banks before the bank financing is released to our guarantee customers. In general, the proportion of the security deposits relative to the amount we guarantee depends on our business relationship and track record with them.
<i>Operating covenants</i>	<p>The bank may normally require us to comply with certain operating covenants as follows:</p> <ul style="list-style-type: none"><li>(i) aggregate amount guaranteed must not exceed six to ten times our net assets;</li><li>(ii) the amount of guarantee for a single customer must not exceed 10% of our net assets; and</li><li>(iii) the amount of guarantee for a single customer and its affiliates must not exceed 15% of our net assets.</li></ul> <p>Except as disclosed in “— Legal Proceedings and Compliance — Non-compliance Incidents,” our Directors confirmed that we have not breached these operating covenants during the Track Record Period.</p>



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<b>Key Term</b>	<b>Summary</b>
<i>Consequences of breaching the operating covenants</i>	<p>In the event of breaching the operating covenants, the bank may take the following actions:</p> <ul style="list-style-type: none"><li>• terminate the framework agreements prior to the termination date;</li><li>• refuse to approve new loan applications guaranteed by us;</li><li>• deduct the amounts due to the banks directly from our settlement accounts or security deposit accounts with the relevant bank;</li><li>• downgrade our credit rating with the bank;</li><li>• decrease the total guarantee amounts granted to us; or</li><li>• request more security deposits or other types of collateral from us.</li></ul>
<i>Default payment arrangements</i>	<p>We would normally assist the banks in collecting the outstanding amount guaranteed by us and, once the borrower defaults on the loan, the bank may consider granting a grace period to the borrower or call upon our guarantee directly, in which case we will repay the defaulted payment on the borrower's behalf.</p>
<i>Renewal/termination clause</i>	<p>Normally, the framework agreements may be renewed or terminated as agreed by both parties.</p>
<i>Maximum total outstanding guarantee amount provided by us</i>	<p>Usually ten times our net assets.</p>
<i>Maximum guarantee amount provided by us to a single customer</i>	<p>Usually 10% of our net assets.</p>
<i>Fee arrangements</i>	<p>We do not pay any fees to, or receive any income from, our cooperating banks under the framework agreements. We earn guarantee and consulting fee income directly from our customers.</p>

We believe that we maintain good relationships with commercial banks. The number of our cooperating banks increased steadily from 49 as of December 31, 2011, to 59 as of December 31, 2012, and further increased to 65 as of December 31, 2013. During the Track Record Period and up to the Latest Practicable Date, none of our cooperating banks has terminated its business relationship with us, and none of them has tightened their cooperating terms with us. In addition, in 2011, 2012 and 2013, the security deposits required by our cooperating banks generally ranged from 5% to 15% of amounts guaranteed, and averaged 9.1%, 8.8% and 7.9%, respectively, indicating a decreasing trend as a result of our enhanced bargaining power and improved recognition from our cooperating banks. During the Track Record Period, our cooperation agreement with one cooperating bank was not renewed after it expired in 2011, as we considered that cooperating bank may not properly satisfy our customers' needs due to its relatively long loan approval process and strict requirements on

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granting loans. In 2011, our maximum outstanding guarantees with such cooperating bank were approximately RMB200 million, which only accounted for approximately 1.4% of our total outstanding guarantees as of December 31, 2011.

### *Non-bank financing guarantee*

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

	As of December 31,		
	2011	2012	2013
	(RMB in millions)		
Repurchase transaction guarantees . . . . .	229.0	499.0	1,098.9
Capital preservation public fund guarantees . . . . .	–	–	1,000.0
Bond insurance. . . . .	–	370.0	544.7
Micro and small loans guarantees . . . . .	6.0	290.8	636.7
Guarantee insurance. . . . .	42.2	253.3	766.5
Trust loan guarantees and finance lease guarantees . . . . .	35.1	65.8	213.8
<b>Total . . . . .</b>	<b>312.3</b>	<b>1,478.9</b>	<b>4,260.6</b>

As part of our strategy to expand our product and service offering and diversify our revenue source, we have increased our cooperation with non-bank financial institutions and expanded our guarantees to direct financing activities. As a result, our outstanding non-bank financing guarantees increased substantially from RMB312.3 million as of December 31, 2011, to RMB4,260.6 million as of December 31, 2013.

- *Repurchase transaction guarantees*

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

Taking advantage of the increasing market acceptance of structured transactions, we have guaranteed an aggregate of 108 repurchase transactions that were traded on the Chongqing Financial Assets Exchange as of December 31, 2013. As of December 31, 2013, our repurchase transaction guarantees amounted to RMB1,098.9 million. The term of these repurchase transactions typically ranges from 6 to 12 months.

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

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

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

- *Capital preservation public fund guarantees*

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

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

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

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

- *Bond insurance*

In 2012, we started to guarantee bonds issued by SMEs in China, whereby we guarantee the scheduled payments of interest and principal on the bonds in the event of a default by the issuer. Bond insurance is a form of “credit enhancement,” which generally increases the credit rating of the bonds issued and makes them more appealing to investors. We had guaranteed seven bond offerings, with an aggregate principal amount guaranteed of RMB544.7 million, as of December 31, 2013. These bonds will mature within one to five years.

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

Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. is a national credit-rating agency specializing in credit rating, credit management consultation and other credit-related services. It is recognized by the PBOC, NDRC, CIRC and CSRC. Pengyuan Credit Rating Co.,

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

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

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

- *Micro and small loans guarantees*

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

As of December 31, 2011, 2012 and 2013, our micro and small loans guaranteed by our guarantee subsidiaries were RMB6.0 million, RMB125.0 million and RMB483.9 million, representing 0.04%, 0.9% and 2.3% of our total guarantees outstanding, respectively, and 0.5%, 7.2%, and 14.4% of our outstanding micro and small loans, respectively. For our micro and small loans guaranteed by our credit guarantee subsidiaries, we generated RMB0.3 million, RMB5.7 million and RMB26.4 million in guarantee fees and RMB1.6 million, RMB9.7 million and RMB44.1 million in interest and handling fees in 2011, 2012 and 2013, respectively.

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During the Track Record Period, substantially all of our micro and small loans guaranteed by our guarantee subsidiaries were repaid when due. The default rate of these micro and small loan guarantees was nil, 1.2% and 0.8% as of December 31, 2011, 2012 and 2013, respectively.

- *Guarantee insurance*

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

Our outstanding guarantees provided to third-party guarantors increased to RMB766.5 million as of December 31, 2013, compared to RMB253.3 million as of December 31, 2012.

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

<u>Key Term</u>	<u>Summary</u>
<i>Term of cooperation</i>	Typically one year.
<i>Guarantee scope</i>	A total guarantee amount agreed by both parties, with a maximum limit on each single guarantee.
<i>Guarantee fee</i>	No guarantee fee arrangement is made between us and the third-party guarantors. The borrowers pay insurance fees to the third-party guarantor and guarantee fees to us.
<i>Termination clause</i>	In general, third-party guarantors can terminate the cooperation with us under the following circumstances: <ul style="list-style-type: none"><li>• occurrence of three incidents in a year where we fail to make repayment to the third-party guarantor within 30 days of such repayment becoming due; or</li><li>• our refusal to make repayment.</li></ul>
<i>Amendment clause</i>	The agreements can be amended from parties in writing.

- *Trust loan guarantees and finance lease guarantees*

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

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

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### *Non-financing Guarantee*

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

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

### *Contract bonds*

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

Our principal products included in this category are:

- *performance bond*: a guarantee that a contractor will perform the work as specified by the contract;
- *bid bond*: a guarantee that a contractor will enter into a contract if awarded the bid;
- *prepayment bond*: a guarantee that a contractor will use the funds prepaid by the project owner for permitted purposes only; and
- *maintenance bond*: a guarantee that a contractor will provide repair and maintenance of a completed project for a specified period of time after completion.

As of December 31, 2011, 2012 and 2013, our outstanding contract bonds amounted to RMB900.4 million, RMB492.7 million and RMB334.8 million, respectively.

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

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### *Attachment bonds*

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

As of December 31, 2011, 2012 and 2013, our outstanding attachment bonds amounted to RMB1,118.4 million, RMB794.4 million and RMB811.3 million, respectively. Due to the lower margin of this product, we reduced the offering of attachment bonds in 2012 and 2013 as compared to 2011, to focus more on guarantee products with higher margins, such as financing guarantees.

### *Guarantee and Consulting Fees*

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

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

	Year ended December 31,		
	2011	2012	2013
	(%)		
<b>Financing guarantees</b> . . . . .	<b>4.22%</b>	<b>5.55%</b>	<b>5.25%</b>
Bank financing guarantees . . . . .	4.24	5.69	5.57
– Bank financing guarantees (excluding fully secured bank financing guarantees) . . . . .	3.57	4.06	4.57
– Fully secured bank financing guarantees <sup>(1)</sup> . . . . .	21.50	21.34	21.58
Non-bank financing guarantees . . . . .	3.08	3.45	3.43
<b>Non-financing guarantees</b> . . . . .	<b>0.72%</b>	<b>0.63%</b>	<b>0.51%</b>

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



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Our average guarantee and consulting fee rate for bank financing guarantees increased from 4.24% in 2011 to 5.69% in 2012 and to 5.57% in 2013, mainly because we raised our fee rate to compensate for a greater risk exposure and the cost of cash we placed with banks on the customer's behalf after we discontinued our practice of taking customer deposits in 2012 according to the 2012 Notice.

Our fee rate for non-bank financing guarantees during the Track Record Period remained relatively stable. The average guarantee and consulting fee rate of our non-bank financing guarantees decreased from 3.45% in 2012 to 3.43% in 2013, due primarily to our offering of capital preservation public fund guarantees in 2013 for which we charge a lower fee rate for their lower risk profile.

Our non-financing guarantee business typically involves a wider range of guarantee and consulting fee rates depending on the repayment ability of customers and the risks of the underlying projects guaranteed. Therefore, our average guarantee and consulting fee rates may fluctuate, subject to the type of non-financing guarantees, customers base and the underlying projects guaranteed during those periods. Our average guarantee and consulting fee rate for non-financing guarantees was 0.72%, 0.63% and 0.51% in 2011, 2012 and 2013, respectively. The decreases in our average fee rate in 2012 and 2013 were a result of cautious selection of customers with stronger repayment ability and consequently lower fee rates.

***Branch Network***

As of the Latest Practicable Date, we operated our credit guarantee business through our credit guarantee network consisting of four credit guarantee subsidiaries and 23 credit guarantee branch offices in 19 provinces in China. The following map shows the expansion of our credit guarantee network from December 31, 2011 to the Latest Practicable Date:



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

***Customers and Guarantee Contracts***

By leveraging our extensive credit guarantee network, we have increased the number of our guarantee customers. The numbers of our guarantee customers we serviced were approximately 2,500, 2,800 and 3,700 in 2011, 2012 and 2013.

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

	Year ended December 31,					
	2011		2012		2013	
	(number of contracts)	% of total	(number of contracts)	% of total	(number of contracts)	% of total
Up to RMB3 million . . . . .	1,515	49.9%	1,840	51.6%	2,471	50.0%
Over RMB3 to RMB5 million. . . . .	694	22.9	807	22.6	1,163	23.5
Over RMB5 to RMB10 million . . . . .	550	18.1	566	15.9	849	17.2
Over RMB10 to RMB30 million . . . . .	246	8.1	323	9.1	428	8.7
Over RMB30 million. . . . .	30	1.0	29	0.8	34	0.6
<b>Total</b> . . . . .	<b>3,035</b>	<b>100.0%</b>	<b>3,565</b>	<b>100.0%</b>	<b>4,945</b>	<b>100.0%</b>

### *Guarantee Portfolio*

Our total outstanding guarantee portfolio increased from RMB14,212.5 million as of December 31, 2011 to RMB21,300.2 million as of December 31, 2013, due primarily to our increased capital base and expanded branch network during the Track Record Period. The following table presents the balances of our outstanding guarantees by product type as of the dates indicated:

	As of December 31,		
	2011	2012	2013
	(RMB in millions)		
<b>Financing guarantees</b>			
Bank financing guarantees . . . . .	11,881.4	11,920.2	15,893.5
Non-bank financing guarantees <sup>(1)</sup> . . . . .	312.3	1,478.9	4,260.6
Subtotal. . . . .	12,193.7	13,399.1	20,154.1
<b>Non-financing guarantees</b>			
Contract bonds . . . . .	900.4	492.7	334.8
Attachment bonds. . . . .	1,118.4	794.4	811.3
Subtotal. . . . .	2,018.8	1,287.1	1,146.1
<b>Total</b> . . . . .	<b>14,212.5</b>	<b>14,686.2</b>	<b>21,300.2</b>

(1) Starting from 2011, certain of our micro and small loans have been guaranteed by our credit guarantee subsidiaries. For the years ended December 31, 2011, 2012 and 2013, the guarantee for such micro and small loans accounted for 0.04%, 0.9% and 2.3%, respectively, of our total outstanding guarantees.

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### *Average balances of guarantees*

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

	Year ended December 31,		
	2011	2012	2013
	(RMB in millions)		
<b>Financing guarantees</b>			
Bank financing guarantees . . . . .	10,284.2	13,114.7	14,763.2
Non-bank financing guarantees . . . . .	156.5	839.8	2,516.3
	10,440.7	13,954.5	17,279.5
<b>Non-financing guarantees</b>			
Contract bonds . . . . .	696.7	538.2	352.3
Attachment bonds. . . . .	1,353.2	1,333.9	853.9
	2,049.9	1,872.1	1,206.2
<b>Total . . . . .</b>	<b>12,490.6</b>	<b>15,826.6</b>	<b>18,485.7</b>

### *Distribution of guarantees by geographical region*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Chongqing . . . . .	8,163.7	57.4%	7,646.2	52.1%	8,489.1	39.9%
Sichuan . . . . .	1,917.4	13.5	2,502.0	17.0	4,220.0	19.8
Beijing. . . . .	979.4	6.9	715.2	4.9	2,340.5	11.0
Liaoning. . . . .	1,288.3	9.1	1,209.3	8.2	1,430.6	6.7
Others . . . . .	1,863.7	13.1	2,613.5	17.8	4,820.0	22.6
<b>Total . . . . .</b>	<b>14,212.5</b>	<b>100.0%</b>	<b>14,686.2</b>	<b>100.0%</b>	<b>21,300.2</b>	<b>100.0%</b>

As a percentage of the total balance of our outstanding guarantees, our guarantees originating in Chongqing decreased from 57.4% in 2011 to 39.9% in 2013, due to the expansion and growth of our credit guarantee business in other regions across China.

Our credit guarantee business grew rapidly in 2013. Our outstanding credit guarantees increased by 45.0% to RMB21,300.2 million as of December 31, 2013, from RMB14,686.2 million as of December 31, 2012. This increase was primarily attributable to approximately 2,000 new customers we serviced during 2013, a majority of whom are located in Chongqing, Sichuan, Beijing and Liaoning.

## BUSINESS

### *Distribution of guarantees by collateral*

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

- *Unsecured guarantees*: counter-guaranteed but not secured by collateral.
- *Secured guarantees*: both counter-guaranteed and fully or partially secured by collateral. We generally register our security interest in the collateral with the relevant government authority in China.

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Unsecured guarantees <sup>(1)</sup> . . . . .	7,383.6	52.0%	7,524.9	51.2%	11,137.0	52.3%
Secured guarantees <sup>(2)</sup>						
– Land and buildings . . . . .	4,549.0	32.0	5,215.0	35.5	8,957.9	42.1
– Accounts receivable and equity interest . . . . .	2,279.9	16.0	1,946.3	13.3	1,205.3	5.6
Subtotal. . . . .	6,828.9	48.0	7,161.3	48.8	10,163.2	47.7
<b>Total</b> . . . . .	<b>14,212.5</b>	<b>100.0%</b>	<b>14,686.2</b>	<b>100.0%</b>	<b>21,300.2</b>	<b>100.0%</b>

(1) As of December 31, 2011, 2012 and 2013, we had 2,175, 2,485 and 3,472 guarantees that were counter-guaranteed, respectively. In 2011, 2012 and 2013, unsecured guarantees involving customers' defaults accounted for 0.5%, 0.7% and 0.8%, respectively, of our total outstanding unsecured guarantees during those periods.

(2) In 2011, 2012 and 2013, secured guarantees involving customers' defaults accounted for 1.6%, 1.8% and 1.0%, respectively, of our total outstanding secured guarantees during those periods. As of December 31, 2011, 2012 and 2013, the loan-to-value ratio (outstanding guarantees secured by land and buildings divided by the value of collateral of land and buildings) of our secured guarantees was 97.5%, 67.7% and 100.3%, respectively.

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

## BUSINESS

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

	(RMB in millions)
Secured by land use rights and building ownership	
– Registered as primary beneficiary . . . . .	8,581.7
– Registered as subordinated beneficiary . . . . .	376.2
<b>Total . . . . .</b>	<b>8,957.9</b>

### *Distribution of guarantees by industry*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Manufacturing and processing . . . . .	4,193.3	29.5%	4,187.9	28.5%	6,207.5	29.1%
Construction . . . . .	3,828.2	26.9	3,443.8	23.5	4,661.0	21.9
Commercial services . . . . .	3,611.3	25.4	3,712.5	25.3	6,076.9	28.5
Household goods . . . . .	1,318.7	9.3	1,515.1	10.3	2,315.5	10.9
Others . . . . .	1,261.0	8.9	1,826.9	12.4	2,039.3	9.6
<b>Total . . . . .</b>	<b>14,212.5</b>	<b>100.0%</b>	<b>14,686.2</b>	<b>100.0%</b>	<b>21,300.2</b>	<b>100.0%</b>

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

The substantial increase in our outstanding credit guarantees in 2013 was primarily attributable to the addition of approximately 2,000 new customers in 2013, a majority of whom are from the commercial services industry and manufacturing and processing industry.

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### *Maturity profile of guarantee portfolio*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Due less than six months . . . . .	6,727.6	47.3%	7,349.3	50.0%	9,718.7	45.6%
Due over six months up to 12 months . . . . .	5,509.5	38.8	5,785.6	39.4	9,122.0	42.8
Due over 12 months up to 18 months . . . . .	529.7	3.7	275.4	1.9	573.1	2.7
Due over 18 months . . . . .	1,445.7	10.2	1,275.9	8.7	1,886.4	8.9
<b>Total . . . . .</b>	<b>14,212.5</b>	<b>100.0%</b>	<b>14,686.2</b>	<b>100.0%</b>	<b>21,300.2</b>	<b>100.0%</b>

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

### *Distribution of guarantees by exposure size*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Up to RMB3 million . . . . .	2,505.9	17.6%	2,494.9	17.0%	2,939.4	13.8%
Over RMB3 to RMB5 million . . . . .	2,893.8	20.4	3,125.2	21.3	4,091.3	19.2
Over RMB5 to RMB10 million . . . . .	4,057.1	28.5	3,831.7	26.1	5,913.1	27.8
Over RMB10 to RMB30 million . . . . .	3,654.8	25.7	4,094.0	27.9	6,063.0	28.5
Over RMB30 million . . . . .	1,100.9	7.8	1,140.4	7.7	2,293.4	10.7
<b>Total . . . . .</b>	<b>14,212.5</b>	<b>100.0%</b>	<b>14,686.2</b>	<b>100.0%</b>	<b>21,300.2</b>	<b>100.0%</b>

### **Micro and Small Loans**

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

## BUSINESS

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

Due to the substantially increased capital base and gradually relaxing capital requirements in our micro and small loan business, our total outstanding micro and small loans increased substantially from RMB1,185.9 million as of December 31, 2011, to RMB3,354.0 million as of December 31, 2013. The following table presents the increase in the paid-in capital of our micro and small loan subsidiaries and the resulting increase in our outstanding micro and small loans as of the dates indicated:

	As of December 31,		
	2011	2012	2013
Paid-in capital of our SME lending business (RMB in millions) . . . . .	540.0	800.0	2,300.0
Balance of outstanding micro and small loans (RMB in millions) . . . . .	1,185.9	1,736.9	3,354.0
Leverage ratio <sup>(1)</sup> . . . . .	2.2	2.2	1.5

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

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

- *Micro loans*: loans we principally made to microenterprises and individuals which range from RMB50,000 to RMB500,000; and
- *Small loans*: loans we principally made to small enterprises which range from RMB0.5 million to RMB3.0 million.

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

- *Chuangfu loan (創富貸)*: a type of unsecured micro loan product we offer to individual entrepreneurs and microenterprises which have a stable business income but need working capital to expand their business. Typically, the principal amount of this loan product is between RMB50,000 and RMB1.0 million with a maturity of between 3 and 12 months.
- *Zhanye loan (展業貸)*: a type of unsecured small loan or credit line product we offer to small enterprises which have a more established track record and need working capital to expand their business. Typically, the principal amount of this loan product is between RMB0.5 million and RMB3.0 million with a maturity of between 3 and 12 months.



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- *Fangyi loan (房易貸)*: a type of secured small loan product we offer to individuals, individual entrepreneurs, microenterprises and small enterprises which are able to post real property as collateral to increase their working capital. Typically, the principal amount of this loan product is between RMB1.0 million and RMB3.0 million with a maturity of between 12 and 36 months.
- *Gongxin loan (工薪貸)*: a type of micro loan product we offer to individuals who have stable salary income but need increased liquidity. Typically, the principal amount of this loan product is between RMB50,000 and RMB300,000 with a maturity of between 3 and 12 months.

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

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

### ***Interest and Handling Fee Rate***

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

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Our average interest and handling fee rate for micro and small loans largely remained stable during the Track Record Period, being 22.74%, 22.81% and 22.26%, respectively, in 2011, 2012 and 2013.

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

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

### ***Branch Network***

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

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

	As of December 31,			As of the Latest Practicable Date
	2011	2012	2013	
Number of licensed loan subsidiaries . . . . .	5	5	8	9
Network coverage . . .	Chongqing, Chengdu, Tianjin, Shenyang and Nanning	Chongqing, Chengdu, Tianjin, Shenyang and Nanning	Chongqing, Chengdu, Tianjin, Shenyang, Nanning, Jilin, Xi'an and Kunming	Chongqing, Chengdu, Tianjin, Shenyang, Nanning, Jilin, Xi'an, Kunming and Guiyang

### *Customer Base*

Corresponding with our expanding micro and small loan network, the number of loan customers we serviced has been increasing during the Track Record Period. In 2011, 2012 and 2013, we serviced approximately 4,800, 8,600 and 13,800 micro and small loan customers.

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

	Year ended December 31,					
	2011		2012		2013	
	(Number of loans)	% of total	(Number of loans)	% of total	(Number of loans)	% of total
Up to RMB100,000. . . . .	2,690	42.8%	5,569	48.5%	4,174	29.0%
Over RMB100,000 to RMB500,000 . . . . .	2,548	40.6	4,562	39.7	7,461	51.8
Over RMB500,000 to RMB1 million . . . . .	603	9.6	782	6.8	1,388	9.6
Over RMB1 million to RMB3 million . . . . .	396	6.3	524	4.6	1,099	7.6
Over RMB3 million . . . . .	41	0.7	57	0.4	289	2.0
<b>Total. . . . .</b>	<b>6,278</b>	<b>100.0%</b>	<b>11,494</b>	<b>100.0%</b>	<b>14,411</b>	<b>100.0%</b>

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### *Micro and Small Loan Portfolio*

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

	As of December 31,		
	2011	2012	2013
(RMB in millions)			
Micro and small loans			
– Micro loans . . . . .	372.3	689.0	1,217.9
– Small loans . . . . .	813.6	1,047.9	2,136.1
<b>Total . . . . .</b>	<b>1,185.9</b>	<b>1,736.9</b>	<b>3,354.0</b>

The average balances of our outstanding micro and small loans were RMB820.1 million, RMB1,227.8 million and RMB2,115.6 million in 2011, 2012 and 2013, respectively.

### *Distribution of loans by geographical region*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in millions, except percentages)						
Chongqing . . . . .	571.0	48.1%	915.6	52.7%	1,311.0	39.1%
Chengdu . . . . .	507.0	42.8	516.5	29.7	740.3	22.1
Shenyang . . . . .	50.5	4.3	148.3	8.6	400.5	11.9
Tianjin . . . . .	50.9	4.3	55.9	3.2	153.9	4.6
Nanning . . . . .	6.5	0.5	100.6	5.8	219.2	6.5
Jilin . . . . .	–	–	–	–	140.6	4.2
Xi'an . . . . .	–	–	–	–	358.2	10.7
Kunming . . . . .	–	–	–	–	30.3	0.9
<b>Total . . . . .</b>	<b>1,185.9</b>	<b>100.0%</b>	<b>1,736.9</b>	<b>100.0%</b>	<b>3,354.0</b>	<b>100.0%</b>

Our micro and small loan business increased significantly by 93.1% to RMB3,354.0 million as of December 31, 2013, from RMB1,736.9 million as of December 31, 2012. This increase was primarily attributable to the addition of approximately 7,700 new customers in 2013, a majority of whom are located in Chongqing, Chengdu and Nanning.

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### *Distribution of loans by collateral*

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

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

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Credit loans <sup>(1)</sup> . . . . .	294.4	24.9%	489.3	28.2%	1,193.7	35.6%
Guaranteed loans <sup>(2)</sup> . . . . .	868.6	73.2	1,108.8	63.8	1,705.5	50.8
– guaranteed by intra-group guarantors <sup>(3)</sup> . . . . .	6.0	0.5	125.0	7.2	483.9	14.4
– guaranteed by third-party counter-guarantors . . . . .	862.6	72.7	983.8	56.6	1,221.6	36.4
Secured loans <sup>(4)</sup> . . . . .	22.9	1.9	138.8	8.0	454.8	13.6
<b>Total</b> . . . . .	<b>1,185.9</b>	<b>100.0%</b>	<b>1,736.9</b>	<b>100.0%</b>	<b>3,354.0</b>	<b>100.0%</b>

(1) As of December 31, 2011, 2012 and 2013, we had 2,394, 4,834 and 4,438 credit loans, respectively. In 2011, 2012 and 2013, approximately 0.2%, 0.9% and 1.3%, respectively, of our outstanding credit micro and small loans were in default. The accumulated impairment losses recognized on these credit loans were RMB1.5 million, RMB3.0 million and RMB8.6 million as of December 31, 2011, 2012 and 2013, respectively.

(2) As of December 31, 2011, 2012 and 2013, we had 2,325, 2,955 and 4,949 guaranteed loans, respectively. In 2011, 2012 and 2013, approximately 0.3%, 1.0% and 0.7%, respectively, of our outstanding guaranteed micro and small loans were in default during those periods.

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

(4) In 2011, 2012 and 2013, approximately nil, 1.1% and 0.2%, respectively, of our outstanding secured micro and small loans during those periods were in default. During the Track Record Period, only a small portion of our micro and small loans was secured by collateral and the average amount of our loans is generally small. As such, our valuation of the collateral for our micro and small loan transactions is primarily limited to the basic information procured during the due diligence process, and accordingly we are not able to provide a meaningful loan-to-value ratio for the collaterals of our micro and small loans.

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

### *Distribution of loans by industry*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Wholesale and retail . . . . .	608.1	51.3%	867.0	49.9%	1,805.1	53.8%
Manufacturing and processing . .	142.4	12.0	298.1	17.2	494.4	14.8
Household goods . . . . .	35.4	3.0	139.7	8.0	98.4	2.9
Construction . . . . .	72.1	6.1	64.1	3.7	462.1	13.8
Agricultural . . . . .	13.9	1.1	43.6	2.5	108.8	3.2
Others . . . . .	314.0	26.5	324.4	18.7	385.3	11.5
<b>Total . . . . .</b>	<b>1,185.9</b>	<b>100.0%</b>	<b>1,736.9</b>	<b>100.0%</b>	<b>3,354.0</b>	<b>100.0%</b>

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

The significant increase in our outstanding micro and small loans in 2013 was primarily attributable to the additions of approximately 7,700 new customers in 2013, the majority of whom are from the wholesale and retail industry.

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentage)					
Wholesale and retail . . . . .	206.4	70.1%	311.6	63.7%	554.1	46.4%
Manufacturing . . . . .	15.4	5.2	50.1	10.2	181.2	15.2
Household goods . . . . .	17.8	6.0	55.7	11.4	30.7	2.6
Construction . . . . .	11.5	3.9	11.9	2.4	273.3	22.9
Others . . . . .	43.3	14.8	60.0	12.3	154.4	12.9
<b>Total . . . . .</b>	<b>294.4</b>	<b>100.0%</b>	<b>489.3</b>	<b>100.0%</b>	<b>1,193.7</b>	<b>100.0%</b>

### *Maturity profile of loans portfolio*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Due within three months . . . . .	324.0	27.3%	486.2	28.0%	1,069.9	31.9%
Due between three months and six months . . . . .	379.7	32.0	556.9	32.1	972.1	29.0
Due between six months and one year . . . . .	460.4	38.8	672.4	38.7	1,240.0	37.0
Due greater than a year . . . . .	21.8	1.9	21.4	1.2	72.0	2.1
<b>Total . . . . .</b>	<b>1,185.9</b>	<b>100.0%</b>	<b>1,736.9</b>	<b>100.0%</b>	<b>3,354.0</b>	<b>100.0%</b>

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

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### *Distribution of loans by exposure size*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in millions, except percentages)						
Up to RMB100,000 . . . . .	135.2	11.4%	219.8	12.6%	218.1	6.5%
Over RMB100,000 to RMB500,000. . . . .	342.1	28.9	576.6	33.2	856.8	25.5
Over RMB500,000 to RMB1 million. . . . .	271.7	22.9	262.0	15.1	560.1	16.7
Over RMB1 million to RMB3 million. . . . .	317.0	26.7	430.5	24.8	982.9	29.3
Over RMB3 million. . . . .	119.9	10.1	248.0	14.3	736.1	22.0
<b>Total . . . . .</b>	<b>1,185.9</b>	<b>100.0%</b>	<b>1,736.9</b>	<b>100.0%</b>	<b>3,354.0</b>	<b>100.0%</b>

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

### **Entrusted Loans**

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

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

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



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

### *Entrusted Loan Portfolio*

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

	<u>As of or for the year ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	<b>(RMB in millions, except percentages)</b>		
Outstanding balance . . . . .	479.4	308.7 <sup>(2)</sup>	1,423.4 <sup>(3)</sup>
Average balance <sup>(1)</sup> . . . . .	1,031.8	424.0	1,043.4
Average interest and handling fee rate . . . . .	25.26%	24.67%	24.56%

- (1) The average month-end balance of our entrusted loans during a given period.
- (2) As of December 31, 2012, 35.0% of our outstanding entrusted loans was secured by collateral and the loan-to-value ratio (outstanding secured entrusted loans divided by the value of collateral of land and buildings) of these loans was 69.9%. In 2012, none of our secured entrusted loans and approximately 1.0% of our unsecured entrusted loans were in default, respectively.
- (3) As of December 31, 2013, 54.9% of our outstanding entrusted loans were secured by collateral and the loan-to-value ratio (outstanding secured entrusted loans divided by the value of collateral of land and buildings) of these loans was 49.7%. In 2013, 0.5% of our secured entrusted loans and approximately 5.3% of our unsecured entrusted loans were in default, respectively.

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### *Maturity profile of loans portfolio*

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

	As of December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentage)					
Due within three months . . . . .	280.4	58.5%	130.1	42.2%	459.9	32.3%
Due between three months and six months . . . . .	174.4	36.4	117.1	37.9	680.2	47.8
Due between six months and one year . . . . .	22.6	4.7	56.5	18.3	183.3	12.9
Due greater than a year . . . . .	2.0	0.4	5.0	1.6	100.0	7.0
<b>Total</b> . . . . .	<b>479.4</b>	<b>100.0%</b>	<b>308.7</b>	<b>100.0%</b>	<b>1,423.4</b>	<b>100.0%</b>

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

### *Distribution of loans by exposure size*

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

	As of December 31,					
	2011		2012		2013	
	Outstanding loan balance	% of total	Outstanding loan balance	% of total	Outstanding loan balance	% of total
	(RMB in millions, except percentage)					
Up to RMB100,000 . . . . .	0.3	0.1%	–	–	–	–
Over RMB100,000 to RMB500,000 . . . . .	7.8	1.6	1.2	0.4%	3.2	0.2%
Over RMB500,000 to RMB1 million . . . . .	20.8	4.3	12.2	4.0	27.4	1.9
Over RMB1 million to RMB3 million . . . . .	91.9	19.2	37.9	12.3	100.5	7.1
Over RMB3 million . . . . .	358.6	74.8	257.4	83.3	1,292.3	90.8
<b>Total</b> . . . . .	<b>479.4</b>	<b>100.0%</b>	<b>308.7</b>	<b>100.0%</b>	<b>1,423.4</b>	<b>100.0%</b>

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Due to changes in available funds in our credit guarantee subsidiaries and in our product strategy from time to time, the total balances and average balances of our entrusted loans fluctuated during the Track Record Period. As of December 31, 2011, 2012 and 2013, our outstanding entrusted loans totaled RMB479.4 million, RMB308.7 million and RMB1,423.4 million, respectively. The average balance of our outstanding entrusted loans decreased to RMB424.0 million in 2012 from RMB1,031.8 million in 2011 due to our product strategy of promoting and increasing fully secured bank financing guarantees while reducing entrusted loans in 2012. In 2013, our available funds increased following the equity contributions from our shareholders and other investors and therefore we increased the offering of entrusted loans, with an average balance of RMB1,043.4 million. In 2011, 2012 and 2013, we entered into entrusted loan arrangements with 112, 56 and 145 customers, respectively.

Given that an entrusted loan usually has a larger principal amount compared with our micro and small loans, the interest and handling fee rate on each entrusted loan is subject to our negotiations with individual customers and may differ substantially based on the actual credit and type of the borrower. Our average interest and handling fee rate for entrusted loans decreased from 25.26% in 2011 to 24.56% in 2013, reflecting market competition and a reduction in negotiated interest rate.

### **SALES AND MARKETING**

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

#### **Our Sales and Marketing Team**

Our sales and marketing team consists primarily of our project managers who work on an incentive basis. As of December 31, 2013, we had over 1,000 sales and marketing employees. Our sales team conducts client development activities primarily through direct on-site marketing, phone calls and sales campaigns. In addition, our product advertisements and website are also important sales and marketing channels.

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

### **Referrals from Banks and Other Financial Institutions**

Referrals from cooperating banks are a key source for our bank financing guarantee business. As of December 31, 2013, we had entered into cooperation arrangements with 65 commercial banks in China, including national commercial banks, local commercial banks, policy banks and rural banks, which had agreed to extend in aggregate over RMB38.0 billion of credit lines to borrowers we guarantee.

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

### **Referrals from Existing Customers**

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

## **KEY BUSINESS PROCESS**

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

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

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

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

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

	Year ended December 31,		
	2011	2012	2013
<b>Credit Guarantees</b>			
Number of applications received . . . . .	4,084	3,603	4,911
Declined applications after review . . . . .	455	511	472
Rejection rate. . . . .	11.1%	14.2%	9.6%
<b>Micro and Small Loans</b>			
Number of applications received . . . . .	6,319	13,198	17,462
Declined applications after review . . . . .	1,577	1,817	1,476
Rejection rate <sup>(1)</sup> . . . . .	25.0%	13.8%	8.5%

(1) The rejection rate of our micro and small loan business decreased during the Track Record Period as our ability to pre-screen creditworthy customers gradually improved over time. Compared with 2011, we believe that pre-screening conducted by our project managers are more effective and focused, and that the credit applications are of better quality. As a result, the rejection rate decreased to 8.5% in 2013.

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

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

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

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

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

If the default customer fails to make full repayment according to the repayment plan or we are unable to reach an agreement with the default customer regarding the repayment plan, we will approach the third-party counter-guarantors regarding the repayment of the loan

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(including default payment receivables) or, upon approval from the Risk Management Department at the group level, may take necessary legal actions, including legal proceedings, against the default customer and counter-guarantors, and enforcement actions, such as attaching their assets, freezing their bank accounts, or through court's sale of the collateral by auction. Upon approval from the Risk Management Department at the group level, we may also engage law firms or other professionals to assist in the collection process.

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

### **PROVISIONING POLICIES AND ASSET QUALITY**

#### **Provisioning for Guarantee Loss and Impairment Losses on Default Payment Receivables**

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

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

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

In 2011, 2012 and 2013, we made default payments of RMB32.0 million, RMB198.5 million and RMB258.8 million, respectively, while the balance of provisions for guarantee losses we made for guarantee losses as of December 31, 2011, 2012 and 2013 amounted to RMB228.6 million, RMB280.2 million and RMB429.2 million, respectively. We consider this indicates that we have made sufficient provisioning in our credit guarantee business throughout the Track Record Period. As such, our Directors believe that our provisions for guarantee losses were adequate.

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

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

	As of or for the year ended December 31,		
	2011	2012	2013
	(RMB in millions, except percentage)		
<b>Default rate</b> <sup>(1)</sup> . . . . .	0.4%	1.2%	1.6%
Default payment . . . . .	32.0	198.5	258.8
Guarantees released . . . . .	8,489.5	15,954.2	15,996.3
<b>Provision ratio</b> <sup>(2)</sup> . . . . .	1.6%	1.9%	2.0%
Provisions for guarantee losses . . . . .	228.6	280.2	429.2
Total balance of our outstanding guarantees . . . .	14,212.5	14,686.2	21,300.2
<b>Loss ratio</b> <sup>(3)</sup> . . . . .	0.2%	0.6%	1.1%
Impairment losses on default payment receivables . . . . .	16.5	90.2	173.7
Guarantees released . . . . .	8,489.5	15,954.2	15,996.3
Impairment losses on default payment receivables . . . . .	16.5	90.2	173.7
Revenue from our credit guarantee business . . . .	467.2	807.8	964.5
Recovered amount <sup>(4)</sup> . . . . .	17.0	59.5	24.9
Recovery ratio <sup>(5)</sup> . . . . .	53.1%	30.0%	9.6%

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

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

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

(4) Amount we recovered from default customers as of March 31, 2014 against the default payments we made in the period indicated. Potential investors should note that our recovered amounts may increase over time as our collection and recovery process may take 18 months or more on average.

(5) “Recovered amount” for the period indicated divided by default payment during the same period.

We measure the quality of our guarantee portfolio by monitoring the fluctuations in our default rate, which indicates the percentage of how much customer default we have recorded and the corresponding amount of guarantee contracts being released in a given period. Assuming the amount of guarantees released from our credit guarantee business remains unchanged during a given period, the occurrence of one additional guarantee default during such period will cause our default payment and therefore the default rate to increase. After we make a default payment, we will proceed to collect such outstanding amount directly from the default customer. The probability of such collection is measured by the loss ratio, which indicates how much provision for the cumulative outstanding receivables that we deem to be unrecoverable or the level of estimated loss for default payment receivables at each period end.



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

Our overall default rate was 0.4%, 1.2% and 1.6% in 2011, 2012 and 2013, respectively. For our financing guarantee business, the default rate was 0.3%, 1.3% and 1.6% in 2011, 2012 and 2013, respectively. Due primarily to the rapid growth of our financing guarantee business in 2011 and the effect of the unfavorable overall market and industry conditions in China, particularly the Yangtze River Delta, since 2012 the default rate in our financing guarantee business increased from 0.3% in 2011 to 1.3% in 2012 and further to 1.6% in 2013.

In our non-financing guarantee business, we did not experience any defaults in 2012. In 2011, a court in Chongqing enforced an attachment bond we issued, resulting in a default rate of 0.6% in our non-financing guarantee business in 2011. Given the lower fee rate we charge for attachment bonds compared with other guarantee products and services, we have gradually reduced our offering of attachment bonds in 2012 to mitigate potential risk exposure. In 2013, we experienced one incident of default, involving RMB1.7 million of default payments, which resulted in a default rate of 0.5% in our non-financing guarantee business.

In line with the changes in our default rate during the Track Record Period, our loss ratio was 0.2%, 0.6% and 1.1% in 2011, 2012 and 2013, respectively.

Up to March 31, 2014, RMB17.0 million, RMB59.5 million and RMB24.9 million, respectively, of our default payments in 2011, 2012 and 2013, respectively, were subsequently recovered by us, representing a recovery ratio of 53.1%, 30.0% and 9.6%, respectively. As our collection and recovery process may take 18 months or more on average, we believe that our recovered amount and recovery ratio typically improve over time. As of December 31, 2013, the balance of our impairment losses on default payment receivables represented 71.2% of our outstanding default payment receivables, which reflects the cumulative portion of default payment receivables that we estimated to be unrecoverable, or conversely 28.8% of our cumulative default payment receivables were estimated to be recoverable. Given the average recovery ratio of our default payment receivables was 29.6% in 2011, 2012 and 2013, we believe the impairment losses we provided on default payment receivables were adequate.

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The following table shows a breakdown of our default payment in 2013:

Industry	Number of customers	Amount (RMB in millions)
Wholesale and retail . . . . .	17	73.6
Manufacturing . . . . .	25	89.9
Energy . . . . .	10	84.8
Others . . . . .	2	10.5
<b>Total . . . . .</b>	<b>54</b>	<b>258.8</b>

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

	Year ended December 31,					
	2011		2012		2013	
	number/ amount	percentage	number/ amount	percentage	number/ amount	percentage
Number of defaults (cannot locate counter-guarantors) <sup>(3)</sup>	1	10.0% <sup>(1)</sup>	4	10.0% <sup>(1)</sup>	1	2.0% <sup>(1)</sup>
Shortfall amounts (cannot locate counter-guarantors) <sup>(3)</sup> (RMB in millions)	1.0	5.7% <sup>(2)</sup>	34.5	22.1% <sup>(2)</sup>	0.9	0.4% <sup>(2)</sup>
Number of defaults (counter-guarantors defaults) <sup>(4)</sup>	2	20.0% <sup>(1)</sup>	10	25.0% <sup>(1)</sup>	18	35.3% <sup>(1)</sup>
Shortfall amounts (counter-guarantors defaults) <sup>(4)</sup> (RMB in millions)	5.3	32.2% <sup>(2)</sup>	35.7	22.8% <sup>(2)</sup>	46.9	20.2% <sup>(2)</sup>

(1) The number of defaults during the period indicated where we were unable to locate counter-guarantors or the counter-guarantors remained unable to make full payments, as the case may be, as of December 31, 2013 divided by the number of defaults during the same period.

(2) The shortfall amounts divided by the total default payment receivable during the period indicated.

(3) The number of defaults or the shortfall amounts of defaults, as the case may be, during the period indicated where we were unable to locate any of the counter-guarantors for our default customers as of December 31, 2013.

(4) The number of defaults or the shortfall amounts of defaults, as the case may be, during the period indicated where the counter-guarantors were unable to make full repayment to us as of December 31, 2013.

In the three months ended March 31, 2014, for credit guarantees granted by us where we made default payments and sought repayment from the relevant counter-guarantors, we were unable to locate three of the relevant counter-guarantors (representing 17.7% of the number of defaults in the three months ended March 31, 2014 with default payment receivables as of March 31, 2014), involving a shortfall amount of RMB8.8 million as of March 31, 2014 (representing 16.5% of the total default payment receivable as of the same date); while there were three transactions (representing 17.7% of the number of defaults in the three months

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ended March 31, 2014 with default payment receivables as of March 31, 2014) where the counter-guarantors were unable to make full repayment to us, involving a shortfall amount of RMB8.7 million as of March 31, 2014 (representing 16.4% of the total default payment receivable as of the same date).

### Provisions for Loan Loss

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

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

<b>Normal:</b>	Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
<b>Special-Mention:</b>	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
<b>Substandard:</b>	Borrowers’ ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
<b>Doubtful:</b>	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
<b>Loss:</b>	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

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

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

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

	As of or for the years ended December 31,		
	2011	2012	2013
	(RMB in millions, except percentage)		
<b>Impaired loan ratio<sup>(1)</sup></b> . . . . .	<b>4.2%</b>	<b>3.1%</b>	<b>2.6%</b>
Micro and small loans . . . . .	0.7%	2.0%	2.5%
Entrusted loans . . . . .	12.8%	9.4%	2.8%
Balance of impaired loans . . . . .	69.5	63.8	122.8
Micro and small loans . . . . .	8.1	34.7	83.5
Entrusted loans . . . . .	61.4	29.1	39.3
Balance of outstanding loans . . . . .	1,665.3	2,045.6	4,777.4
Micro and small loans . . . . .	1,185.9	1,736.9	3,354.0
Entrusted loans . . . . .	479.4	308.7	1,423.4
<b>Allowance coverage ratio<sup>(2)</sup></b> . . . . .	<b>69.7%</b>	<b>131.6%</b>	<b>160.8%</b>
Micro and small loans . . . . .	293.8%	180.4%	166.0%
Entrusted loans . . . . .	40.1%	73.5%	149.7%
Allowance for impairment losses <sup>(3)</sup> . . . . .	48.4	84.0	197.5
Micro and small loans . . . . .	23.8	62.6	138.6
Entrusted loans . . . . .	24.6	21.4	58.9
Balance of impaired loans . . . . .	69.5	63.8	122.8
Micro and small loans . . . . .	8.1	34.7	83.5
Entrusted loans . . . . .	61.4	29.1	39.3
<b>Provision for impairment losses ratio<sup>(4)</sup></b> . . . . .	<b>2.9%</b>	<b>4.1%</b>	<b>4.1%</b>
Impairment losses on loans . . . . .	27.0	39.8	120.7
Revenue from our SME lending business . . . . .	403.1	335.5	612.2

- (1) The balance of impaired loans divided by the balance of the outstanding loans. Impaired loan ratio indicates the quality of our loan portfolio.
- (2) Allowance for impairment loss for all loans (including allowances provided for performing loans which are assessed collectively, and allowances provided for impaired loans which are assessed collectively or individually) divided by the balance of impaired loans. Allowance coverage ratio indicates the level of allowance we set aside to cover probable loss in our loan portfolio.
- (3) Allowance for impairment losses reflects our management's estimate of the probable loss in our loan portfolio.
- (4) Allowance for impairment losses divided by the balance of outstanding loans. Provision for impairment losses ratio measures the cumulative level of provisions.

Our impaired micro and small loans increased from RMB8.1 million as of December 31, 2011 to RMB34.7 million as of December 31, 2012 and further to RMB83.5 million as of December 31, 2013, generally in line with the substantial increase in the total balance of our outstanding micro and small loans in the Track Record Period. Our impaired micro and small loan ratio increased from 0.7% as of December 31, 2011 to 2.0% as of December 31, 2012 due primarily to the effect of the unfavorable overall market and industry conditions in China during 2012. Such adverse effect continued to impact our impaired micro and small loan ratio as of December 31, 2013, which further increased to 2.5% as of December 31, 2013.

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The balance of our impaired entrusted loans decreased from RMB61.4 million as of December 31, 2011 to RMB29.1 million as of December 31, 2012, and our impaired entrusted loan ratio decreased from 12.8% as of December 31, 2011, to 9.4% as of December 31, 2012, as we disposed of RMB27.3 million of impaired entrusted loans to a related party in 2012. As of December 31, 2013, our impaired entrusted loans increased to RMB39.3 million and our impaired entrusted loan ratio decreased to 2.8% due to our recovery of certain impaired entrusted loans during the period and the increased balance of entrusted loans to RMB1,423.4 million as of December 31, 2013.

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

Our allowance coverage ratio increased from 69.7% as of December 31, 2011, to 131.6% as of December 31, 2012, and further increased to 160.8% as of December 31, 2013. This trend is generally consistent with the increases of allowance to loan ratios reported by some sizeable commercial banks in China in recent years. As such, we believe that our provisions for impairment losses were adequate.

Our allowance coverage ratio for entrusted loans increased substantially from 73.5% as of December 31, 2012, to 149.7% as of December 31, 2013, due to an increase in allowance for impairment losses on entrusted loans and a decrease in our impaired entrusted loans. Our allowance for impairment losses on entrusted loans increased from RMB21.4 million as of December 31, 2012, to RMB58.9 million as of December 31, 2013, as a result of an increase in entrusted loans from RMB308.7 million as of December 31, 2012, to RMB1,423.4 million as of December 31, 2013, and the consequent increase in allowance for impairment losses, which were collectively assessed. Our impaired entrusted loans increased from RMB29.1 million as of December 31, 2012, to RMB39.3 million as of December 31, 2013, mainly due to defaults on two entrusted loans with a total amount of RMB20.0 million in the fourth quarter of 2013.

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

Industry	Number of customers	Amount of impaired loans (RMB in millions)
Wholesale and retail . . . . .	171	46.7
Manufacturing and processing . . . . .	43	25.6
Household goods . . . . .	34	23.1
Construction . . . . .	7	12.5
Agricultural . . . . .	7	6.0
Others . . . . .	23	8.9
<b>Total . . . . .</b>	<b>285</b>	<b>122.8</b>

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

	Year ended December 31,					
	2011		2012		2013	
	number/ amount	percentage	number/ amount	percentage	number/ amount	percentage
Number of defaults (cannot locate counter-guarantors) <sup>(3)</sup>	4	33.3% <sup>(1)</sup>	33	38.4% <sup>(1)</sup>	34	18.0% <sup>(1)</sup>
Shortfall amounts (cannot locate counter-guarantors) <sup>(3)</sup> (RMB in millions)	5.2	90.0% <sup>(2)</sup>	4.8	38.4% <sup>(2)</sup>	5.5	9.6% <sup>(2)</sup>
Number of defaults (counter-guarantors defaulted) <sup>(4)</sup>	11	91.7% <sup>(1)</sup>	61	70.9% <sup>(1)</sup>	86	45.5% <sup>(1)</sup>
Shortfall amounts (counter-guarantors defaulted) <sup>(4)</sup> (RMB in millions)	4.0	68.8% <sup>(2)</sup>	5.1	40.6% <sup>(2)</sup>	19.4	33.7% <sup>(2)</sup>

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

In the three months ended March 31, 2014, for our loan transactions where the borrowers defaulted in making timely repayment and we sought repayment from the relevant counter-guarantors, we were unable to locate the relevant counter-guarantors in 19 transactions (representing 20.7% of the number of defaults in the three months ended March 31, 2014, with unrecovered loan default amounts as of March 31, 2014), involving a shortfall amount of RMB2.1 million as of March 31, 2014 (representing 7.0% of balance of loan default amount as of the same date); while there were 22 transactions where the counter-guarantors which we were able to locate but unable to make full repayment (representing 23.9% of the number of defaults in the three months ended March 31, 2014, with unrecovered loan default amounts as of March 31, 2014), involving a shortfall amount of RMB1.6 million as of March 31, 2014 (representing 5.3% of the balance of loan default amount as of the same date).

### TOP FIVE CUSTOMERS AND COOPERATING BANKS

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

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In 2011, 2012 and 2013, our five largest cooperating banks provided 65.8%, 53.0% and 53.7%, respectively, of the total bank financing we guaranteed, while the largest cooperating bank provided 30.0%, 16.9% and 17.1%, respectively, of the total bank financing we guaranteed for the same periods. As of December 31, 2013, we guaranteed a total financing of RMB8,532.7 million provided by our top five cooperating banks. We have no major suppliers due to the nature of our business.

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

### COMPETITION

Competition across our two business lines is intense as the numbers of both credit guarantee companies and micro and small loan companies are rapidly increasing. According to the CBRC and China Financing Guarantee Association, there were approximately 8,350 financing guarantee companies as of June 30, 2013 and 7,840 micro and small loan companies in China as of December 31, 2013.

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

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

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

- pricing and terms;

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

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

## INSURANCE

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

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

## EMPLOYEES

As of December 31, 2013, we had 1,662 full-time employees, all of whom had entered into employment contracts with us. The following tables show breakdowns of our employees by business function and by educational background as of December 31, 2013:

	<b>Number of employees</b>	<b>% of total</b>
Credit guarantee business . . . . .	620	37.3%
Micro and small loans business. . . . .	394	23.7
Risk management . . . . .	289	17.4
Finance and accounting. . . . .	89	5.4
Information technology. . . . .	29	1.7
Administration . . . . .	241	14.5
<b>Total</b> . . . . .	<b>1,662</b>	<b>100.0%</b>

	<b>Number of employees</b>	<b>% of total</b>
Master’s degree or above . . . . .	153	9.2%
Bachelor’s degree . . . . .	1,176	70.8
Junior college graduate and below . . . . .	333	20.0
<b>Total</b> . . . . .	<b>1,662</b>	<b>100.0%</b>



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

In order for us to maintain a competitive edge in the marketplace, we will continue to focus on attracting and retaining qualified professionals by offering a performance-based and market-driven compensation structure that rewards performance and results. In addition to base salary, we also offer commission-based salary to incentivize our frontline sales staff based on their performance. Such commissions typically range from 2% to 5% of their revenue contribution, depending primarily on product type, transaction size and the duration of the local branch's existence. In 2011, 2012 and 2013, we paid RMB6.9 million, RMB18.1 million and RMB32.2 million, respectively, to our employees as commission-based salary. In accordance with applicable PRC laws and regulations, we provide our employees with benefits, such as basic pension insurance, basic medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing provident funds.

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

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

### INFORMATION TECHNOLOGY

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

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

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- **IT system for financial management:** supports the key function in our financial management, such as capital management and monitoring, financial reporting, budgeting management, account management and loan drawdown and repayment management. We also use third-party integrated management solutions, such as “Yonyou(用友) NC.”
- **Websites:** we maintain our official website at [www.hanhua.com](http://www.hanhua.com), which includes an online application platform for our products and services, and customer enquiries.
- **Software systems:** we employ “Microsoft Exchange” for enterprise email system, “Microsoft Lync” for internal communication and “Microsoft SharePoint” for intranet management.

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

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

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

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

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

We may face IT risks arising from the improper performance or malfunction of our IT systems on which our operations significantly rely. We manage our IT risks through information technology governance, information system formulation, system maintenance and information security. We have established an IT team consisting of 29 employees to collaborate with our third-party service providers and to supervise the implementation of IT-related rules and procedures.

### PROPERTIES

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

As of December 31, 2013, our property interests represented 3.0% of our total assets. Accordingly, this prospectus is exempt from the requirements under the Listing Rules and the Companies Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Listing Rules, a prospectus is exempt from the requirement if the carrying amounts of a listing applicant's property activities and non-property activities are below 1% and 15%, respectively. A similar exemption applies under section 6 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### Owned Properties

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

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### Leased Properties

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

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

	Year ended December 31,		
	2011	2012	2013
	(RMB in millions)		
Total rental expenses . . . . .	23.5	36.5	50.5

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

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

### LEGAL PROCEEDINGS AND COMPLIANCE

#### Legal Proceedings

We are involved in a number of legal proceedings in the ordinary course of our business. During the Track Record Period, we were not subject to any material litigation as defendant. We initiated 197 legal proceedings to recover overdue payments from our customers with an aggregate of default payments of RMB420.6 million, of which, we had successfully recovered RMB63.8 million as of December 31, 2013. We obtained favorable court judgments on 154 of the 197 legal proceedings, with 43 legal proceedings pending as of December 31, 2013.

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Of the RMB356.8 million not recovered by us as of December 31, 2013, RMB212.5 million was in relation to the 154 legal proceedings in which we have obtained judgments, and RMB144.3 million was in relation to the 43 pending legal proceedings. We have made provisions of RMB255.7 million for the RMB356.8 million not yet recovered (representing a provision coverage ratio of 71.7%), of which RMB168.7 million was made against the RMB212.5 million unrecovered amount under the 154 legal proceedings (representing a provision coverage ratio of 79.4%), and RMB87.0 million was made against the RMB144.3 million unrecovered under the 43 pending legal proceedings (representing a provision coverage ratio of 60.3%) as of December 31, 2013. Taking into account our experience and track record in the recovery of receivables on default payments, we consider the provisions made to be sufficient, and believe the balance which was unprovided for to be recoverable.

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

### **Anti-money Laundering Procedures**

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

- conducting background checks on potential customers, including conducting on-site visits to verify information;
- obtaining information on the customers' financing needs, as well as their plans for short-term, mid-term and long-term development, to determine the reasonableness of such financing needs; and
- providing training related to due diligence to our employees.

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

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

### **Non-compliance Incidents**

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

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

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

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

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

*(1) Non-compliance incident in March 2013*

- *Description:* In December 2012, Beijing Hanhua, our licensed guarantee subsidiary in Beijing entered into a guarantee contract with a customer whereby we agreed to guarantee RMB20 million of financing for the customer. In March 2013, Beijing Hanhua entered into another guarantee contract to guarantee RMB15 million of financing for the same customer, causing the aggregate balance of the outstanding guarantees we provided to a single customer to reach RMB35 million. During an on-site inspection conducted by the Beijing Finance Bureau in June 2013, such authority found that the aggregate balance of the outstanding guarantees we provided to this customer exceeded 10% of Beijing Hanhua’s net assets of RMB303.1 million, based on our management accounts as of December 31, 2012, the latest date for our year-end financial statements when the two guarantee contracts were drawn.
- *Cause:* Immediately after this incident, we carefully investigated this matter and discovered that these two guarantee transactions were reviewed by separate credit review officers and the second credit review officer, who was responsible for customer due diligence in relation to the RMB15 million guarantee, acted negligently by not following our internal protocol of verifying whether such customer has outstanding financing we have guaranteed during the review of the relevant due diligence report.

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- *Rectification measures:* We have adopted the following measures to prevent the reoccurrence of such deviation from our standard operational guidelines since June 2013:
  - (i) issuing a reprimand to the second credit review officer for his failure to follow our internal protocol;
  - (ii) using this non-compliance incident as an example to reiterate the importance of adhering to our operational protocols and guidelines;
  - (iii) monitoring the maximum amount of guarantees to a single customer and its affiliates on a consolidated basis against the applicable net assets at three different stages:
    - by credit review officers and credit approvers at the credit review and approval process;
    - by the legal and compliance team at the signing process; and
    - by the finance team prior to placing the requisite security deposits to the lending banks as required for such banks to release the loans to the borrowers; and
  - (iv) enhancing our regular training programs to keep all business staff as well as legal and compliance personnel updated with the relevant laws and regulations and their developments.

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

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



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

(2) *Non-compliance incident in May 2013*

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

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

- *Rectification measures:* Immediately after the discovery of this incident, we became aware of the different interpretations on how to calculate net assets between us and the competent authorities, and have since used the lower of the latest available monthly management accounts and the latest available quarterly management accounts immediately preceding the date when the relevant guarantee contract is signed to calculate net assets, for the purpose of monitoring compliance with the 10% of net assets limit. In addition, we have also implemented other rectification measures. For details, see “— (1) Non-compliance incident in March 2013.”
- *Status:* According to a letter we received from the Beijing Finance Bureau on October 21, 2013, such authority confirmed that we had rectified our past non-compliance with the restriction on the maximum amount of guarantee to a single customer. As of the Latest Practicable Date, our Directors have confirmed that we have, since this incident, used the lower of the latest available monthly management accounts and the latest available quarterly management accounts immediately preceding the date when the relevant guarantee contract is signed to calculate net assets.



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

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

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

- *Description and cause:* According to the Interim Measures, a financing-guarantee company shall obtain prior approval from the relevant local finance bureau before it can establish and register a new branch office. The Beijing Interim Measures further provide that any financing-guarantee branch offices established prior to the effective date of the Beijing Interim Measures, being December 31, 2010, should be in full compliance with the Beijing Interim Measures by March 31, 2011. Prior to the effective date of the Beijing Interim Measures, Beijing Hanhua had established ten branch offices in Beijing in 2010 without the approval of the Beijing Finance Bureau, which approval was previously not required. They were established initially as sales offices representing Beijing Hanhua in various districts of Beijing for providing marketing support to Beijing Hanhua when it was exploring business opportunities in those areas. Beijing Hanhua, which had a license of conducting guarantee business in the entire Beijing city, was the entity conducting business activities. During an on-site inspection conducted by the Beijing Finance Bureau in June 2013, such authority found that our ten guarantee branch offices in Beijing did not receive proper approval for their establishment. Given that the license of Beijing Hanhua already enabled us to conduct guarantee business covering Beijing city entirely, and maintaining such branch offices would result in additional administrative and compliance monitoring expenses which we did not consider to be cost effective, we decided subsequently to close these ten branch offices.
- *Rectification measures:* Since June 2013, we have taken immediate measures to close and deregister our ten guarantee branch offices in Beijing. In addition, our President, as assisted by the Office of our Board of Directors under the supervision of our Board of Directors, has been designated to review and approve the establishment of every new subsidiary or branch.
- *Status:* As of the Latest Practicable Date, our Directors confirmed that all of these ten branch offices had been deregistered, with the last one closed on July 24, 2013. Such confirmation was also supported by a letter from the Beijing Finance Bureau on October 21, 2013.

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

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

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

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

**(i) *Inconsistencies with the Guiding Opinions***

Under the current PRC legal regime, the principal national regulatory policy for small loan companies in the PRC is the Guiding Opinions on the Pilot Operation of Small Loan Companies (關於小額貸款公司試點的指導意見) (the “Guiding Opinions”), jointly issued by the CBRC and the PBOC in 2008, for the purpose of guiding the pilot operations of micro and small loan companies in China. As advised by our PRC legal advisors, the Guiding Opinions are not administrative regulations (部門規章) as defined in the Legislation Law of the PRC (中華人民共和國立法法) but are the normative documents (規範性文件) in nature, the legal hierarchy of which in the PRC legal regime is not specified in the Legislation Law of the PRC. According to the Working Rules for Official Documents of Party and Governmental Institutions (黨政機關公文處理工作條例), the Guiding Opinions are an official document providing opinions and solutions on important issues. Furthermore, based on the Circular of the Supreme People’s Court on Printing and Issuing the Summary of the Symposium on Issues Concerning Applicable Legal Norms for the Trial of Administrative Cases (最高人民法院關於印發《關於審理行政案件適用法律規範問題的座談會紀要》的通知), the Guiding Opinions are not superior to other normative documents issued by provincial governments (including the

provincial regulatory policies and measures applicable to micro and small loan companies as further discussed below) in terms of legal hierarchy. For detailed analysis and the relevant laws, rules and notice, see “Regulatory Environment.”

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

***(ii) Inconsistencies with Relevant Provincial Regulatory Policies and Measures***

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

Of our eight micro and small loan subsidiaries established prior to March 31, 2014, seven have shareholding structures that are inconsistent in certain respects with the relevant provincial regulatory policies and measures. We have obtained confirmation letters from the provincial government authorities in provinces where these seven subsidiaries are located, confirming that:

- each of them has completed all the necessary approval procedures for its establishment or change of shareholding structure;
- each of them is in compliance with the relevant national rules, guidance and principles applicable to micro and small loan companies announced by the PBOC, the CBRC and/or other local governments from time to time as well as relevant local regulations; and
- none of them has been disciplined due to the inconsistencies with the relevant regulatory requirements.

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

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

<u>Nature of inconsistency</u>	<u>Name of subsidiaries involved and details of inconsistencies</u>	<u>Date of confirmation letters</u>
Inconsistencies with the local regulatory policies and measures on shareholding structures	<b><i>Nanning Micro-credit:</i></b> 100% of its equity interest is held by our Group, which is inconsistent with the maximum shareholding by a single shareholder and its affiliates of 30% required by local regulatory policies and measures.	April 10, 2013; September 11, 2013; November 22, 2013; and January 26, 2014
	<b><i>Chongqing Micro-credit:</i></b> 56% of its equity interest is held by our Group and its affiliates in aggregate, which is inconsistent with the maximum shareholding by a single shareholder and its affiliates of 30% required by local regulatory policies and measures.	May 21, 2013; September 18, 2013; November 21, 2013; and January 15, 2014
	<b><i>Sichuan Micro-credit:</i></b> 95% of its equity interest is held by our Group, which is inconsistent with the maximum shareholding by a single shareholder and its affiliates of 30% required by local regulatory policies and measures.	April 27, 2013; September 17, 2013; November 21, 2013; and February 10, 2014
	<b><i>Tianjin Micro-credit:</i></b> 100% of its equity interest is held by our Group, including 50% held by our Company and another 50% held by certain subsidiaries of the Group, which is inconsistent with the local regulatory policies and measures which require the maximum shareholding by the principal shareholder not to exceed 50% and the maximum shareholding by each other shareholder and its affiliates not to exceed 20%.	May 6, 2013; November 11, 2013; November 26, 2013; and February 10, 2014
	<b><i>Shenyang Micro-credit:</i></b> 89.5% of its equity interest is held by our Group, including 30% held by Liaoning Hanhua, its principal shareholder, and another 59.5% held by certain related parties of the Group, which is inconsistent with the local regulatory policies and measures which require the maximum shareholding by a shareholder (other than the principal shareholder) and its affiliates not to exceed 10%.	April 18, 2013; September 12, 2013; November 21, 2013; and January 21, 2014
	<b><i>Changchun Micro-credit:</i></b> 60% of its equity interest is held by our Group, including 24% held by Hanhua Guarantee, its principal shareholder, and another 36% held by certain subsidiaries of the Group, which is inconsistent with the local regulatory policies and measures which require the maximum shareholding by the principal shareholder not to exceed 20% and the maximum shareholding by each other shareholder and its affiliates not to exceed 10%.	April 22, 2013; June 30, 2013; November 21, 2013; and February 11, 2014

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<u>Nature of inconsistency</u>	<u>Name of subsidiaries involved and details of inconsistencies</u>	<u>Date of confirmation letters</u>
	<i>Xi'an Micro-credit</i> : 65% of its equity interest is held by our Group, including 35% held by our Company and another 30% held by a subsidiary of the Group, which is inconsistent with the local regulatory policies and measures which require the aggregate shares held by related shareholders of a small loan company not to exceed 49% of its total shares.	November 15, 2013; and January 21, 2014
Inconsistencies with the local regulatory policies and measures on the minimum shareholder lock-up period for share transfer and the minimum time period for the increase of registered capital	<i>Sichuan Micro-credit</i> : Its original principal and other shareholders made share transfers 15 months after this subsidiary was established, which is inconsistent with the minimum lock-up period of three years for the principal shareholder and two years for other shareholders required by local regulatory policies and measures. <i>Shenyang Micro-credit</i> : Its share capital was increased nine months after this subsidiary was established, which is inconsistent with the minimum time period for capital increase of two years required by local regulatory policies and measures. <i>Changchun Micro-credit</i> : Its share capital was increased four months after this subsidiary was established, which is inconsistent with the minimum time period for increase of registered capital of one year required by local regulatory policies and measures.	April 27, 2013; September 17, 2013; November 21, 2013; and February 10, 2014  April 18, 2013; September 12, 2013; November 21, 2013; and January 21, 2014  April 22, 2013; June 30, 2013; November 21, 2013; and February 11, 2014
Inconsistencies with the local regulatory policies and measures on the maximum registered capital	<i>Shenyang Micro-credit</i> : Its registered capital of RMB300 million exceeded the local regulatory policies and measures requirement of no more than RMB200 million.	April 18, 2013; September 12, 2013; November 21, 2013; and January 21, 2014

On April 10, 2014, we established a new micro and small loan subsidiary, Guiyang Micro-credit, in Guiyang, Guizhou Province. Guiyang Micro-credit's entire equity interest is held by our Group, which is inconsistent with the local regulatory policies and measures which require the aggregate shares held by a shareholder and its affiliates of a local micro and small loan company not to exceed 33% of its total equity interest. We have obtained the approval from the Financial Office of Guizhou Provincial Government, which is the competent authority in supervising the micro and small loan industry in Guizhou, for the establishment and commencement of operations of Guiyang Micro-credit.

### *(iii) Legal Consequences Analysis*

Prior to the establishment of or changes in the shareholding structure of our relevant micro and small loan companies, we submitted application materials, including information on proposed shareholding structure, registered capital and other corporate and business information, to the relevant provincial-level competent authorities for review, which granted

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

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

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

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



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## RISK MANAGEMENT

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### OVERVIEW

As a financial services provider serving various industry sectors, we face a variety of risks, including credit risk, operational risk, legal and compliance risk, and liquidity risk, with credit risk being our principal risk. We recognize the importance of an effective risk management system for identifying, managing and mitigating these risks. We have developed a risk management system tailored to the characteristics of each of our business lines, with a focus on managing the risks through comprehensive customer due diligence, independent information review and multi-level approval process. Meanwhile, we continue to monitor and review the operation and performance of our risk management system, and improve it from time to time to adapt to the changes in market conditions and regulatory environment as well as our product offering.

In particular, based on our extensive experience in serving the SME and microenterprise sector, we have developed our credit evaluation system, which is tailored to the characteristics of our business model and our risk assessment, to assist us in determining the creditworthiness of our customers. Our credit review process focuses on evaluating a borrower's ability and willingness to pay its financial obligations. It primarily involves the eight essential aspects, which we refer to as the "eight elements," namely, experience; reputation; wealth accumulation; team; market; finance performance; financing arrangement and future plan, in helping us form our judgment on the borrower's creditworthiness. See "— Credit Risk Management — Review and Approval — Review Elements." In addition, we believe that, particularly for SMEs and microenterprises, stability and continuity of business operations, and the ability and willingness to honor repayment obligations as they fall due, are closely related to the commitment and attitude of their controlling persons and management team. Therefore, our credit evaluation system also emphasizes on assessing a borrower's controlling persons and management team and on their experiences, credit records and stability. Our credit evaluation system enables us to effectively conduct our guarantee and SME lending businesses based primarily on the creditworthiness of our customers, rather than collateral.

While we consider credit risks, including customer defaults and loan impairment, are inherent to our business, we believe 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. In consideration of the foregoing, 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.



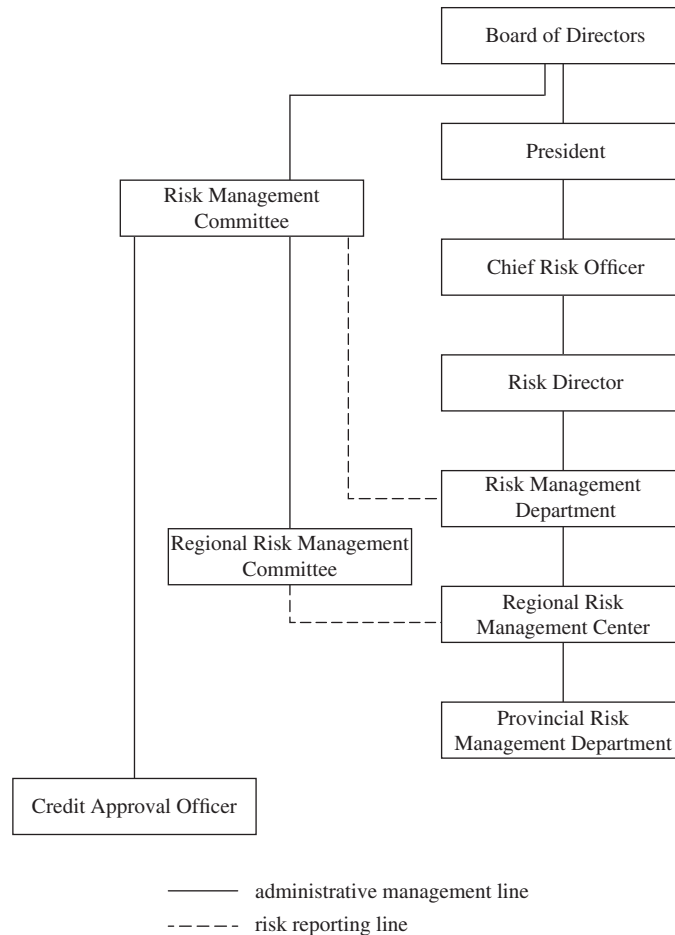
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# RISK MANAGEMENT

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## RISK MANAGEMENT SYSTEM FRAMEWORK

The organizational structure of our risk management system is illustrated below:



**Board of Directors:** Our Board of Directors is ultimately responsible for our overall risk management and performs its risk management function by giving guidance and authorization to our Risk Management Committee.

**President:** Our president oversees our overall risk management on behalf of the Board of Directors. Mr. ZHANG Guoxiang is our president. For details about Mr. Zhang’s biography, see “Directors, Supervisors, Senior Management and Employees — Directors — Executive Directors.”

**Risk Management Committee:** Our Risk Management Committee at our Group level is the highest decision-making body in respect of risk management, subject to the guidance and authorization of our Board of Directors. Our Risk Management Committee oversees various authorization bodies within our risk management system and grants credit approval authority to these authorization bodies as well as individual credit approval officers. Currently, our Risk Management Committee is comprised of Mr. ZHANG Guoxiang, Mr. LIN Feng, Mr. WANG Dayong, Mr. CUI Weilan, Mr. REN Weidong, Mr. LIU Ruifeng and Mr. HUANG Gang, with

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## RISK MANAGEMENT

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Mr. ZHANG being the chairman and Mr. CUI being the deputy chairman of this committee. For biographies of Mr. ZHANG, Mr. LIN, Mr. WANG, Mr. CUI, Mr. REN and Mr. LIU, see “Directors, Supervisors, Senior Management and Employees — Directors” and “Directors, Supervisors, Senior Management and Employees — Senior Management.” Below is the biography of Mr. HUANG:

**Mr. Huang Gang**, aged 46, has been the general manager of the Risk Management Department and the general manager of the risk management department of the Company since January 2013. He joined our Group in April 2008 and has served in various positions, including senior credit review officer and deputy general manager of the Risk Management Department. Prior to joining our Group, Mr. Huang worked in Sichuan Shizhu Teacher School from 1990 to 1992 and in Chongqing International Trust Investment Co., Ltd. from 1997 to 2008, and was the director of Baoying Fund Management Co., Ltd. from 2001 to 2003. Mr. Huang obtained his bachelor’s degree in pedagogy from East China Normal University in June 1990 and obtained his master’s degree in economics from Southwestern University of Finance and Economics in June 1997.

**Chief Risk Officer:** Our chief risk officer reports to our president and assists our president in performing his risk management function. Our chief risk officer is responsible for supervising the implementation of our risk management policies and procedures, organizing risk management activities, and examining, supervising and inspecting the legal and compliance matters of our business operations. Mr. CUI Weilan is one of our vice presidents and is in charge of our risk management. For details about Mr. Cui’s background, see “Directors, Supervisors, Senior Management and Employees — Senior Management.”

**Risk Director:** The primary responsibility of our risk director is to assist our chief risk officer in managing the risks we face. Our risk director is Mr. LIU Ruifeng. For details of Mr. Liu’s biography, see “Directors, Supervisors, Senior Management and Employees — Senior Management.”

**Risk Management Department:** Our Risk Management Department at our Group level is a standing department of our Risk Management Committee. It performs the daily risk management functions on behalf of our Risk Management Committee.

Our Risk Management Department has four divisions responsible for devising relevant risk management policies at Group level and giving guidance to their respective counterparts at provincial level, if any.

**Credit Policy Division:** The credit policy division is responsible for:

- developing credit policies and criteria for our various financial products;
- stipulating guidelines and standards for customer due diligence and the review process;
- developing business evaluation and approval mechanisms;

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## RISK MANAGEMENT

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- examining and supervising the implementation of credit policies and criteria, business guidelines and standards;
- establishing various management information systems and conducting *ad hoc* analyses; and
- supervising and training risk management personnel.

***Business Operation Management Division:*** The business operation management division is responsible for:

- developing, examining and supervising various business operation procedures; and
- providing training and guidance to personnel dealing with lending operations and document management.

***Portfolio Management Division:*** The portfolio management division is responsible for:

- setting up customer classification systems and portfolio management strategies; and
- setting up collection policies for non-performing assets.

***Legal and Compliance Division:*** The legal and compliance division is responsible for:

- reviewing our compliance with regulatory requirements;
- supervising the implementation of corporate policies;
- reviewing the completeness of procedures and documentation before we provide any guarantee or loan;
- providing training to the legal and compliance personnel;
- dealing with legal matters in relation to our regular business operations and assets collection; and
- drafting and reviewing contracts and other legal documents.

**Regional Risk Management Committee:** Under the leadership and authorization of the Risk Management Committee, our regional risk management committees are principally responsible for making credit decisions for medium transactions, as defined below.

**Regional Risk Management Center:** Our regional risk management center is a standing department under our regional risk management committee and is responsible for the daily operation of the regional risk management committee.

## RISK MANAGEMENT

The chart below sets out details of our regional risk management committees and regional risk management centers as of December 31, 2013:

Regional Risk Management Committee	Regional Risk Management Center/Department	Regions Covered
Risk Management Committee (Northern)	Risk Management Center (Northern)	Beijing, Tianjin, Hebei, Shandong, Shaanxi, Gansu, Guangxi and Guangdong
Risk Management Committee (Southwest)	Risk Management Center (Southwest)	Chongqing, Guizhou and Hubei
Risk Management Committee (Northeast)	Risk Management Center (Northeast)	Liaoning, Jilin and Heilongjiang
Risk Management Committee (Eastern)	Risk Management Center (Eastern)	Jiangsu, Anhui and Shanghai
Risk Management Committee (Sichuan)	Sichuan Risk Management Department	Sichuan and Yunnan

**Provincial Risk Management Department:** Each of our provincial risk management departments is under the direct leadership of the corresponding regional risk management center. Provincial risk management departments directly conduct our daily risk management operations, including signing and closing of loans and guarantees and portfolio management. As of December 31, 2013, we had 19 provincial risk management departments.

**Credit Approval Officer:** Our Risk Management Committee has delegated credit approval authorities in varied amounts to certain individuals, as appropriate. Credit approval officers may make credit decisions pursuant to our credit review and approval procedures within their respective credit approval authority.

Credit approval officers consist of certain members of the risk management committees, key personnel of business departments and key personnel of risk management departments. Credit approval officers are responsible for carrying out risk assessments and determining the credit terms. The table below sets out the numbers of credit approval officers based on their maximum credit approval authority as of December 31, 2013:

Maximum Approval Authority (RMB in millions)	1	2	3	5	10	20	30	>30
Number of officers . . .	18	11	5	7	5	1	1	1

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## RISK MANAGEMENT

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### CREDIT RISK MANAGEMENT

Credit risk is the principal risk that we face. Credit risk arises from a customer's inability or unwillingness to make timely payments under the financing we have guaranteed or provided. We have developed a credit evaluation system tailored to our business based on our extensive experience in serving the SME and microenterprise sector.

We have divided transactions into three categories, primarily based on the size of the transactions:

- (i) **medium**: includes all transactions exceeding RMB5.0 million;
- (ii) **small**: includes primarily transactions ranging from RMB1.0 million to RMB5.0 million; and
- (iii) **micro**: includes transactions below RMB1.0 million.

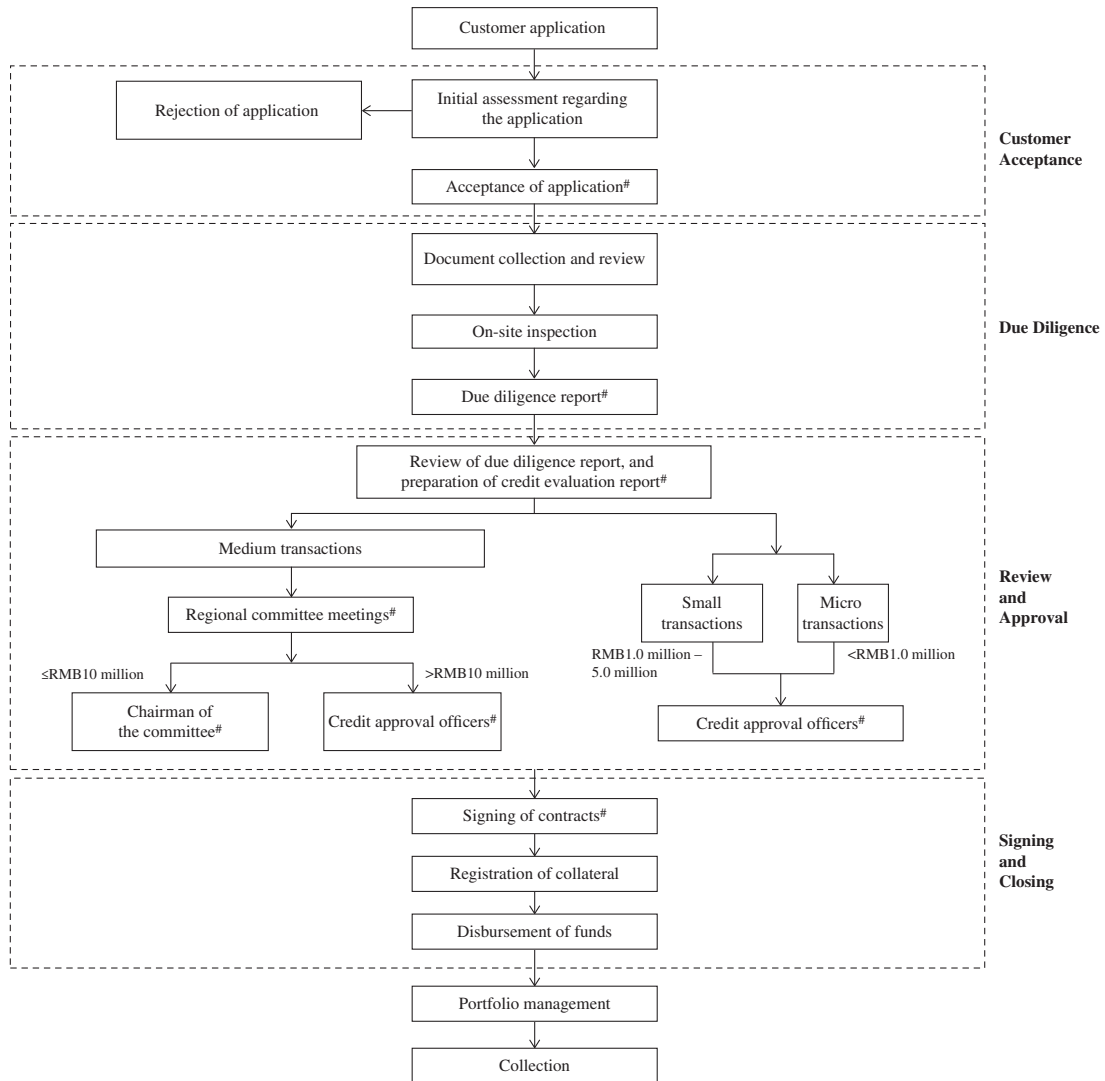
We follow the principles below to control credit risks:

1. **"Small and diverse"** principle: We focus on guarantee or loan businesses of small amounts and the establishment of a diverse customer base to avoid concentration risk in our portfolio;
2. **"Repayment in installments"** principle: Our products and services allow the majority of our customers to repay the financing we guarantee or provide in installments to ease the customer's repayment pressure, thus lowering the risk of customer default;
3. **"Short maturity"** principle: Faced with a rapidly-changing economic environment both domestically and abroad, we typically designate short maturities for our loan products of up to 12 months;
4. **"Serving the real business"** principle: We focus on catering for the actual operational funding requirements of SMEs and microenterprises such as retailers and manufacturers. These customers have a strong incentive to retain a high credit rating to facilitate their business growth, and thus we believe that the default rate for these customers is generally lower; and
5. **"People-oriented assessment"** principle: We believe that in particular for SMEs and microenterprises the stability and continuity of business operations, and the ability and willingness to honor repayment obligations as they fall due, are closely related to the commitment and attitude of their controlling persons and management team. Therefore, our assessment of a borrower places significant emphasis on its controlling person(s) and management team and on their experience, credit records and teamwork. We generally seek counter-guarantees from the person(s) controlling,

# RISK MANAGEMENT

or having substantial influence over, all our guarantee and entrusted loan customers. For micro and small loan customers who are individuals or individual entrepreneurs seeking a relatively small loan amount, we typically require the borrower's spouse to act as joint borrower in lieu of a guarantor.

The flowchart below illustrates the key processes of our credit risk management system:



Note: # refers to the checkpoints which have been migrated into our IT system since October 2013.

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## RISK MANAGEMENT

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### Customer Acceptance

The credit management workflow begins with the customer's application. Our project manager answers enquiries from the customer, assesses the customer's financial needs and planned use of the financing, introduces our products and services, and establishes the initial relationship with the customer. Where relevant, we take into consideration the prevailing general conditions in which our customers operate, such as the national and local laws and regulations governing a customer's business, industry performance and macro-economic conditions. Our project managers may reject a customer's application if such customer cannot meet our basic eligibility requirements, such as the age and business experience of the controlling person, the customer's operating track record and results.

### Due Diligence

**Two-person investigation:** For medium transactions, a team of two project managers will conduct our due diligence. For other transactions, one project manager will typically conduct the investigation.

**On-site inspection:** In order to gain first-hand information and verify the authenticity of the information provided, our project managers will conduct on-site visits to inspect the business operations of our customers and counter-guarantors and/or collateral provided. Before officially commencing the on-site inspection, our project manager will require our customers to provide their latest financial reports and prepare a written outline of the inspection.

**Interviews:** We conduct interviews with our customers for medium transactions to make a comprehensive assessment of the customer's experience, personality and integrity, which will be used as one of the bases for the credit evaluation. We also identify opportunities for further cooperation during the process.

**Dual investigations:** For important or complicated transactions, our risk management department will cooperate with the business department to conduct due diligence investigations. We may also engage third-party independent investigation agencies, such as external accounting firms, to participate in the investigation.

**Use of "soft information":** We use "soft information" obtained in the due diligence process to help assess the creditworthiness of our customers and verify the information provided by them. Such "soft information" may include feedback from the customer's upstream and downstream counterparties and other independent third parties on its business and credit reputation, and the controlling person's expertise and experience in the customer's business and the industry. We consider such "soft information" a useful tool as it provides a more comprehensive appraisal of the customer and its controlling persons.

**Due diligence on counter-guarantors:** Counter-guarantors provided by our customers normally include the controlling persons, spouse and children of the controlling persons, senior management and affiliates. Review of the counter-guarantors' creditworthiness is included in our review of a customer's creditworthiness. For example, in our review of the controlling

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persons and the senior management, we focus on their experiences, family wealth (primarily including real estate and cars, with the relevant certificates for verification), personal credit history, information obtained through internet searches and peer reference (if applicable). In our review of the borrower's affiliates, we focus on their operating history, business size, and assets and liabilities. Results of the reviews of the counter-guarantors, if any, form part of the basis of our credit decision for a customer.

*Due diligence guidelines:* We have three sets of due diligence guidelines and requirements tailored to our medium, small and micro transactions. Our due diligence primarily focuses on a customer's (1) basic information, including its controlling person's and affiliate's(s') basic information, (2) financial affairs, such as debt-to-income ratio, debt-to-asset ratio and liquidity ratio, with particular focus on assets and wealth accumulation, including controlling persons' family wealth, (3) its management's quality and stableness, (4) credit history, (5) purpose of the financing, contract or other obligations to be guaranteed, and (6) relationships with upstream and downstream counterparties. For certain major industries where our customers are operating, we have developed a specific and detailed guidance/template of due diligence and review, which includes the key aspects of such industries and the necessary verification procedures to help our business team to conduct their due diligence more effectively.

### **Review and Approval**

#### *Review Elements*

Our review focuses on evaluating a borrower's ability and willingness to pay its financial obligations and primarily involves the following eight aspects, which we refer to as the "eight elements." Our evaluation of a customer's creditworthiness involves a comprehensive analysis of those eight elements. We use soft information obtained in the due diligence process to refine our understanding of a customer's creditworthiness. While we do not evaluate our customers by assigning a particular credit score, we set out certain criteria in these elements to assist our review. We do not consider these criteria in an isolated manner or by simple addition; instead, they are taken together as a whole to form the basis on which our credit review and approval officers, who are experienced in this industry, would evaluate a customer's creditworthiness and consider the credit proposal as appropriate. Strong performance in one element may, to some extent, compensate a relatively weak performance with respect to other elements.

*Experience:* Experience refers to the ages and industry experience of the controlling person(s) and management team of a borrower, and the borrower's track record. We believe that a stable and experienced management team will help to maintain the borrower's continuous business operations, and generate a stable cash flow for its business operations and repayment of its financial obligations.

*Reputation:* Reputation includes a borrower's and its controlling person's credit records (including data from various third parties, such as credit bureaus, tax bureaus and industry and commerce bureaus), social status, comments from peers and counterparties, and cooperation history with us. Reputation effectively helps us to assess a borrower's creditworthiness and willingness to honor repayment obligations. We believe that an SME, a microenterprise or an individual entrepreneur with a good reputation is less likely to default, compared with others.



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*Wealth accumulation:* Wealth accumulation includes the net worth of a borrower and the accumulated wealth of the family of its actual controlling person(s). We believe that justifiable wealth accumulation reflects a borrower's operational ability and historical profitability, as well as its possible damage when it defaults.

*Team:* Team includes a borrower's shareholding structure and historical changes, experience of its senior management responsible for finance, manufacturing, technology and sales, and the senior managers' employment history with the borrower. We believe that an efficient and stable management team helps ensure the borrower's stable development.

*Market:* Market includes whether a borrower has a clear business model, a key business line, a diversified business model, a stable upstream and downstream counterparty base and advantages in terms of locations and resources, and current business demands.

*Financial performance:* Financial performance includes a borrower's sales volume, cash flow from operations, profit level in the industry, reasonableness in its results of operation and financial performance, such as revenue, profits and indebtedness, and customer base as compared to development of the industry. We will also ensure the completeness of financial information made available to us by our customer for an informed evaluation.

*Financing arrangement:* Financing arrangement includes whether a customer has a specific and reasonable financing need, whether a customer accepts repayment by installment, and a customer's current liability structure, future cash flow from operations, and access to financing.

*Future plan:* Future plan includes a customer's plan for its short-term, mid-term and long-term development, which will help us judge the reasonableness of a customer's financing needs, plan our future relationship with the customer and develop further opportunities for cooperation with the customer.

### ***Credit Limits and Collateral***

We monitor our total exposure to a customer and its affiliates by granting a consolidated credit limit to such customer and its affiliates based on our credit review of the customer and its affiliates as a group. In the due diligence process, our business team will enquire whether the customer has any affiliates and whether it or any of its affiliates has pre-existing transactions with us. Our business team will also verify the information provided by such customer by comparing the historical records stored in our IT system.

Based on our extensive experience in serving the SME and microenterprise sector, we have developed a credit evaluation system which focuses on the comprehensive customer due diligence and segregation of credit approvals, to determine the credit limit of each individual customer. If a customer provides collateral when applying for a guarantee or loan with us, such collateral will be taken into consideration when determining such customer's credit limit. If a customer's financing needs exceed the credit limit that we grant to him or her, we may require

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such customer to provide collateral to secure the financing, to the extent we consider the provision of collateral appropriate to the customer's proposed use of the financing based on the due diligence results and credit review. Such arrangement will be finalized in a credit proposal approved by us for such customer. A typical credit proposal usually includes a credit limit, fee rate, repayment schedule, financing plan and collateral (if any). Generally, the guarantees or loans provided to a customer, whether with collateral or not, do not exceed the maximum exposure as determined by regulatory requirements and our due diligence regarding the customer's business.

During the due diligence process for our credit guarantee and SME lending businesses, our business team will gather basic information in order to estimate the value of the collateral to be provided by the borrower. This is based on the original cost or purchase price of the collateral (in the case of accounts receivable and equity interest) and the prevailing selling prices of comparable assets (in the case of real property interests). During the review and approval process for our credit guarantee and entrusted loan businesses, our collateral valuation analysts will conduct an independent assessment of the collateral in order to adjust or confirm the estimated fair value proposed by the business team, based on a more refined approach, including conducting data analysis, on-site investigations, and discussions with third parties. Our collateral valuation analysts typically have at least three years' experience in accounting and asset valuation and some of them were certified public valuers in China.

The types of collateral we accept mainly consist of land use rights and building ownership. We determine the fair market value of the land use rights and building ownership primarily by referring to the following, as appropriate: (i) the cost of land; (ii) the prevailing selling prices of the neighboring land; (iii) the average selling price of buildings situated on other pieces of land with similar zoning and development plans; and (iv) the prevailing selling prices of the surrounding properties in the second-hand property market. For accounts receivable and equity interest, we primarily rely on the historical cost of those assets. We normally consider the value of the collateral before a customer's application is approved and shortly before such guarantee or loan contract becomes due and payable.

### ***Review and Approval Processes***

Our review and approval processes vary based on the transaction size:

#### *Medium transactions*

Our medium transactions are evaluated and approved by collective decision. We adopt segregation between the business team and the credit review team in our credit approval process. Our credit review officers, generally with at least three years of relevant experience, will review the due diligence report and the supporting documents submitted by our business team, and prepare a credit evaluation report which typically contains the credit review officers' analysis of a customer's strengths and weaknesses and includes a credit proposal setting out the proposed credit amount, financing plan, fee rate, repayment schedule and counter-guarantees and collateral, if any. This credit evaluation report forms the basis of discussion at the regional committee meetings, where a credit decision will be made.

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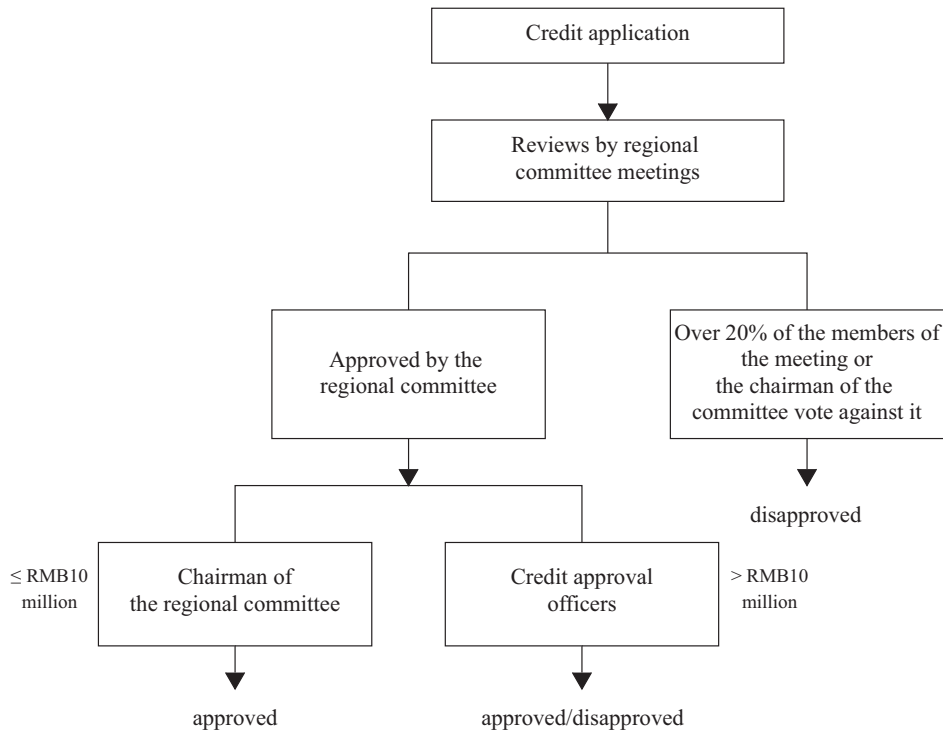
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Regional committee meetings review and approve credit applications for medium transactions within their respective regions. At least three members of the regional risk management committee will be present at the regional committee meetings. We adopt the principle of “collective discussion and independent voting” at these meetings. Each regional risk management committee member attending the regional committee meeting has one vote. A credit proposal will be rejected if over 20% of the members at the meeting or the chairman of the regional risk management committee vote against it.

If a credit application exceeds RMB10 million, such credit application requires further approval by each of the credit approval officers with adequate credit approval authority after it is approved at the regional committee meeting. Currently, three members of our Risk Management Committee, being the standing committee member, deputy chairman and chairman, can approve medium transactions with a value ranging from RMB10 million to RMB20 million, RMB20 million to RMB30 million and above RMB30 million, respectively. For example, a credit application of RMB31 million will be approved by the chairman after it is approved by the deputy chairman, the standing committee member and the regional committee meeting, respectively.

The flowchart below sets out the credit review and approval process for medium transactions:



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### *Small and micro transactions*

Small and micro transactions are approved by individual credit approval officers within their approval authority.

Similar to medium transactions, we divide our credit approval process for small transactions between the business team and the credit review team in our credit approval process. Our business team will investigate a small transaction and submit its due diligence report for review by the independent credit review officer. Credit approval officers will approve a small transaction based on their respective approval authorities after it is reviewed by the credit review officer. A small project may require approval from two or three credit approval officers, depending on its size.

A small transaction with certain conditions, including loan restructuring, loan extension and loans at risk, irrespective of its size, will need a credit approval officer from our Risk Management Committee to review and approve it after it is approved by the credit approval officers from the relevant Provincial Risk Management Departments.

Micro transactions follow an approval process similar to small transactions, except that a credit approval officer with sufficient approval authority can both review a credit application and approve that same application.

### ***Rejection***

Based on the review results, we may (1) approve a credit request; (2) amend the credit proposal as appropriate; or (3) decline a credit request. Typical reasons to decline a customer's credit request include the following:

- financial data not consistent with industry average data, or not supported by due diligence results;
- financing purpose not verified or involving too high a risk;
- negative information about the borrower or its products;
- source of funding for the repayment not satisfactory;
- difficulty in enforcing our rights on the collateral; and
- background check of the controlling person not in line with our expectations.

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### Maintaining Consistency in Our Credit Decisions Made Across Our Group

To ensure that credit decisions made by different credit approval officers across our Group remain consistent and suitable to our appetite for risk, we mainly rely on the following three measures:

1. *A systemic credit risk management mechanism*

We have developed a risk management system in line with the characteristics of each of our business lines based on our extensive experience in the industry.

- We ensure that consistent risk management policies are adopted and applied to our Group. The credit policy division of the Risk Management Department at Group level is responsible for, among other things, stipulating guidelines and standards for the due diligence process and developing business and approval mechanisms, which will be applied throughout our Group.
- We ensure the consistency of credit decisions made by different credit approval officers by streamlining the management of our credit review officers. Our Risk Management Committee directly delegates credit approval authority to our credit approval officers, as appropriate. We have more credit approval officers with small approval authority than those with large approval authority. Transactions with large amounts can only be approved by a relatively small group of credit approval officers, which helps to ensure consistent credit decisions. Credit approval officers typically start with a credit approval authority for small transactions. This authority may increase over time, as credit approval officers become more experienced in credit evaluation through their work and training.

See “— Risk Management System Framework.”

2. *The establishment of criteria for customer selection*

Our review and selection of customers focus on evaluating a customer’s ability and willingness to pay its financial obligations and primarily involves the “eight elements,” which are made familiar to our employees during their basic training. Our credit approval officers will consider, on a comprehensive basis, among other things, the industry in which the customer operates, operating history, management team, business size, assets, indebtedness, reasonableness of financing demands, future plans, credit records (both with us and with third parties) and counter-guarantees. We have set out certain criteria to assist their evaluation. These factors may not be considered in an isolated manner or by simple addition, but are taken together as a whole to form the basis of our credit decisions. Our credit approval officers will go through each of these elements in reaching credit decisions regarding our customers. See “— Credit Risk Management — Review and Approval.”

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### 3. *Ensuring new credit review/approval officers learn from our accumulated experience*

We focus on sharing our accumulated experience with our new credit review/approval officers. When we establish a new subsidiary, other subsidiaries with longer track records will provide personnel support and basic training to the new subsidiary. Credit review officers and credit approval officers who are to work in the new subsidiary should (a) obtain their authorizations to work as a credit review officer or credit approval officer by on-the-job training at the existing subsidiaries and by passing certain tests, or (b) be transferred to the new subsidiary from the existing subsidiaries with proper authorizations. Credit approval officers from regional risk management centers conduct regular or *ad hoc* training at the relevant subsidiaries and share experiences with relevant personnel to promote uniformity of credit review standards. The Risk Management Department at Group level and regional risk management centers also communicate with our employees regarding our policies, requirements and information updates in terms of risk management via reports, conference calls and emails, so that we can respond to market changes based on the same standards.

### **Signing and Closing**

In our bank financing guarantee business, upon receiving our internal approval, we submit a letter of intent to our cooperating bank for approval and, once approved, we proceed with the signing process. Typically, we issue our letter of guarantee to the bank and enter into a guarantee contract with our customer and counter-guarantors, and the bank signs a loan agreement with our customer. If any collateral is provided, we register our security interest in such collateral with the relevant government authorities before issuing the letter of guarantee. Prior to releasing bank loans to the borrowers that we guarantee, we normally need to place the requisite security deposits in the relevant lending banks as part of the bank loan release process. Once these steps are completed, our customer is able to draw down the financing we have guaranteed.

In our micro and small loan business, we proceed with the signing process after receiving our internal approval. We enter into a loan agreement with the borrower and a guarantee agreement with the guarantor and notify the borrower that the loan is available for drawdown. If any collateral is provided, we register our security interest in such collateral with the relevant government authorities before making our funds available for drawdown.

### **Portfolio Management**

We review our guarantee and loan portfolios periodically. In our bank financing guarantee business, we normally evaluate the repayment ability of our guarantee customers within one to three months prior to the due date of the relevant guarantee contract. In our micro and small loan business, we normally review the borrower's actual use of funds during the first month after drawdown and continue to monitor its repayment ability at each installment due date. Through our portfolio management policies, as elaborated in detail below, we can be aware of any potential repayment difficulties of our customers ahead of the guarantee or loan due date and can take precautionary measures, as appropriate. Given our relatively low default rate and impaired loan ratio during the Track Record Period, we consider our portfolio management measures to be effective.

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### *Guarantee and entrusted loan portfolio management*

We categorize our business into two categories based on their respective risk levels: low risk business and general risk business.

*Low risk business:* This mainly refers to non-financing guarantees, such as performance guarantees and litigation attachment bonds.

*General risk business:* This refers to guarantees other than the ones categorized as low risk business and entrusted loans.

Post-transaction inspection of the guarantee and entrusted loan portfolio primarily covers the due diligence scope conducted prior to the transaction, with some variations pursuant to the actual circumstances. For general risk business, our post-transaction reviews focus on our customers' product markets, operating income, assets and liabilities, cash flows from operating activities, use of financing and source of repayment, with reference to the due diligence report and credit assessment report for checking and analysis. For low risk business, we normally conduct simpler post-guarantee reviews, except when any material changes to our customers' operating conditions has occurred or if we expect to encounter any legal obstacles when exercising our rights.

In particular, for counter-guarantees and collateral, we primarily review the following:

- whether the operational and financial conditions of the counter-guarantor remain normal;
- whether the counter-guarantor maintains adequate financial capacity and has the ability to provide sufficient counter-guarantees;
- whether the collateral remains in good condition; and
- whether there are any expected changes in the regulatory environment for exercising our rights to the collateral.

We conduct on-site inspections during the review process. The reviewers need to report promptly to our Risk Management Department or Risk Management Committee and recommend solutions or contingency measures, if we find material changes in the operational and financial conditions of our customers or counter-guarantors or indications of heightened risk. Our review process allows us to detect potential risks, take proactive preventive actions based on the risk levels, and design our contingency plans.

In general, we do not allow our guarantee customers to extend the guarantees granted by us because such extension is also subject to the lending banks' approval for loan extension, which may be difficult to obtain.

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### *Micro and small loan portfolio management*

The review of our micro and small loan portfolio mainly focuses on the use of loans, the financial and operational conditions of the borrowers or the progress of projects, and on the status of the collateral.

*Use of loans:* We will check whether the loans are used for the intended purposes as set out in the loan contracts or for other agreed purposes.

*Financial and operational conditions of the customers or the progress of projects:* We require our customers to provide authenticated financial data, including financial statements and bank statements, to monitor their financial and operational conditions, primarily their cash flow. We consider the maintenance of a stable operating cash inflow for six consecutive months as an important indicator for determining a customer's repayment ability. To monitor the progress of projects for which the loans are granted, we will review the project's progress, focusing on whether there have been any changes to the project proposal and the corresponding budget; whether the self-raised funds and other bank borrowings are in place for the project; whether related ancillary projects are in line with the progress of the principal project; whether there is any shortfall in the funding of the project; and the project schedule.

*Collateral:* We conduct on-site inspections of collateral from time to time. We focus on ascertaining whether the collateral is disrepaired, demolished or otherwise damaged; and whether there are any changes to the value of the collateral. We require the collateral to be maintained at adequate value for the loans we granted. If the value of the collateral decreases due to market conditions, we will require additional collateral or alternative adequate security from our customers.

We require an internal valuation report to be prepared after the on-site inspections.

During the month before any micro and small loan will become due, we will re-evaluate our customer's ability to repay our loans. Where we find a customer is experiencing temporary liquidity tightening and other events of default which may affect its ability to honor any forthcoming repayment obligations, we may, upon the customer's request, consider extending the loan to allow such customer additional time to increase liquidity, provided that such customer's business and financial conditions remain relatively sound based on our re-evaluation. We only allow our loan customer to extend its loan by up to half of the original maturity period and such extension can only be granted twice for each loan customer. In 2013, RMB26.0 million of our micro and small loans were extended and classified as "special-mention," on which we made allowance of RMB3.6 million to cover probable impairment losses. None of these extended loans have deviated from our standard loan extension policy. Once the customer defaults, we will not accept any loan extension request from the customer and, instead, we will start our formal collection process. See "— Repayment of Guaranteed Financing, Management of Non-performing Assets and Collection — Collection."



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### **Repayment of Guaranteed Financing, Management of Non-performing Assets and Collection**

#### ***Repayment of guaranteed financing***

We provide guarantees for our customers to enable them to obtain financing from banks or other financial institutions. When we repay the financing to the banks or other financial institutions on behalf of our defaulting customers, we have the recourse to the payments against such defaulting customer. Normally we will agree on a grace period for repayment with our cooperating banks. When our guarantee customers default, we can either make the default payments immediately or when the grace period, if any, expires, depending on the repayment plan we negotiate with the defaulting customers. If the customers agree to make the repayment directly to the banks within the grace period, we will accordingly arrange the customers to do so. If the customers are not able or not willing to make the repayment directly to the banks within the grace period, we will choose to repay, on behalf of such customers, immediately after the relevant payment becomes overdue, and will initiate our collection process to recover such payment.

In the collection process, our business team will work out a repayment plan with our defaulting customers, which will be reviewed by our risk management department and approved by our Risk Management Committee. Our business team will also provide the default guarantee customers with the legal documents and accounting records relevant to the repayment. Our finance and accounting department is responsible for the preparation of the funds for repayment.

After making the default payments, our business team will inform the default guarantee customers and request for immediate repayment of the default payment from such default customers.

#### ***Management of non-performing assets***

Non-performing assets consist of assets in substandard, doubtful and loss categories under our asset classification policy. For more details of our management of non-performing assets, see “Business — Provisioning Policies and Asset Quality — Provisions for Loan Loss.”

#### ***Collection***

Our portfolio management division at the Risk Management Department at Group level is responsible for the overall management and supervision of the collection of overdue payments from our customers, including the default payments, loans we grant to a customer and loans under the entrusted loan arrangement.

We adhere to the following principles in our collection activities:

- (1) **Speedy settlement:** We believe that the likelihood to succeed in collecting default payment is best within the first 30 days after the payment becomes overdue. As such, we endeavor to take proactive measures to clearly communicate with our defaulting customers on a timely and regular basis within this period of time the extent of our resolve to collect the payment.

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- (2) Loss minimizing: When payment becomes overdue, we endeavor to minimize our losses by adopting and implementing customized measures on a case-by-case basis based on the on-site investigation, interview and review and analysis of relevant information.
- (3) Cooperation: To facilitate the collection of default payment, our project managers, collection personnel and senior management of the relevant subsidiary cooperate collaboratively in the collection process. Project managers take the lead in the collection process within 30 days after the payment becomes due with the assistance of collection personnel, while the collection personnel take the lead after 30 days of the payment becoming due with the assistance from project managers.
- (4) Comprehensive analysis: To ensure the effectiveness of our collection measures, collection personnel are encouraged to implement collection measures based on a comprehensive analysis of various factors of each default customer, such as his ability to repay, willingness to repay and the cost of the default.
- (5) Application of appropriate approaches: We negotiate with the default customers who are willing to honor payment but are experiencing temporary liquidity difficulties a revised repayment schedule, such as extending the payment term or reducing the instalment payments. Where the default customers demonstrate no intention to repay, we resort to legal actions or take enforcement actions such as disposal of mortgaged or pledged assets.
- (6) Legal action as the last resort: Before we take legal action as our last resort, we endeavor to facilitate the collection of the default payment by requesting additional counter-guarantors or collateral or both in the course of working with the customer to come up with a repayment plan.

We have detailed collection procedures for overdue payments primarily based on the size of the transactions. Within one to three months prior to the due date of the underlying loans of our guarantees and the loans that we granted, we review a borrower's business and financial conditions, as well as their ability and willingness to make timely repayment, in order to evaluate the possibility of default by the borrower. We will then enter into discussions with such borrower about a repayment plan to avoid defaults.

For medium transactions, we generally follow the steps below on learning of a customer's default:

- within 24 hours of the default, senior management of the relevant credit guarantee company or micro and small loan company, together with other key business personnel for the transaction, will visit the default customer's business premises to investigate the situation and discuss it with the default customer's management and other controlling person(s);
- within two to five days of the default, our collection personnel will keep close contact with the default customer via phone calls, text messages or on-site visits;

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- within 30 days of the default, our collection personnel will conduct at least two on-site visits of the default customer's premise and monitor the status of the collateral.

For small or micro transactions, we typically follow the steps below on learning of a customer's default:

- within 24 hours of the default, a project manager will contact the default customer to investigate the situation, including reasons for the default. A project manager should also conduct an on-site visit if such default customer cannot be reached via phone calls;
- within three days of the default, a project manager will conduct on-site visits, mostly announced, to the default customer's premises to investigate the situation and inform the default customer of the possible negative impacts of the default, including a negative record on its credit history, failure to obtain financing from us in the future, increased interest rate, acceleration of the remaining payments, and public reprimand on our website;
- within five days of the default, our collection personnel will conduct on-site visits to the default customer's premises to verify the reasons of default and reiterate the negative effects of the default;
- within 15 days of the default, our collection personnel will call the default customer and inform them of the possible action we will take and the legal consequences that will ensue.

We will inform the relevant counter-guarantors, if any, of the default and request repayment on behalf of the default customers, if we fail to collect repayment from the default customers due to various reasons, including, among others:

- failure to contact and meet the default customers;
- failure to agree on a repayment plan with the default customers; or
- failure by the default customers to make payments in accordance with the agreed repayment plan.

If any counter-guarantors are involved in the collection process, we follow the same collection procedures that we follow with the default customers.

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Typically, if payment cannot be collected within 30 days of a default, we will issue a formal attorney's letter requesting the default payment. We will either resort to legal action or engage external professional parties to recover payment from default customers through legal proceedings. During the Track Record Period, we have primarily engaged law firms as external professional parties to collect default payments. We have relied upon their professional judgment and ethics to ensure compliance with PRC laws and regulations during the collection process. We have also previously, to a lesser extent, engaged professional agencies (including law firms) to recover payments. In our selection of external professional parties to assist us in recovering payments from the default customers, we normally do a background check of such parties and will only choose those without illegal collection records. Nothing pertaining to the illegality of collection activities conducted by external professional parties has been brought to our attention. Prior consent from the Risk Management Department at Group level is required for taking legal action and prior consent from the Risk Management Department is required for engaging external professional parties. Typically, for a small or micro loan, if payment cannot be collected within 60 days of the default, we would announce acceleration of the undue portion of loans and require immediate repayment.

If the default customer has provided collateral, we will update the valuation of the collateral on an expedited basis. In discussion with the default customers on the repayment plan, we will include the option of selling the collateral for the repayment. If we cannot reach agreement with the default customer on the repayment plan, we will resort to legal action. When initiating a lawsuit, we will also request a court to attach and preserve the collateral and other assets of the default customer and its counter-guarantors, if any, pending judgment by the court or settlement with the default customer. When we obtain a favorable judgment, we can file an enforcement application with the court to realize the value of the collateral through auction or sale.

If the default customer has not provided collateral, we will discuss with the default customer the repayment plan and increased security measures, such as requiring additional counter-guarantors or providing collateral. If we cannot reach agreement with the default customer on the repayment plan, we will resort to legal action. When initiating a lawsuit, we will also request a court to attach and preserve the assets of the default customer and its counter-guarantors, if any, and follow the same procedures for repayment as discussed above.

During the legal proceedings, we will continue our negotiation with the default customer in order to achieve settlement and speedy repayment.

We endeavor to ensure proper conduct of our collection personnel during the collection process through the following measures:

- providing detailed collection procedures in the collection process for our collection personnel to follow;
- conducting regular training and ethical education to all employees, including the collection personnel, which require them, among other things, to act in the best interests of our Company and the general public instead of themselves;

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- involving senior management of the respective guarantee or loan subsidiaries in the collection process to monitor the progress and the conduct of the collection personnel;
- engaging professional third parties to assist us if the collection proves difficult; and
- seeking proper damages and pursuing legal proceedings, as appropriate, if any misconduct is found in the collection process.

### OPERATIONAL RISK MANAGEMENT

Operational risk is the risk resulting from inadequate or failed internal controls and systems, human error or external events. We consider operational risk to be one of the major risks in our business and believe that this inherent risk can be controlled or mitigated through adequate and comprehensive operational policies and procedures. We have adopted the following measures:

1. establishing a comprehensive corporate governance structure with clearly defined duties of the Board of Directors, the Board of Supervisors and senior management;
2. establishing a vertical risk management system to ensure the independence of our risk management;
3. establishing a business operation management division under our Risk Management Department responsible for developing, examining and supervising the workflow of various business operations and providing training and business guidance to personnel dealing with lending operations and document management;
4. establishing and continuously improving our operational procedures and internal control system, and utilizing our IT system to monitor and control the performance of each procedure. In particular, we have adopted and have strictly implemented measures to prevent and detect potential employee fraud, such as the two-person investigation, segregation of business team and credit review team, multiple approval layers, on-site visits and inspection, and interviews conducted by our high-level managers with the owner or management of the borrowers;
5. seeking proper damages and pursuing legal proceedings, if necessary, if any misconduct by an employee is found; and
6. providing ethical education to all employees, including organizing visits to prisons and conducting interviews with the prison staff and prisoners, mostly who have committed economic crimes, so as to deter our employees from committing crimes.

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### **LIQUIDITY RISK MANAGEMENT**

Liquidity risk is the risk that funds will not be available to meet the liabilities as they fall due and may arise from value or maturity mismatches of assets and liabilities (including contingent liabilities arising from guarantees). Our finance and accounting department is mainly responsible for managing and controlling our liquidity risk and monitoring the relative maturities of our assets and liabilities. We manage our liquidity risk by generally matching our assets and liabilities at a proportion that we believe to be appropriate and making provisions for our loan guarantees based on prior experience and historical default rates. See “Financial Information — Quantitative and Qualitative Analysis of Market Risk — Liquidity Risk.”

### **LEGAL AND COMPLIANCE RISK MANAGEMENT**

Our business is subject to extensive and complex regulation and supervision by national, provincial and local government authorities with regard to our guarantee and loan operations, capital structure, pricing and provisioning policy, as set out in “Regulatory Environment,” which are subject to constant changes. If we do not respond to these changes in a timely manner or are found to be not in compliance with applicable laws and regulations, we may incur significant losses. We have set up a legal and compliance division under our Risk Management Department and corresponding counterparts at provincial level, which are responsible for operational compliance review, examination of the completeness of lending procedures, implementation of regulatory policies, provision of operational guidance and training to legal personnel, legal matters related to asset collection, and drafting and review of contracts and other legal documents.

When planning a new service or product, our legal and compliance department, together with our other departments involved, will review the relevant development plan thoroughly, including advising on the legal and regulatory requirements applicable to such new business or product, as well as the relevant restrictions. We may also consider consulting external legal advisors on the legal compliance aspects of offering a new thought or product. Such information will be included in the new business or product proposal for the senior management’s consideration and approval. If a new service or product is approved, we will introduce such business or product as planned. Each of our subsidiaries offering a new service or product will be responsible for completing the administrative procedures and/or obtaining the applicable approvals.

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## **RISK MANAGEMENT**

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Following the non-compliance incidents which have been discovered by Beijing Finance Bureau in an on-site inspection in June 2013, we have further strengthened our legal and compliance risk management through the following measures:

- reviewing our management accounts on a monthly basis to monitor the key financial indicators of our operations, in particular net assets;
- cooperating with our IT department to establish risk-monitoring thresholds in our system in accordance with the relevant legal and regulatory requirements, and to monitor, supervise, identify and report the irregularities and non-compliance incidents in our operations;
- providing legal updates, including updates on the interpretation of applicable laws and regulations of relevant regulatory authorities, to the legal personnel of our risk management system on a regular basis and as necessary; and
- reiterating the importance of adhering to our operational protocols and procedures to all our employees and, in particular, our new employees, to ensure effective implementation of our operational protocols and procedures.

For details of the non-compliance incidents, see “Business — Legal Proceedings and Compliance — Non-compliance Incidents.”

### **CERTAIN INTERNAL CONTROL DEFICIENCIES**

We have established an internal risk management framework, policies and procedures to manage our risk exposure, primarily credit risk, operational risk, compliance risk and legal risk as well as liquidity risk. These risk management policies and procedures are based upon historical behaviors and our experience in the industry.

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## RISK MANAGEMENT

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### Past Internal Control Deficiencies

We have in the past found incidents of deficiencies in the implementation of our internal control procedures. Although these incidents did not reveal any material risks and have not resulted in any material non-compliance or financial loss, they revealed certain deficiencies with respect to our internal controls. Our internal control advisor in connection with this Global Offering has provided us with certain observations with respect to certain deficiencies in our internal controls through conducting sample testing of our operations internal controls between May 1, 2012 and April 30, 2013. A summary of these key observations is set out below:

Nature of deficiencies	Key findings and observations	Reasons for deficiencies	Number of deficiencies found during the review period	Guarantee or loan amount
<b>Failure to keep paper records of certain reviews conducted and approvals obtained</b>	Failure to keep a full and complete chain of approval records on guarantee fees charged or review decisions for certain guarantees	Failure to strictly follow our internal control procedures by our employees	7	RMB1 million to RMB30 million
	Failure to keep full and complete records of all signatures on certain review and approval documents		10	RMB3.8 million to RMB30 million
	Failure to keep a full and complete chain of approval records on closing and fund transferring activities		3	RMB15 million to RMB45 million
	Failure to keep a full and complete chain of approval records on release of guarantees		1	RMB0.8 million
	Failure to keep a full and complete chain of review records on collateral valuation		2	RMB1.5 million to RMB5 million
	Failure to keep a full and complete chain of review records on disposal of non-performing loans		1	RMB1.5 million



## RISK MANAGEMENT

Nature of deficiencies	Key findings and observations	Reasons for deficiencies	Number of deficiencies found during the review period	Guarantee or loan amount
<b>Failure to keep proper records of the due diligence activities</b>	Insufficient retention of data and information during due diligence process	Failure to strictly follow our internal control procedures by our employees	13	RMB3.8 million to RMB45 million
	Failure to keep records of signatures on the review and approval of the due diligence reports		5	RMB5 million to RMB45 million
<b>Failure to keep proper records of portfolio management activities</b>	Failure to keep full and complete records of all signatures on the on-going monitoring reports in the portfolio management activities	Failure to strictly follow our internal control procedures by our employees	17	RMB1.8 million to RMB45 million
	Failure to date a counter-guarantee contract		1	RMB30 million
<b>Failure to keep written record of authorization from credit approval officers in the case of oral confirmation</b>	Failure to keep written record of authorization in approval loan application	Credit approval officers were away and only provided oral approval instead of written one	1	RMB4 million
	Failure to keep written record of authorization in transferring funds to customers		4	RMB1.6 million to RMB4 million
<b>Portfolio management paperwork not fully completed</b>	Incomplete post-transaction monitoring reports in the micro and small loan business, which are inconsistent with our internal requirements	Failure to strictly follow our internal control procedures by our employees	13	RMB40,000 to RMB2 million

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## RISK MANAGEMENT

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### **Remedial Measures and Revisit Results**

In response to the these internal controls deficiencies, we have carefully investigated each incident, implemented a series of remedial measures, employee training programs, supervision mechanisms and policies to strengthen our implementation of internal control procedures, including reiterating our requirements of keeping proper records and utilizing our IT systems to control the checkpoints of our review and approval processes. Following a revisit of our remedial actions for the observed deficiencies as described above and further sample testing on our internal controls in November 2013, no incident of departure or deficiency has been identified by the internal control advisor in relevant controls tested during its revisit following our implementation of proper remedial actions. The internal control assessment and revisit was conducted on a factual finding basis, and no assurance or opinion on internal controls was expressed by our internal control advisor.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

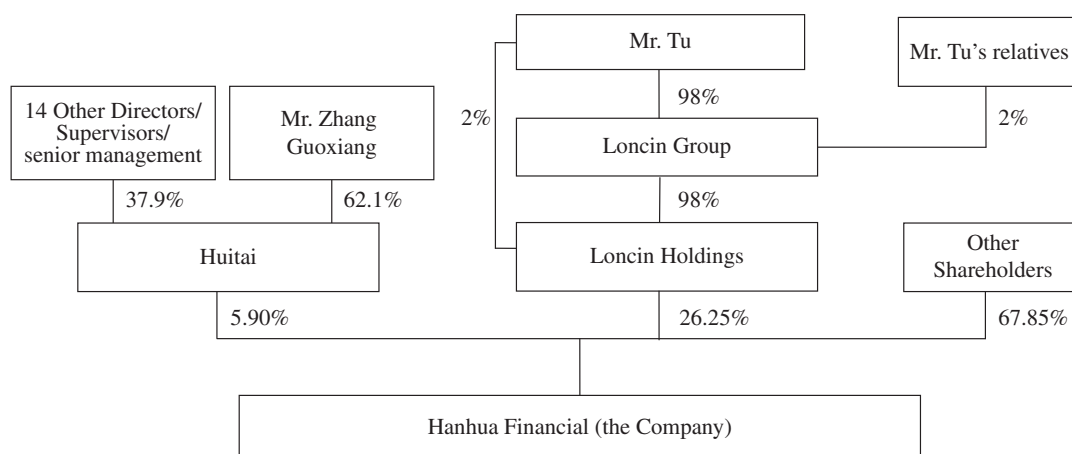
### OVERVIEW

Immediately prior to the Global Offering, Loncin Holdings and Huitai owned approximately 42.93% of our issued share capital in aggregate. Immediately following the completion of the Global Offering, Loncin Holdings and Huitai will directly own approximately 32.15% of our issued share capital (assuming the Over-allotment Option is not exercised) in aggregate.

Mr. Tu, one of our non-executive Directors, directly holds 98% of the equity interest of Loncin Group, which directly holds 98% of the equity interest of Loncin Holdings. The remaining 2% of the equity interest of Loncin Group are held by Mr. Tu's relatives. Mr. Tu also directly holds the remaining 2% of the equity interest of Loncin Holdings.

Since the implementation of the Share Incentive Scheme in 2013 and until the expiration of three years after the completion of the Global Offering, Huitai agreed to follow Loncin Holdings in exercising its voting right in respect of all matters of our Company which are subject to shareholders' approval pursuant to several agreements and confirmations entered into, among others, Huitai and Loncin Holdings. Mr. Zhang Guoxiang, our Chairman and one of our executive Directors, holds approximately 62.09% of the equity interest of Huitai, with the remaining 37.91% held by the other 14 Directors, Supervisors and senior management members of the Company. See "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme."

Based on the above, Mr. Tu, Loncin Group, Loncin Holdings, Huitai and Mr. Zhang Guoxiang will continue to be our Controlling Shareholders after the Global Offering. The following chart sets out the ownership structure of our Company in respect of our Controlling Shareholders immediately after the Global Offering assuming the Over-allotment Option is not exercised:



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### DELINEATION OF BUSINESS

#### Our Businesses

We are a leading, integrated, credit-based guarantee and SME financing solutions provider in China, offering a variety of credit-based financial solutions to service the financing and business needs of SMEs and microenterprises under our two business lines: credit guarantee and SME lending.

#### Controlling Shareholders' Businesses

Mr. Tu, through Loncin Group, Loncin Holdings and their respective subsidiaries (apart from our Group) (together, the “Largest Shareholder Group”), is primarily engaged in the following industries: (i) development, production and sale of motorcycles; (ii) processing of nonferrous metal materials; (iii) operation of warehousing and logistics; (iv) development, sale and management of real estate, property management and hotel management; (v) manufacture and sale of electronic equipment; and (vi) project investment and equity investment in high and new tech enterprises.

The Largest Shareholder Group also provides investment advisory and management services only to the companies in which they have made equity investment, and investment advisory and management services are ancillary to their equity investment activities. Therefore, the Directors are of the view that the investment advisory and management services provided by the Largest Shareholder Group are distinct from those provided by our Group.

Huitai is an investment holding company and its core business is the holding of equity interest in our Company. Apart from the equity interest in our Company, neither Mr. Zhang Guoxiang nor Huitai has any interest in a business which competes with, or is likely to compete with, our Group, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

As illustrated above, the Directors are of the view that there is a clear delineation between the businesses operated by the Controlling Shareholders and our Group. Each of the Controlling Shareholders has confirmed that none of them has any interest in a business which competes with, or is likely to compete with, our Group, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

#### Non-Competition Undertaking

Our Controlling Shareholders issued a non-competition undertaking on February 17, 2014 in favor of our Group (the “Non-competition Undertaking”). Pursuant to the Non-competition Undertaking, each of the Controlling Shareholders has irrevocably undertaken that:

- it would not and will procure that its associates (except any members of our Group) would not, directly or indirectly, or as principal or agent either on their own account or in conjunction with or on behalf of any person, firm or company, among other

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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things, carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the business of any member of our Group from time to time (the “Restricted Business”);

- if there is any project or new business opportunity in the Restricted Business, it shall within a reasonable period of time refer such project or new business opportunity to our Company. Such business opportunity shall have first been offered or made available to us and be considered by our Board or its committee which do not have a material interest in the business opportunity. Each of the Controlling Shareholders shall not invest, participate, be engaged in and/or operate in such business opportunity unless our Board or its committee has declined in writing or failed to respond within thirty (30) days after being notified of such opportunity;
- it will provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Undertaking; and
- it will make an annual statement on compliance with the Non-competition Undertaking in our annual report.

The above undertaking by the Controlling Shareholders would not be applicable where:

- the holding by any one of the Controlling Shareholders of interests in the shares of a company where the total number of shares held by the Controlling Shareholders does not exceed 5% of the issued shares of the company which is or whose holding company is listed on a recognized stock exchange; or
- any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available by the Controlling Shareholders and/or their respective associates to us, and after decision by our Board or independent board committee, who do not have a material interest in the business opportunity, has declined in writing or failed to respond within thirty (30) days after being notified of such opportunity to invest, participate, be engaged in or operate the Restricted Business.

Pursuant to the Non-competition Undertaking, the above restrictions would cease to have effect upon the earlier of: (i) the Shares of our Company ceasing to be listed on the Stock Exchange; and (ii) any one of the Controlling Shareholders ceasing to hold, directly or indirectly, in aggregate 10% or more of the entire issued share capital of our Company, or otherwise ceases to be a Controlling Shareholder.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Corporate Governance Measures

To further protect the interests of our minority Shareholders, we will adopt the following corporate governance measures to manage any potential conflicts of interest:

- our independent non-executive Directors will review, on an annual basis, the compliance with the Non-competition Undertaking by the Controlling Shareholders; each of the Controlling Shareholders undertakes to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Undertaking;
- unless invited by a majority of the independent non-executive Directors, Mr. Tu and Mr. Zhang Guoxiang shall exclude themselves from any meeting convened to consider any issues arising under the Non-competition Undertaking. Our independent non-executive Directors may engage professional advisors at our Company's cost for advice on matters relating to the Non-competition Undertaking;
- we will disclose in the "corporate governance report" section of our annual reports on whether the Non-competition Undertaking has been complied with;
- we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance with the Non-competition Undertaking in our annual reports; and
- we will include in our annual reports whether each of the Controlling Shareholders has provided us with the required annual confirmation of compliance with the Non-competition Undertaking.

Further, any transaction that is proposed between our Group and the Controlling Shareholders and/or their respective associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

#### Operational Independence

Our Company makes business decisions independently from the Controlling Shareholders (save for Mr. Zhang Guoxiang acting as the capacity of chief executive officer of our Company). We have established our own independent organizational structure with different operational departments, each with specific areas of responsibility. We maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business. Our operational functions, such as cash and accounting management, invoicing and billing, are run independently of the Controlling Shareholders (save for Mr. Zhang Guoxiang acting in the

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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capacity of chief executive officer of our Company) and their associates. We have independent access to customers and are not dependent on the Controlling Shareholders (save for Mr. Zhang Guoxiang acting in the capacity of chief executive officer of our Company) and their associates with respect to suppliers for our business operations. We have our own employee headcount for our operations and our own management of human resources. We have obtained all material licenses, approvals and permits from appropriate regulatory authorities that are material for our business operations in the PRC.

We have provided credit guarantee and micro and small loans services to the Controlling Shareholders, their respective associates and other Connected Persons during the Track Record Period, which may continue from time to time after the completion of the Global Offering. Each of the applicable percentage ratios to be calculated in accordance with the Listing Rules will, as our Directors currently expect, be less than 0.1% on an annual basis, and thus will be automatically exempted under the Listing Rules. The Controlling Shareholders, their respective associates and other Connected Persons are also our ordinary customers and these services are provided as a part of our business and on normal commercial terms. Also, these services are provided on a non-exclusive basis and can be provided to Independent Third Parties. Furthermore, the services provided by us to the Controlling Shareholders, their respective associates and other Connected Persons only constitute a small amount of our Group's business.

Based on the above, our Directors are of the view that we are able to operate independently.

### **Management Independence**

We are able to carry on our business independently from the Controlling Shareholders from a management perspective.

Our Board comprises two executive Directors, eight non-executive Directors and five independent non-executive Directors.

#### ***1. Executive Directors and Senior Management***

As of the Latest Practicable Date, except for those as set out below, none of our executive Directors and senior management held any directorship, supervisory or senior management role within the Controlling Shareholders and their associates:

- Zhang Guoxiang holds a supervisory role in the Largest Shareholder Group; and
- all of the shareholders of Huitai hold various positions in our Company, including director, supervisor and senior management positions. See “Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme.” Mr. Zhang Guoxiang, executive Director and Chairman of our Company, is also an executive Director and holds the general manager position in Huitai. Mr. Li Ruping, Supervisor of our Company, also holds the supervisor position in Huitai.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Taking into consideration the reasons set out below, we believe our executive Directors and senior management will be able to perform their roles in our Company independently and the Company is capable of managing its business independently from the Controlling Shareholders (save for Mr. Zhang Guoxiang acting in the capacity of chief executive officer of our Company) after the completion of the Global Offering:

- Mr. Zhang Guoxiang does not participate in the corporate affairs in the Largest Shareholder Group and will continue to allocate substantially all his time to the management and operation of our Group; and
- the purpose of establishing Huitai was to provide a share incentive scheme to the senior management of our Company. Therefore, the overlap in management between our Company and Huitai arises from the special purpose of the establishment of Huitai. Furthermore, Huitai is an investment holding company and its core business is the holding of equity interest in our Company. Huitai and/or its associates do not have any interests in a business which competes with, or is likely to compete with, our Group, whether directly or indirectly. The shareholders of Huitai will only be able to receive dividends indirectly from our Company when we make profits. The interest of Huitai is in line with ours. Therefore, such overlap in management is unlikely to have adverse impact on our independence.

### ***2. Non-executive Directors***

As of the Latest Practicable Date, among our eight non-executive Directors, only Mr. Tu, as the ultimate beneficial owner of the Controlling Shareholders, and Mr. Duan Xiaohua hold certain positions within the Largest Shareholder Group and their associates. For more information, see “Directors, Supervisors, Senior Management and Employees.” However, Mr. Tu and Mr. Duan Xiaohua are not involved in the daily management and operation in our Group.

### ***3. Corporate Governance Measures***

The Directors are of the view that there are sufficient and effective control mechanisms to ensure that our Directors and senior management discharge their duties appropriately and safeguard the interests of our Shareholders as a whole on the following grounds:

- each of our Directors is aware of his/her fiduciary duties as a Director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and do not allow any conflict between his duties as a Director and his personal interests. The decision-making mechanism of the Board set out in the Articles of Association includes provisions to avoid conflicts of interests. In the event that there is a potential conflict of interests between our Group and our Directors or their respective associates, arising out of any transaction to be entered into, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum;



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- our executive Directors will allocate substantially all their time to the management and operation of our Group and will only receive remuneration, benefits and rewards from our Group; and
- we have appointed five independent non-executive Directors, comprising one-third of the total Board members, with a view to promote and safeguard the interests of our Group and our Shareholders as a whole.

Based on the above, our Directors believe that our Company is capable of maintaining management independence from the Controlling Shareholders.

### **Financial Independence**

Our Group has established an independent finance department with a team of independent financial staff, as well as a sound and independent financial system, and makes independent financial decisions according to our Group's own business needs.

We have settled all amounts due to the Controlling Shareholders and their associates and released all guarantees provided to us by the Controlling Shareholders and their associates prior to the Listing.

As such, our Directors believe that we are financially independent from the Controlling Shareholders and their associates.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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### BOARD OF DIRECTORS

The management of our business is supervised by our Board, which consists of 15 Directors: two executive Directors, eight non-executive Directors and five independent non-executive Directors. Our Directors were all elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment. The functions and duties of our Board include, but are not limited to, convening Shareholders' meetings, reporting the Board's work at the Shareholders' meetings, implementing the resolutions passed at the Shareholders' meetings, determining our business plans and investment plans, formulating our annual budget and final accounts, formulating our proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the Articles of Association.

Save as disclosed in this prospectus, none of our Directors, Supervisors and members of our senior management has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

The following table presents certain information in respect of our Directors:

#### Members of Our Board

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Date of Joining the Group</u>
Mr. Zhang Guoxiang . . .	49	Chairman of the Board and Executive Director	March 13, 2013	August 2004
Mr. Lin Feng . . . . .	42	Executive Director	March 13, 2013	September 2004
Mr. Tu Jianhua . . . . .	51	Non-executive Director	March 13, 2013	February 2013
Mr. Duan Xiaohua . . . . .	39	Non-executive Director	June 17, 2013	June 2013
Ms. Liu Jiaoyang . . . . .	35	Non-executive Director	March 13, 2013	August 2009
Ms. Liu Tingrong . . . . .	39	Non-executive Director	March 13, 2013	March 2011
Ms. Wang Fangfei . . . . .	27	Non-executive Director	March 13, 2013	November 2010
Mr. Feng Yongxiang . . .	43	Non-executive Director	March 13, 2013	August 2009
Mr. Zhou Xinyu . . . . .	42	Non-executive Director	June 17, 2013	June 2013
Mr. Liu Bolin . . . . .	29	Non-executive Director	June 17, 2013	June 2013
Mr. Bai Qinxian . . . . .	73	Independent non-executive Director	March 13, 2013	August 2009

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Date of Joining the Group</u>
Mr. Deng Zhaoyu . . . . .	67	Independent non-executive Director	March 13, 2013	August 2009
Mr. Qian Shizheng . . . . .	61	Independent non-executive Director	June 17, 2013	June 2013
Mr. Ng Leung Sing . . . . .	64	Independent non-executive Director	June 17, 2013	June 2013
Mr. Yuan Xiaobin . . . . .	44	Independent non-executive Director	June 17, 2013	June 2013

### DIRECTORS

#### Executive Directors

**Mr. Zhang Guoxiang**, aged 49, has been the chairman of our Board, the executive Director and president of our Company since March 2013. He joined our Group in August 2004. He has been the chairman of the board of directors and the president of Hanhua Guarantee since August 2009. He served as the president of Hanhua Guarantee Co., Ltd. from August 2004 to August 2009.

Mr. Zhang has been working in our Group since our establishment in 2004. Mr. Zhang plays a pivotal role in our senior management team. He is highly devoted to the establishment and management of our business operations, commercial decisions and strategic plan of the development of our Group. We believe it is in the best interest of our Group to have him act as the chairman of our Board and the president of our Company at the same time.

Mr. Zhang has been the chairman of the board of supervisors of Loncin Motor Co. Ltd. since October 2010. He also held various positions in China Merchants Bank, a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600036) and the Hong Kong Stock Exchange (Stock Code: 03968), from November 1999 to August 2004, including the deputy governor of Yubei sub-branch of Chongqing Branch and the deputy general manager of the risk management department of Chongqing Branch. He served in various positions in Liaoning Branch of Industrial and Commercial Bank of China, a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 601398) and the Hong Kong Stock Exchange (Stock Code: 01398), from August 1988 to September 1998.

Mr. Zhang obtained his college diploma in finance from Shenyang Television University (瀋陽市廣播電視大學) in July 1992 and his EMBA degree from the Cheung Kong Graduate School of Business in September 2011. He was accredited as a PRC lawyer by Ministry of Justice of the PRC in July 1996 and obtained the intermediate level of financial qualification from Ministry of Human Resources and Social Security of the People's Republic of China in October 1997.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Zhang has been the vice president of Chongqing SME Credit Guarantee Association (重慶市中小企業信用擔保協會) since 2005, the vice president of Chongqing New Class Professional Union (重慶市新專聯) since 2008, the expert in auditing and consulting of China Association of Small and Medium Enterprises (中國中小企業協會) since 2008, the vice chairman of the first council of China Micro-Credit Institution Association (中國小額信貸機構聯席會) since 2011 and a member of the executive committee of Chongqing Industrial and Commercial Union (重慶市工商聯) since 2012. He was elected as one of the “Top Ten Economic Figures in Chongqing” (重慶市十大年度經濟人物) in 2008 and 2011. He acted as a member of the third committee of CPPCC of Chongqing from December 2007 to January 2013. He was selected as the Leader for the SME Credit Guarantee Companies in China (中國中小企業信用擔保機構領軍人物) in 2009. He was honored as “New Class-first Top Professional Talent of Chongqing” (新階層•重慶首屆十佳英才) in 2010. He was also elected as the tenth session member of Economy Committee of China Federation of Industry & Commerce (全國工商聯經濟委員會) in November 2010 and honored in Chongqing at the Third Commendation Meeting of Excellent Constructors to Socialism with Chinese Characteristics (重慶市第三屆優秀中國特色社會主義事業建設者) in 2011. He was named as the “Person of the Year in Micro-credit Industry” (中國小額信貸年度人物) in 2011. Mr. Zhang was proposed to be the vice chairman of China Financial Guarantee Association (中國融資擔保協會) (in preparation) in December 2012. He has been a member of fourth committee of CPPCC of Chongqing since 2013.

Mr. Zhang is one of our Controlling Shareholders.

**Mr. Lin Feng**, aged 42, has been the vice president and the executive Director of our Company since March 2013. He joined our Group in September 2004 and served in various positions, including the chief operating officer, director, vice president and executive president.

Prior to joining the Group, Mr. Lin worked for Chongqing Branch of China Merchants Bank from November 1998 to September 2004 and served as the deputy manager of the fund planning department from February 2004. He worked in the Yubei sub-branch of Chongqing Branch of Industrial and Commercial Bank of China from July 1993 to November 1998.

He is currently the legal representative of Chongqing Association of Micro-credit companies (重慶市小額貸款公司協會).

Mr. Lin obtained his bachelor’s degree in statistics from Chongqing Business College (重慶商學院) (currently known as Chongqing Technology and Business University (重慶工商大學)) in July 1993 and MBA degree from Chongqing University in June 2006. He was accredited as an intermediate statistician by National Bureau of Statistics of China in October 2002. He was also qualified as a security professional by the Securities Association of China (中國證券業協會) in February 2004.

### Non-executive Directors

**Mr. Tu Jianhua**, aged 51, joined our Group in February 2013 and has been as the non-executive Director of the Company since March 2013. He served as the chairman of the board of directors of Hanhua Guarantee Co., Ltd. from February to March 2013.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Tu has been the chairman of the board of directors of Loncin Holdings previously, in the period from December 2002 to June 2010 and since February 2013. He has been the director of Loncin Motor Co., Ltd. (隆鑫通用動力股份有限公司) since October 2010, a company whose shares have been listed on the Shanghai Stock Exchange (Stock Code: 603766) since August 2012. Mr. Tu served as the non-executive director of Chongqing Rural Commercial Bank Co., Ltd., a company whose shares are listed on the Hong Kong Stock Exchange (Stock Code: 3618), from June 2008 to December 2011. He served as the chairman of the board of directors of Locin Group since February 1996. He served as the general manager of Chongqing Loncin Gasoline Engine Company (Sino-American Joint Venture) (中美合資重慶隆鑫汽油機公司), a company used to be controlled by Mr. Tu during its existence, from 1995 to 1996, and served as the chairman of Chongqing Loncin Transportation and Machinery Factory (重慶隆鑫交通機械廠), a company used to be controlled by Mr. Tu during its existence, from 1993 to 1995. He served as the chairman of Chongqing Jiulong District Loncin Metal Factory (重慶市九龍坡區隆鑫金屬廠), a company used to be controlled by Mr. Tu during its existence, from 1991 to 1993.

Mr. Tu previously acted as the deputy to the 11th and the 12th National People's Congress, the deputy to the Second and Third Chongqing Municipal People's Congress and the vice president of Chongqing West China Education Promotion Association (重慶西部教育促進會). He currently serves as the deputy to the Fourth Chongqing Municipal People's Congress.

Mr. Tu is the cousin of Ms. Liu Jiaoyang (one of our non-executive Directors).

Mr. Tu is one of our Controlling Shareholders.

**Mr. Duan Xiaohua**, aged 39, joined the Group in June 2013 as the non-executive Director of the Company.

Prior to joining the Group, Mr. Duan served as the chief financial officer of Loncin Holdings from February 2012 to October 2012, the chief financial officer and director of Shanghai Fenghwa Group Co., (上海豐華(集團)股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600615) since October 2012. He worked for Chengdu Fudi Property Co., Ltd. (成都復地置業有限公司) from March 2008 to March 2012 and held various positions, including financial manager, vice financial president and financial president. From June 2007 to February 2008, he worked for Hutchison Whampoa Property (Xi'an) Co., Ltd. (和記黃埔地產(西安)有限公司). He also worked for Chongqing Taiji Industry (Group) Co., Ltd (太極集團有限公司) from July 1998 to May 2007, a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600129).

Mr. Duan obtained his bachelor's degree in accounting from Southwestern University of Finance and Economics in 1998 and obtained his master's degree in business administration from Chongqing University in 2006. Mr. Duan was accredited as an accountant and a certified internal auditor.

**Ms. Liu Jiaoyang**, aged 35, has been the non-executive Director of the Company since March 2013. She joined the Group in August 2009 and has been a director of Hanhua Guarantee since then with a non-executive role.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Prior to joining the Group, Ms. Liu served as the general manager of Chongqing Maohua Technology Co., Ltd. (重慶茂華科技有限公司) from October 2003 to August 2009.

Ms. Liu obtained her bachelor's degree in economics from Saint Petersburg State Polytechnical University in Russia in December 2003.

Ms. Liu Jiaoyang is the cousin of Mr. Tu (one of our non-executive Directors).

**Ms. Liu Tingrong**, aged 39, has been the non-executive Director of the Company since March 2013. She joined the Group in March 2011 and served as a director of Hanhua Guarantee with a non-executive role.

Ms. Liu has been working for Chongqing Taizheng Mining Resources Development Co., Ltd. (重慶泰正礦產資源開發有限公司) since September 1996 and became the assistant to the chairman of board of directors since November 2007.

**Ms. Wang Fangfei**, aged 27, has been the non-executive Director of the Company since March 2013. She joined the Group in November 2010 and held various positions, including the project manager and chief reviewing managers of business management section and general management section of Hanhua Guarantee.

Ms. Wang holds 55% of the equity interest of Chongqing Jiulong Investment Co., Ltd. (重慶九龍投資有限公司), one of the minority shareholders of our Company, and has also been the legal representative of Chongqing Jiulong Investment Co., Ltd. since April 2011.

Ms. Wang obtained her master's degree from Sheffield Hallam University in October 2009, majoring in international business and management. She obtained her junior college degree in business administration from Chongqing University in July 2006.

**Mr. Feng Yongxiang**, aged 43, has been the non-executive Director of the Company since March 2013. He joined the Group in August 2009 and has been the director of Hanhua Guarantee since then with a non-executive role.

Prior to joining the Group, Mr. Feng has been the general manager of Chongqing Puzhao Hengyi Investment Co., Ltd. (重慶普兆恒益投資有限公司), one of the minority shareholders of our Company, since February 2010. He worked for Chongqing Yayu Business and Commerce Development Co., Ltd. (重慶雅域商貿發展公司) as a deputy general manager from May 2005 to January 2010. He worked as the senior relationship manager of the Chongqing branch of China Minsheng Banking Corp., Ltd., a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600016) and the Hong Kong Stock Exchange (Stock Code: 01988), from July 2003 to May 2005. He served as the senior relationship manager of the Chongqing branch of Shanghai Pudong Development Bank Co., Ltd., a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600000), from March 2000 to July 2003. He worked for Yangjiaping Sub-branch of China Construction Bank Corporation, a company whose shares are listed on the Shanghai Stock Exchange (Stock Code: 601939) and the Hong Kong Stock Exchange (Stock Code: 00939), from July 1991 to February 2000.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. Zhou Xinyu**, aged 42, joined the Group in June 2013 as the non-executive Director of the Company.

Prior to joining the Group, Mr. Zhou has been the assistant to general manager of Hua Rong Securities Company Limited (華融證券股份有限公司) since January 2013. From June 2008 to November 2012, he worked at Guosen Securities Co., Ltd. (國信證券股份有限公司). From January 2008 to May 2008, he served as the deputy general manager of the capital market department of Hua Rong Securities Company Limited (華融證券股份有限公司). He also previously served as the senior deputy manager of the investment department of China Huarong Asset Management Corporation (中國華融資產管理公司).

Mr. Zhou obtained his bachelor's degree in engineering mechanics from Xi'an Jiaotong University in July 1993 and obtained his master's degree in economics (majoring in finance) from Central University of Finance and Economics in March 2001. He obtained his doctorate degree in economics (majoring in domestic economy) from Chinese Academy of Social Sciences in July 2006. Mr. Zhou obtained the qualification of senior economist from the senior assessment committee of China Huarong Asset Management Corporation in December 2006.

**Mr. Liu Bolin**, aged 29, joined the Group in June 2013 as the non-executive Director of the Company.

Prior to joining the Group, Mr. Liu has been the general manager of Sichuan Hongrun Trading Co., Ltd. (四川泓潤商貿有限公司), one of the minority shareholders of our Company, since March 2013.

Mr. Liu obtained his bachelor's degree in business administration from Shenzhen University in June 2006 and obtained his master's degree in accounting from the State University of New York at Binghamton in December 2008.

### Independent Non-Executive Directors

**Mr. Bai Qinxian**, aged 73, has been the independent non-executive Director of the Company since March 2013. He joined the Group in August 2009 and has been the independent non-executive director of Hanhua Guarantee since then.

Mr. Bai has served in various domestic committees and societies, including the member of the applied economics discipline appraisal group of the Fourth and Fifth Session of Academic Degree Commission of the State Council, the permanent member of China Society for Finance and Banking (中國金融學會), and the permanent member of China International Finance Society (中國國際金融學會). Mr. Bai is currently the professor and the doctoral supervisor in finance and policy finance of Liaoning University and the director of the International Finance Institute of the University (遼寧大學國際金融研究所).

Mr. Bai was accredited as an academic leader of applied economics at the first level and an expert who is eligible to enjoy the special allowance of the State Council.



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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. Deng Zhaoyu**, aged 67, has been the independent non-executive Director of the Company since March 2013. He joined the Group in August 2009 and has been the independent non-executive director of Hanhua Guarantee since then.

Prior to joining our Group, Mr. Deng held various positions at China People's Insurance Holding Company (中國人保控股公司) (currently known as the People's Insurance (Group) of China Limited), a company whose shares are listed on Hong Kong Stock Exchange (Stock Code: 01339), including the deputy general manager during the period from December 2001 to August 2006. Mr. Deng also served as the chairman of the board of supervisors of PICC Property and Casualty Co., Ltd., a company whose shares are listed on the Hong Kong Stock Exchange (Stock Code: 02328), from July 2003 to October 2006.

**Mr. Qian Shizheng**, aged 61, joined the Group in June 2013 as the independent non-executive Director of our Company.

Prior to joining our Group, Mr. Qian had served as the deputy director of the Accounting Department of Fudan University. He worked at Shanghai Industrial Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange (stock code: 363), from January 1998 to April 2012 and held various positions, including deputy chief executive officer and executive director. He also served as the vice-chairman of Haitong Securities Co., Ltd. from July 2007 to July 2010 and from May 2011 to March 2013, the shares of which are listed on both Shanghai Stock Exchange (stock code: 600837) and the Hong Kong Stock Exchange (stock code: 6837), and the director of Shanghai Pudong Development Bank and Shanghai Industrial Urban Development Group Limited, a company whose shares are listed on the Hong Kong Stock Exchange (Stock Code: 00563). He was appointed as the professor of the School of Management of Fudan University and the associate director of the Shanghai-Hong Kong Development Institute of Fudan University. He is also the independent non-executive director of Lonking Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange (stock code: 3339), Zoomlion Heavy Industry Science & Technology Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000157) and the Hong Kong Stock Exchange (stock code: 01157), and Shanghai Yaohua Pilkington Glass Group Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange (stock code: 600819).

Mr. Qian obtained his bachelor's degree in accountancy from Shanghai Institute of Finance and Economics (currently known as Shanghai University of Finance and Economics) in July 1983 and doctor's degree in management science and engineering from Fudan University in July 2001.



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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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**Mr. Ng Leung Sing**, aged 64, joined the Group in June 2013 as the independent non-executive Director of the Company.

Mr. Ng is currently the director of Bank of China (Hong Kong) Trustees Limited, the vice chairman of the Chiyu Banking Corporation Limited and the director of the BOCHK Charitable Foundation. He is also an independent non-executive director of MTR Corporation Limited, the shares of which are listed on the Hong Kong Stock Exchange (stock code: 00066) and traded over the counter on NASDAQ in the US (stock code: MTRJY), the independent non-executive director of Smartone Telecommunications Holdings Limited whose shares are listed on Hong Kong Stock Exchange (Stock Code: 00315) and Nine Dragons Paper (Holdings) Limited, the shares of which are listed on the Hong Kong Stock Exchange (stock code: 2689). He has been a member of the board of management of the Chinese Permanent Cemeteries since February 2010.

Mr. Ng had been the member to various boards and committees, including the Hong Kong Deputy to the 10th, 11th and 12th National People's Congress of the PRC, the member of the Legislative Council of the Hong Kong Special Administrative Region, the chairperson of the Banking Industry Training Advisory Committee of the Education Bureau, the honorary president of Chinese Bankers Club, Hong Kong, the honorary advisor of the Hong Kong Chi Tung Association Ltd. and the specialist of the Hong Kong Council for Accreditation of Academic & Vocational Qualifications (Banking).

**Mr. Yuan Xiaobin**, aged 44, joined the Group in June 2013 as the independent non-executive Director of our Company.

Mr. Yuan has been the member of the standing committee of Chongqing People's Congress since January 2013. He has also been the vice president of Chongqing Friendship Association for Non-Party Intellectuals since September 2012, the vice chairman of the Revolutionary Committee of Chongqing Municipal since July 2012, and the arbitrator of the China International Economic and Trade Arbitration Commission since May 2011. He had been the independent director of Jinke Property Group Co., Ltd., the shares of which are listed on Shenzhen Stock Exchange (stock code: 000656), and has become the special supervisor of Chongqing People's Government since May 2008. He also has been a part-time professor at Southwest University of Politics and Law since December 2006 and the director of Zhonghao Law Firm since 1997. Mr. Yuan had also been a Legislative Assessment Expert from June 2008 to January 2013, a consultant of the Decision Advisory Committee of Chongqing People's Government from December 2008 to December 2010.

Mr. Yuan holds the honorary title of the "Outstanding Specialists with Remarkable Contributions to Chongqing City" awarded by the Chongqing Municipal Party Committee and Chongqing People's Government in September 2009, "Top Ten Outstanding Professionals" awarded by the United Work Front Department in February 2010, "National Outstanding Lawyer" awarded by the Chinese Lawyer's Association in December 2011 and "Chongqing Top Ten Innovative Person of Year 2011" in February 2012.

Mr. Yuan obtained his bachelor's degree in law from Southwest College of Politics and Law (currently known as Southwest University of Politics and Law) in June 1991, and his EMBA degree from Chongqing University in June 2013. Mr. Yuan was accredited as a Class A lawyer by Chongqing Judicial Bureau in January 2010.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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### BOARD OF SUPERVISORS

The board of Supervisors of the Company consists of three members. Except for the employee representative Supervisor elected by employees, the Supervisors were elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment. The functions and duties of the board of Supervisors include, but are not limited to: reviewing and verifying financial reports, business reports and profit distribution proposals prepared by the Board; and, if in doubt, appointing certified public accountants and practicing auditors to re-examine the Company's financial information; monitoring the financial activities of the Company; supervising the performance of the Directors, the presidents and other senior management members, and monitoring whether they had acted in violation of the laws, regulations and Articles of Association in the performance of their duties; requesting the Directors, the president and senior management members to rectify actions which are harmful for the Company's interests; and exercising other rights authorized to them under the Articles of Association.

The following table presents certain information in respect of our Supervisors.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Date of Joining the Group</u>
Mr. Li Ruping . . . . .	58	Chairman of the Board of Supervisors	March 13, 2013	August 2004
Mr. Zhou Daoxue . . . . .	49	Supervisor	March 13, 2013	August 2009
Mr. Chen Zhonghua . . . . .	39	Supervisor (Employee Representative Supervisor)	March 13, 2013	January 2005

**Mr. Li Ruping**, aged 58, has been the chairman of the board of Supervisors of our Company since March 2013. He joined the Group in August 2004 and served in various positions, including vice president, president and director. He has been the chairman of the board of supervisors of Hanhua Guarantee since August 2009.

Prior to that, he had been holding various positions in Loncin Group and its subsidiaries from October 1998 to August 2004, including the chief accountant of Loncin Holdings and the director of finance department of Chongqing Loncin Industry (Group) Co., Ltd (重慶隆鑫工業(集團)有限公司) and Chongqing Construction Loncin Motorcycle Manufacturing Co., Ltd. (重慶建設隆鑫摩托車製造有限公司).

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Li obtained his junior college diploma in industrial accountancy from Sichuan Radio and TV University (四川廣播電視大學) in July 1986. Mr. Li is accredited as a senior accountant by Chongqing Municipal People's Government.

**Mr. Zhou Daoxue**, aged 49, has been the Supervisor of our Company since March 2013. He joined the Group in August 2009 as the supervisor of Hanhua Guarantee.

Prior to joining the Group, Mr. Zhou has been the chairman of the board of directors of Chongqing Yujiang Die-casting Co., Ltd (重慶渝江壓鑄有限公司) since December 1999. Mr. Zhou was the president of Chongqing Yujiang Die-casting Plant (重慶渝江壓鑄廠) from December 1991 to November 1999.

**Mr. Chen Zhonghua**, aged 39, has been the Supervisor of our Company since March 2013. The appointment of Mr. Chen as Supervisor was approved by the meeting of employee representatives of the Company on March 13, 2013. He joined the Group in January 2005 and held various positions, including the deputy general manager of the strategy development department and general manager of the information and technology department. In addition, he has been the supervisor of Hanhua Guarantee since August 2009, and the standing deputy general manager of Sichuan Micro-credit and deputy general manager of Sichuan Hanhua since January 2013.

Prior to joining the Group, Mr. Chen worked for the Chongqing Wanzhou branch of Bank of China as a risk assessment officer of risk management department.

Mr. Chen obtained his junior college degree in finance from Southwestern University of Finance and Economics (西南財經大學) in June 1995. He graduated from Chongqing Technology and Business University (重慶工商大學) in June 2005, majoring in accounting.

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**DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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**SENIOR MANAGEMENT**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of Appointment</b>	<b>Date of Joining the Group</b>
Mr. Zhang Guoxiang . . . . .	49	President	March 13, 2013	August 2004
Mr. Lin Feng . . . . .	42	Vice President	March 13, 2013	September 2004
Mr. Yan Dong . . . . .	44	Vice President	March 13, 2013	May 2006
Mr. Wang Dayong . . . . .	47	Vice President	March 13, 2013	October 2006
Mr. Cui Weilan. . . . .	42	Vice President	March 13, 2013	June 2006
Mr. Zhou Xiaochuan . . . . .	39	Vice President	March 13, 2013	March 2008
Mr. Luo Xiaobo . . . . .	35	Vice President	March 13, 2013	November 2004
Mr. Ren Weidong . . . . .	36	Financial Director	March 13, 2013	February 2009
Mr. Liu Ruifeng . . . . .	48	Risk Director	July 1, 2013	July 2012
Mr. Cheng Xiaoqin . . . . .	37	Marketing Director	July 1, 2013	December 2004
Mr. Yuan Guoli . . . . .	44	Marketing Director	July 1, 2013	October 2006
Ms. Wang Qi . . . . .	42	Marketing Director	July 1, 2010	June 2010
Mr. Li Xuan . . . . .	40	Sales Director	July 1, 2013	July 2011
Mr. Xu Wei . . . . .	37	Information & Technology Director	July 1, 2013	July 2012
Mr. Lin Ting . . . . .	42	Operating Director	July 1, 2013	July 2012
Mr. Jiang Jintang . . . . .	44	Commercial Director	July 1, 2013	June 2012

For details of Mr. Zhang Guoxiang’s biography, see “— Directors.”

For details of Mr. Lin Feng’s biography, see “— Directors.”

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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**Mr. Yan Dong**, aged 44, has been the vice president of the Company since March 2013. He is in charge of the business operations of our subsidiaries in Guangdong Province and Guangxi Province. Mr. Yan joined the Group in May 2006 and held various positions, including deputy general manager of risk management department and vice president.

Prior to joining the Group, Mr. Yan served in various positions in Chongqing Branch of China Merchants Bank Co., Ltd. from October 2000 to April 2006, including the deputy general manager of the corporate banking department. He worked at Chongqing Branch of China Construction Bank Corporation from July 1991 to September 2000.

Mr. Yan obtained his bachelor's degree in engineering from Sichuan Industrial College (四川工業學院) (currently known as Xihua University (西華大學)) in July 1991. He obtained his EMBA degree from Guanghua School of Management of Peking University in January 2013.

**Mr. Wang Dayong**, aged 47, has been the vice president of the Company since March 2013. He is in charge of the financial marketing headquarter of the Company and the business operations of our subsidiaries in Beijing, Tianjin, Hebei Province and Shandong Province. Mr. Wang joined the Group in October 2006 and held various positions, including chief credit marketing officer and vice president.

Prior to joining the Group, Mr. Wang held various positions in China Securities Co., Ltd. from September 1998, including the general manager of innovation business department of investment banking headquarters. Prior to that, he had worked at the Planning Department of Liaoning Branch of Industrial and Commercial Bank of China Limited from July 1988 to September 1998.

Mr. Wang obtained his master's degree in international finance from the department of international economics of Liaoning University in July 1998. He is currently attending an EMBA program jointly held by National Taiwan University and Fudan University. He is also accredited as a senior economist by the Appraisal and Approval Committee for Professional & Technical Competence of the Industrial and Commercial Bank of China.

**Mr. Cui Weilan**, aged 42, has been the vice president of the Company since March 2013. He is in charge of the risk management headquarters, human resources headquarters and administrative management headquarters of our Company. Mr. Cui joined the Group in June 2006 and served in various positions, including vice president, chief legal officer and secretary of the board of directors.

Prior to joining the Group, Mr. Cui had been a practicing solicitor of Hebei Jimin Law Firm (河北濟民律師事務所) from 1999 to 2006 and had worked for Hebei Management Cadre College of Political Science and Law (河北政法管理幹部學院) (currently known as Hebei Professional College of Political Science and Law (河北政法職業學院)) from July 1995 to March 2007.

Mr. Cui obtained his bachelor's degree in law from the department of political of Southwest Normal University (currently known as Southwest University (西南大學)) in June 1995. He is also accredited as a practicing solicitor by the Ministry of Justice of the PRC and

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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as an associate professor in law by Hebei Title Reform Leadership Committee Bureau (河北職稱改革領導小組辦工室). He completed the postgraduate program in economic law from Chinese Academy of Social Sciences in September 2003 and obtained his MBA degree from China Europe International Business School (中歐國際工商學院) in September 2012.

**Mr. Zhou Xiaochuan**, aged 39, has been the vice president of our Company since March 2013. He is in charge of the business operations of our subsidiaries in Shanghai, Jiangsu Province and Anhui Province. Mr. Zhou joined the Group in 2008 and held various positions, including chief financial officer. He has also been the vice president of Hanhua Guarantee since January 2013.

From March 1999 to December 2004 and May 2007 to February 2008, he served in various positions in Loncin Group and its subsidiaries, including the deputy general manager of strategy improvement department and the assistant manager of domestic business operation department of Chongqing Loncin Industry (Group) Co., Ltd. (重慶隆鑫工業(集團)有限公司), the assistant to general manager of Hunan Jinlong Guangyang Motorcycle Co., Ltd. (湖南勁隆光陽摩托車有限公司) and the vice president of Chongqing Jinlong Technology Group Co., Ltd. (重慶勁隆科技集團有限公司). He worked for Tibet New Zhufeng Motorcycle Co., Ltd. (西藏新珠峰摩托車有限公司) as the deputy general manager from September 2005 to April 2007.

Mr. Zhou obtained his junior college degree in accounting from Southwestern University of Finance and Economics in June 1995.

**Mr. Luo Xiaobo**, aged 35, has been the vice president of the Company since March 2013. He is in charge of the business operations of our subsidiaries in Chongqing, Guizhou Province, Hubei Province and Hunan Province. Mr. Luo joined the Group in November 2004 and held various positions, including chief operating officer. He has also been the vice president of Hanhua Guarantee since January 2013.

Prior to joining the Group, Mr. Luo worked for Chongqing Huifeng Property Assets Evaluation Co., Ltd (重慶滙豐房地產土地資產評估有限責任公司) from June 2004 to October 2004 and Chongqing Boma Property Assets Evaluation Co., Ltd. (重慶鉑碼房屋土地評估有限公司) from July 2002 to June 2004.

Mr. Luo obtained his bachelor's degree in mechanical design and manufacturing and business administration from Southwest Agricultural University (西南農業大學) (currently known as Southwest University (西南大學)) in July 2002.

**Mr. Ren Weidong**, aged 36, has been the financial director and general manager of capital finance department of our Company since March 2013. He is in charge of capital finance headquarters and administrative office of our Company. Mr. Ren joined the Group in February 2009 and had served as the general manager of the finance headquarters of Hanhua Guarantee.

Prior to joining the Group, Mr. Ren served as the manager of financing department of Duke Seals (Chongqing) Ltd. (重慶杜克高壓密封件有限公司) from October 2005 to January 2009. He served in various positions in Loncin Group and its subsidiaries from July 2000 to

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May 2005, including the head of the financial section of Hunan Jinlong Guangyang Motorcycle Co., Ltd (湖南勁隆光陽摩托車有限公司), the chief financial officer of Chongqing Jinlong Technology Group Co., Ltd. (重慶勁隆科技集團有限公司) and the chief financial officer and accountant of Chongqing Jinlong Motorcycle Manufacturing Co., Ltd. (重慶勁隆摩托車製造有限公司).

Mr. Ren obtained his bachelor's degree in auditing from Hangzhou Institute of Electronics and Engineering (杭州電子工業學院) (currently known as Hangzhou Dianzi University (杭州電子科技大學)) in July 1999. He was also accredited as a junior accountant in May 2000 by Ministry of Finance of the People's Republic of China. He was admitted as an affiliated member of The Association of International Accountants in April 2008.

**Mr. Liu Ruifeng**, aged 48, has been the risk director of the Company since July 2013. Mr. Liu joined the Group in July 2012. He had served as the chief risk officer of Hanhua Guarantee and the general manager of risk management department of our Company.

Prior to joining the Group, Mr. Liu worked for Washington Mutual, Inc., (later acquired by JPMorgan Chase & Co.) from August 2004 to July 2012. During that period, he joined the International Assignment (ECP HOME) Program of JPMorgan Chase & Co. in July 2009 and was seconded in China. During the period from August 1996 to August 2004, Mr. Liu worked for Household Credit Services, Inc. (later acquired by HSBC (U.S.)) as assistant risk manager, the Fruit of the Loom Company as the senior forecast analyst in U.S. and the Provident Company as the senior statistic analyst in U.S.

Mr. Liu obtained his doctorate degree in mathematics from Michigan State University in U.S. in August 1996. Prior to that, he obtained his master's degree in Science and bachelor's degree in Science (majoring in computational mathematics) from Nankai University in June 1990 and July 1987, respectively.

**Mr. Cheng Xiaoqin**, aged 37, has been the marketing director of the Company since July 2013. He is in charge of the business operations of our subsidiaries in Sichuan Province, Shanxi Province, Gansu Province and Yunnan Province. Mr. Cheng joined the Group in December 2004 and had served as the general manager of risk management department. He had served as the marketing director of Hanhua Guarantee and has been the general manager of Sichuan Micro-credit since January 2013 and the general manager of Sichuan Hanhua since 2012.

Prior to joining the Group, Mr. Cheng worked successively for Chongqing Wanzhou sub-branch and the business department of Chongqing branch of Bank of China from July 2000 to March 2005.

Mr. Cheng obtained his bachelor's degree in currency banking from the Economics and Trade Faculty of Nanjing Agriculture University.



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**Mr. Yuan Guoli**, aged 44, has been the marketing director of the Company since January 2013. He is in charge of the business operations of our subsidiaries in Liaoning Province, Heilongjiang Province and Jilin Province. Mr. Yuan joined the Group in October 2006 and had served as the marketing director of Hanhua Guarantee and the deputy general manager and general manager of Liaoning Hanhua successively.

Prior to joining the Group, Mr. Yuan worked for the Liaoning office of China Huarong Asset Management Corporation from March 2000 to September 2006. From August 1991 to February 2000, he worked for the industrial credit department and asset risk management department of Liaoning branch of Industrial and Commercial Bank of China Limited.

Mr. Yuan obtained his bachelor's degree in industrial economics from the Department of Industrial Management of Liaoning University in July 1991.

**Ms. Wang Qi**, aged 42, joined the Group in July 2010 as the marketing director of the Company.

Prior to joining the Group, Ms. Wang served as the senior deputy general manager of Fullerton Investment & Credit Guarantee Co. Ltd. (富登投資信用擔保有限公司) from July 2009 and the deputy general manager of Chengdu Small-enterprise Credit Guarantee Co., Ltd. (成都小企業信用擔保有限公司) from July 2005 to July 2008.

Ms. Wang obtained her junior college degree in accounting from Sichuan University in July 1992 and obtained her bachelor's degree in accounting from Southwestern University of Finance and Economics in June 1999. In June 2006, she obtained her master's degree in business administration from Sichuan University. She was accredited as a certified public accountant in 1996 and obtained the advanced level of speciality in accounting in 2006. She was honored as "Sichuan First Top Ten Experts in Guarantee Industry" in October 2007.

**Mr. Li Xuan**, aged 40, has been the sales director of our Company since July 2013. He is in charge of the business management headquarters. Mr. Li joined our Group in July 2011 and served as the general manager of Sichuan Micro-credit and general manager of the credit market department of Hanhua Guarantee.

Prior to joining the Group, from April 2001 to June 2011, Mr. Li worked for the Chongqing branch of China Pacific Life Insurance Co., Ltd. whose shares are listed on Hong Kong Stock Exchange (Stock Code: 02601) and Shanghai Stock Exchange (Stock Code: 601601) and served as the manager of information and technology department, chief operating officer, manager of the relationship department, the general manager of the management department of group insurance business and the president of the group insurance business. From January 1999 to April 2001, Mr. Li worked for the subsidiary of China Life Insurance Company whose shares are listed on Hong Kong Stock Exchange (Stock Code: 2628) and Shanghai Stock Exchange (Stock Code: 601628) in Chongqing. Prior to that, Mr. Li worked for Shapingba sub-branch of Chongqing branch of People's Insurance Company of China (renamed as Shapingba sub-branch of Chongqing branch of Zhongbao Life Insurance Company Limited) from September 1997.



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Mr. Li graduated from Southwest Normal University (西南師範大學) (currently known as Southwest University (西南大學)) with a junior college degree in computer application in July 1993. He served as expert, system engineer and database engineer of Microsoft Corporate in the U.S., database engineer of InFormix company and server system expert of IBM company in U.S..

**Mr. Xu Wei**, aged 37, has been the information and technology director of the Company since July 2013. He is in charge of the information management headquarter and serves as the general manager of the information management headquarter. Mr. Xu joined the Group in July 2012 as the general manager of the information management department of Hanhua Guarantee.

Prior to joining the Group, Mr. Xu worked for China International Capital Corporation Limited from December 2008 to July 2012, IBM Global Services (China) Co. Limited from May 2006 to November 2008, and the People's Insurance Company (Group) of China Limited (中國人保壽險有限公司), currently renamed as PICC Life Insurance Company Limited from July 2005 to May 2006.

Mr. Xu obtained his bachelor's degree in computer science and technology from Shandong University of Technology in July 1999 and obtained his master's degree in computer software and theory from Shandong University in December 2001. In July 2005, he obtained his doctorate degree in computer software and theory from Institute of Software, Chinese Academy of Sciences (中國科學院軟件研究所).

**Mr. Lin Ting**, aged 42, has been the operating director and general manager of the operating management department of the Company since July 2013. Mr. Lin joined the Group in July 2012 and served as the deputy general manager of credit market department and general manager of operating department of Hanhua Guarantee.

Prior to joining the Group, Mr. Lin worked for JP Morgan Chase & Co. from June 2007 to July 2012 and served as the risk manager in the customer account management department of JPM. During that period, he joined the International Assignment (ECP HOME) Program of JPMorgan Chase & Co. in November 2008 for two years in China. Mr. Lin worked for Royal Bank of Scotland (RBS) from September 2005 to July 2007 and held various management functions in risk management department. He worked for Giant Eagle Inc. from June 1998 to September 2005 and held various analysis positions and management positions.

Mr. Lin obtained his master's degree in MSIA business administration (majoring in operations research) from Carnegie Mellon University in May 1998 and obtained his bachelor's degree in operations research from Statistics Operations department of Fudan University in July 1995.

**Mr. Jiang Jintang**, aged 44, has been the commercial director of the Company since June 2013. Mr. Jiang joined the Group in June 2012 and served in various positions, including the general manager of the overseas business department and the general manager of financial cooperation headquarters of Hanhua Guarantee.

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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Prior to joining the Group, Mr. Jiang served as the operating officer of World Bank Group International Finance Corporation (IFC) since April 2007 for approximately five years and served as the business associate of AIG from October 2004 to April 2007. From July 1993 to October 2001, he served in various positions in Chongqing Branch of China Construction Bank Corporation whose shares are listed on Hong Kong Stock Exchange (Stock code: 939), including the chief of credit management committee of operation department.

Mr. Jiang obtained his bachelor's degree in management engineering from Tianjin University in July 1993 and obtained his master's degree in economics (majoring in finance) from Southwestern University of Finance and Economics in January 2000. He obtained his MPA degree from Harvard University in June 2004.

### **JOINT COMPANY SECRETARIES**

Mr. Cui Weilan, is one of the joint company secretaries of the Company. Mr. Cui has a background of legal experience combined with years of experience in the PRC micro financial industry. For details of Mr. Cui's biography, see "— Senior Management."

Ms. Lai Siu Kuen, a manager of the Listing Services Department of KCS Hong Kong Limited, which is a corporate secretarial and accounting service provider in Hong Kong, is our joint company secretary. Ms. Lai has over 15 years of professional and in-house experience in company secretarial field. She holds a Bachelor of Arts degree in Accountancy and is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom. She has worked in the corporate services division of KPMG Hong Kong for more than seven years and subsequently worked for certain Hong Kong Main Board listed companies for more than eight years. Ms. Lai has extensive knowledge and experience in corporate governance and compliance affairs of listed companies. She is currently the joint company secretary of several Main Board listed companies, including Jingrui Holdings Limited and Boyaa Interactive International Limited.

### **BOARD COMMITTEES**

#### **Audit committee**

The Audit Committee of the Company consists of three directors: Mr. Qian Shizheng (independent non-executive Director), Ms. Liu Jiaoyang (non-executive Director) and Mr. Yuan Xiaobin (independent non-executive Director). Mr. Qian Shizheng currently serves as the chairman of the Audit Committee of the Company. The Company's Audit Committee is primarily responsible for the communication, supervision and review in connection with the internal and external audit of the Company, including:

- to propose the engagement or removal of external auditor and consider and make recommendations on their salaries, resignation or removal; to discuss with the external auditor the nature and scope of the audit and relevant reporting obligations and review and monitor the external auditor's independence and objectivity of the auditor and the effectiveness of the audit procedures from time to time in accordance with applicable standards;

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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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- to oversee our internal audit system and its implementation and review our financial and accounting policies and practices;
- to develop and implement policy in relation to the an external auditor and report to the Board on any matters where action or improvement is needed and make recommendations accordingly;
- to be responsible for the communications between the internal auditor and the external auditor ensure the co-ordination between the internal and external auditors and act as the key representative body for overseeing the relations between the Company and the external auditor;
- to monitor our financial information and the disclosure thereof, including the integrity of our financial statements, annual reports and accounts, interim reports and, quarterly reports if prepared for publication and to review significant opinions regarding the financial reporting contained thereof;
- to examine our financial control, internal control and risk management systems and to audit any significant connected transaction, so as to ensure that management has performed its duty to establish an effective internal control system; to research the major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- to review arrangements our employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- to establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company.

### **Nomination and Remuneration Committee**

The Nomination and Remuneration Committee of the Company consists of three directors: Mr. Deng Zhaoyu (independent non-executive Director), Mr. Zhang Guoxiang (chairman and executive Director) and Mr. Bai Qinxian (independent non-executive Director). Mr. Deng Zhaoyu currently serves as the chairman of the Nomination and Remuneration Committee of the Company. The primary responsibilities of the Company's Nomination and Remuneration Committee are to assist the Board in formulating the procedures and criteria for electing and appointing the directors and senior management of the Company, conducting initial assessment of qualifications and background of the potential suitable candidates, review and formulate remuneration plans, performance evaluation system and incentive schemes for

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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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the directors, supervisors and senior management; make proposals to the Board, and oversee the implementation of the plans or systems, including, among other things:

- to analyze the standards and procedures for selection of directors and senior management appointed by the Board; review at least annually the structure, size and composition of the Board (in respect of skills, knowledge and experience among other things); and make recommendations regarding any proposed changes made to the Board in order to comply with our corporate strategy;
- to review the independence of independent directors;
- to assess and review the candidates for director and senior management to be potentially appointed by the Board, and make recommendations to the Board on plans for appointment, re-appointment and succession of directors;
- to examine the assessment standards for directors and senior management appointed by the Board, conduct the relevant assessments and make recommendations to the Board;
- to consider, formulate and examine the remuneration policies and proposals of directors, supervisors and senior management appointed by the Board through formal and transparent program according to standards including salaries paid by comparable companies, time commitment and responsibilities concerned, and employment terms of other positions within our Company and its subsidiaries, and make recommendations to the Board;
- to make recommendations to the Board on particular remuneration package of executive directors, supervisors and senior management appointed by the Board, including benefits in kind, pension rights and compensation for loss or termination of office or appointment;
- to make recommendations to the Board on the remuneration of non-executive directors and independent directors; and
- to make independent and prudent suggestions on removal of directors.

### **Strategic Investment Committee**

The Strategic Investment Committee of the Company consists of three directors: Mr. Zhang Guoxiang (chairman and executive Director), Mr. Tu Jianhua (non-executive Director) and Mr. Zhou Xinyu (non-executive Director). Mr. Zhang Guoxiang currently serves as the chairman of the Strategic Investment Committee. The primary responsibilities of the Strategic Investment Committee are to examine and advise the Board on our long-term development strategies and major investment decisions, including:

- to study and make recommendations on significant projects investment and financing which is subject to the approval of the Board pursuant to the Articles of Association;

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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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- to study and make recommendations on major capital operation and asset operation projects which are subject to the approval of the Board pursuant to the Articles of Association;
- to study and make recommendations on major issues affecting our development; and
- to examine the implementation of the above matters.

### **COMPENSATION OF THE DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

In 2011, 2012 and 2013, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors and Supervisors were approximately RMB1.6 million, RMB1.5 million and RMB5.2 million, respectively. In addition, we also recognized RMB103.0 million of share-based payment expense in 2013 in connection with the share incentive plan granted to our Directors and Supervisors. Given that the executive share incentive scheme will last for a continuous eight years starting from January 1, 2013 and that each grantee is entitled to dispose 12.5% of his effective interest each year as disclosed in the “— Share Incentive Scheme” section below, we expect to incur relevant non-cash share based payment on a monthly basis for each of the aforementioned eight years.

Our Directors’ and Supervisors’ remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

The total remuneration and benefits in kind (if applicable) received by the top five highest paid individuals (including Directors and Supervisors) in 2011, 2012 and 2013 were approximately RMB3.5 million, RMB3.9 million and RMB6.8 million, respectively. In addition, we also recognized RMB114.2 million of share-based payment expense in 2013 in connection with the share incentive plan granted to our top five highest paid individuals (including Directors and Supervisors).

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining the Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, our Supervisors, former Supervisors or the five highest-paid individuals for the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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None of our Directors or Supervisors waived any remuneration for any of the last three years. Save as disclosed above, no other payments have been paid, or are payable, by us or any of our subsidiaries to our Directors, Supervisors or the five highest-paid individuals during the Track Record Period. Under the remuneration policy of our Company, the remuneration and assessment committee will consider factors such as salaries paid by comparable companies, tenure, commitment, responsibilities and performance of our Directors, Supervisors and the senior management as the case may be, in assessing the amount of remuneration payable to our Directors, Supervisors and such employees.

### EMPLOYEES

As of December 31, 2013, we had 1,662 full-time employees, who had entered into employment contracts with us. The following tables set forth the breakdown of our employees by business function and educational background as of December 31, 2013:

	<b>Number of employees</b>	<b>% of total</b>
Credit guarantee business . . . . .	620	37.3%
Micro and small loans business. . . . .	394	23.7
Risk management . . . . .	289	17.4
Finance and accounting . . . . .	89	5.4
Information technology. . . . .	29	1.7
Administration . . . . .	241	14.5
<b>Total</b> . . . . .	<b>1,662</b>	<b>100.0%</b>

	<b>Number of employees</b>	<b>% of total</b>
Master's degree or above . . . . .	153	9.2%
Bachelor's degree . . . . .	1,176	70.8
Junior college graduate and below . . . . .	333	20.0
<b>Total</b> . . . . .	<b>1,662</b>	<b>100.0%</b>

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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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### **COMPLIANCE ADVISOR**

We have appointed China Galaxy International Securities (Hong Kong) Co., Limited as our compliance advisor, pursuant to Rules 3A.19 and 19A.05 of the Listing Rules. The Company has entered into a compliance agreement with the compliance advisor, the material terms of which are as follows:

- (a) the Company appoints China Galaxy International Securities (Hong Kong) Co., Limited as the compliance advisor for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the date of Listing of the Shares on the Stock Exchange and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year after the date of Listing;
- (b) the compliance advisor will provide us certain services, including providing us with guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines in Hong Kong, and provide advice to the Company on the continuing requirements under the Listing Rules and applicable laws and regulations;
- (c) the compliance advisor will inform us as soon as reasonably practicable of any amendment or supplement to the Listing Rules announced by the Stock Exchange from time to time and any new or amended law, rule, code and guideline in Hong Kong applicable to us;
- (d) the compliance advisor will act as one of the Company's additional channels of communication with the Stock Exchange, if the Authorized Representatives are expected to be frequently outside Hong Kong;
- (e) the Company undertakes to indemnify the compliance advisor for certain actions against any or all claims and losses which relate to or arise, directly or indirectly, by reason of the appointment of the compliance advisor; and
- (f) the Company shall have the right to terminate the appointment of the compliance advisor only if the work of the compliance advisor is of an unacceptable standard or if there is a material dispute (which cannot be resolved within 30 days) over fees payable by the Company to the compliance advisor.

### **SHARE INCENTIVE SCHEME**

One of our Controlling Shareholders, Huitai, was established on July 15, 2009 with a registered capital of RMB0.5 million. Upon establishment, Zhang Guoxiang, one of the then executive directors of Hanhua Guarantee and one of our executive Directors, and Li Ruping, one of the then supervisors of Hanhua Guarantee and one of our Supervisors, owned 50% and 50% of the equity interest of Huitai, respectively. The registered capital has been fully paid up as of July 15, 2009.



**Entrustment and Voting Arrangement**

The purpose of establishing Huitai was to provide share incentives to the senior management of our Company (the “Share Incentive Scheme”). Huitai’s source of funding for subscribing shares of our Company came from the then existing shareholders of Hanhua Guarantee (except for Huitai) (together, the “Funding Shareholders”). Pursuant to several agreements and confirmations entered into, among others, Funding Shareholders, Huitai and Loncin Holdings:

- (i) Huitai held the equity interest of Hanhua Guarantee and following completion of the Reorganization, Hanhua Financial, on behalf of the Funding Shareholders until the details of the Share Incentive Scheme had been worked out and implemented; and
- (ii) Since establishment of Huitai in 2009 and before the implementation of the Share Incentive Scheme in 2013, Mr. Tu had the right to determine all significant matters on Huitai, including Huitai’s voting right in respect of all matters of Hanhua Guarantee which are subject to shareholder’s approval. Upon the implementation of the Share Incentive Scheme in 2013 and until the expiration of three years after the completion of the Global Offering, Huitai agreed to follow Loncin Holdings in exercising its voting right in respect of all matters of our Company which are subject to shareholders’ approval. As confirmed by our PRC legal advisors, the above arrangement is valid and enforceable under PRC laws and regulations. The terms of the above arrangement was determined with reference to the prevailing practice applicable in the offering regulatory scheme in PRC which requires a three years lock-up period of shares held by controlling shareholder following an initial public offering in the PRC. The parties thereto mutually consider that the three-year term is reasonable and acceptable and will consider whether to continue such arrangement after the expiration of the three-years term.

As of the Latest Practicable Date, Huitai has an outstanding payables to the Funding Shareholder with an amount of approximately RMB91.87 million (“Payables”).

**Implementation of Share Incentive Scheme**

In June 2013, 15 Directors, Supervisors and senior management of our Company (details as set forth below) were identified as the grantees of the share incentive scheme (each a “Grantee” and together the “Grantees”). In order to implement the Share Incentive Scheme, the Grantee, Hanhua Financial and Huitai entered into an agreement in relation to the Share Incentive Scheme on June 20, 2013, the principal terms of which are set forth as below:

- (i) Mr. Li Ruping would transfer part of his equity interest in Huitai to the remaining Grantees as incentive shares under the Share Incentive Scheme;
- (ii) each of the Grantees shall assume the liability to repay the outstanding debts of Huitai arising from the Share Incentive Scheme in proportion to their respective equity interest in Huitai;
- (iii) as a condition for obtaining the shares, the Grantees undertook to work within our Group for at least a continuous eight years starting from January 1, 2013 (the “Service Period”). Each year, the Grantee is entitled to instruct Huitai to dispose of



## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

12.5% of his effective interests in the Company. Huitai will use the proceeds obtained from such disposal to repurchase and cancel the Grantee's corresponding equity interest in Huitai, after deducting the related debts of Huitai assumed by such Grantee; and

- (iv) if a Grantee ceases to work within our Group any time before the expiration of the Service Period, such Grantee shall be entitled to instruct Huitai to dispose his effective interests in the Company proportionately. Huitai will use the proceeds obtained from such disposal to repurchase and cancel the Grantee's corresponding equity interest in Huitai, after deducting the related debts of Huitai assumed by such Grantee. Such Grantee's remaining effective interests in the Company together with the corresponding debts of Huitai assumed by such Grantee to the Funding Shareholders will be enjoyed and borne by the remaining Grantees in proportion to their then applicable effective interest in Huitai.

### Effective Interest Held by Each Grantee

Mr. Li Ruping and the other Grantees entered into an equity transfer agreement on June 20, 2013, pursuant to which Mr. Li Ruping transferred approximately 45.9% of his equity interest in Huitai to the other Grantees at par. The above equity transfer was completed on July 12, 2013. The table set forth below illustrates the shareholding structure of Huitai immediately prior to the Global Offering:

No.	Name	Position in our Company	Percentage of Shareholding in Huitai	Effective Interest in our Company through Huitai immediately after the Global Offering (assuming Over-Allotment Option is not exercised)	Effective Interest in our Company through Huitai immediately after the Global Offering (assuming Over-Allotment Option is exercised in full)
			(%)		
1.	Mr. Zhang Guoxiang	Executive Director	62.09	3.67	3.60
2.	Mr. Lin Feng	Executive Director	5.61	0.33	0.33
3.	Mr. Li Ruping	Supervisor	4.05	0.24	0.23
4.	Mr. Yan Dong	Senior Management	4.00	0.23	0.23
5.	Mr. Luo Xiaobo	Senior Management	3.97	0.23	0.23
6.	Mr. Wang Dayong	Senior Management	3.90	0.23	0.23
7.	Mr. Cui Weilan	Senior Management	3.90	0.23	0.23
8.	Mr. Cheng Xiaoqin	Senior Management	2.99	0.17	0.17
9.	Mr. Yuan Guoli	Senior Management	2.38	0.14	0.14
10.	Mr. Zhou Xiaochuan	Senior Management	2.32	0.14	0.13
11.	Mr. Ren Weidong	Senior Management	1.42	0.09	0.08
12.	Mr. Wang Qi	Senior Management	0.95	0.06	0.06
13.	Mr. Xu Wei <sup>(i)</sup>	Senior Management	0.85	0.06	0.05
14.	Mr. Li Xuan	Senior Management	0.85	0.06	0.05
15.	Mr. Jiang Jintang	Senior Management	0.74	0.05	0.04

*Note:*

- (i) On June 20, 2013, Mr. Xu Wei further issued an undertaking in relation to the share incentive scheme, pursuant to which, he undertook that, in addition to the restriction on disposal during the Service Period, he will not dispose any of its equity interest in Huitai, in any form, within the period from January 1, 2013 to January 1, 2015.

**MATTERS PERTAINING TO MR. TU MINGHAI**

Mr. Tu Minghai was the former non-executive chairman of the Board of Directors of the Company (and its predecessor entities) from August 2011 and up to February 2013 and ceased to hold any position or take up any role in our Group thereafter. Throughout his service with us, Mr. Tu Minghai only assumed a non-executive role. Based on public available information, in February 2013, Mr. Tu Minghai was detained by the Public Security Bureau of Loufan County, Shanxi Province for the investigation of a criminal offence of “concealing work safety accidents” related to a mining project, which has no relationship with our Group and our operations. The Company understands that Mr. Tu Minghai is currently on bail and the case is pending. Further, the Company has received confirmation that Mr. Tu Minghai is not related to Mr. Tu Jianhua and the Directors are of the view that the matters pertaining to Mr. Tu Minghai does not affect the business, operations and suitability for listing of the Company.

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## SHARE CAPITAL

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As of the date of this prospectus, the registered share capital of the Company is RMB3,430 million, divided into 3,430,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of the Company immediately after the Global Offering will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate percentage to total share capital</u>
3,430,000,000	Domestic Shares	74.89%
1,150,000,000	H Shares to be issued and offered for sale under the Global Offering	25.11%
<u>4,580,000,000</u>		<u>100%</u>

Assuming the Over-allotment Option is exercised in full, the share capital of the Company immediately after the Global Offering will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate percentage to total share capital</u>
3,430,000,000	Domestic Shares	73.61%
1,230,000,000	H Shares to be issued and offered for sale under the Global Offering	26.39%
<u>4,660,000,000</u>		<u>100%</u>

## OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and traded in RMB. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors and qualified foreign strategic investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB.

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## SHARE CAPITAL

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Our promoters hold 2,769,856,131 existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares may not be sold within a period of one year from March 13, 2013, on which we were organized as a joint stock limited company. This lock-up period has been expired on March 12, 2014. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and shall not be transferred for a period of one year from the Listing Date. Upon the agreement of the State Council or its authorized regulatory departments and with the consent of the Stock Exchange, the Domestic Shares may be converted into H Shares.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix V to this prospectus, our Domestic Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

### CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

#### Conversion of Domestic Shares

As advised by our PRC legal advisor, according to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares, and such converted shares may be listed or traded on an overseas stock exchange; provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If any of our Domestic Shares are to be converted into and to be traded as H Shares on the Stock Exchange as described in this section, such conversion and trading will need to obtain the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the transfer process can be completed promptly upon notice to the Stock Exchange and delivery of shares

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## SHARE CAPITAL

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for entry on the H Share Registrar. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong. No class Shareholder voting is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed transfer.

### **Mechanism and Procedures for Conversion**

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Shares register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share Register will be conditioned on (i) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates, and (ii) the admission of the H Shares to trade on the Stock Exchange complying with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

### **REGISTRATION OF SHARES NOT LISTED ON THE OVERSEAS STOCK EXCHANGE**

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon after listing.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (without taking into account the H shares which may be issued upon the exercise of the Over-allotment Option), the following persons will have an interest or a short position in our Shares or underlying shares of our Company which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Shareholder	Number of Shares held after the Global Offering	Nature of interests	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering (%)	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering (%)
Loncin Holdings (i)	1,472,458,628 Domestic Shares	Legal owner and interest through voting arrangement with Huitai	42.93	32.15
Loncin Group (ii)	1,472,458,628 Domestic Shares	Beneficially owner/interest of controlled corporation and interest through voting arrangement with Huitai	42.93	32.15
Mr. Tu (iii)	1,472,458,628 Domestic Shares	Beneficially owner/interest of controlled corporation and interest through voting arrangement with Huitai	42.93	32.15
Huitai	270,269,848 Domestic Shares	Legal owner	7.88	5.90
Mr. Zhang Guoxiang (iv)	273,038,709 Domestic Shares	Legal owner and beneficially owner/interest of controlled corporation	7.96	5.96
Chongqing Jiulong	231,532,653 Domestic Shares	Legal owner	6.75	5.06
Ms. Wang Fangfei (v)	231,532,653 Domestic Shares	Beneficially owner/interest of controlled corporation	6.75	5.06
Ms. Wang Mingyue	269,824,593 Domestic Shares	Legal owner	7.87	5.89
Ms. Liu Tingrong (vi)	269,824,593 Domestic Shares	Beneficially owner	7.87	5.89

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## SUBSTANTIAL SHAREHOLDERS

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*Notes:*

- (i) Loncin Holdings directly holds 1,202,188,780 Domestic Shares of our Company. Based on the voting arrangement with Huitai, Loncin Holdings is deemed to be able to exercise the voting rights of the 270,269,848 Domestic Shares held by Huitai. For more details, see “Directors, Supervisors, Senior Management and Employees.”
- (ii) Loncin Group directly holds 98% of the equity interest of Loncin Holdings, which directly holds 1,202,188,780 Domestic Shares of our Company. Accordingly, under the SFO, Loncin Group is deemed to be interested in the 1,202,188,780 Domestic Shares held by Loncin Holdings. Based on the voting arrangement with Huitai, Loncin Group is deemed to be able to exercise the voting rights of the 270,269,848 Domestic Shares held by Huitai. For more details, see “Directors, Supervisors, Senior Management and Employees.”
- (iii) Mr. Tu directly holds 98% of the equity interest of Loncin Group, which directly holds 98% of the equity interest of Loncin Holdings. Mr. Tu also directly holds 2% of the remaining equity interest of Loncin Holdings. Accordingly, under the SFO, Mr. Tu is deemed to be interested in the 1,202,188,780 Domestic Shares held by Loncin Holdings. Based on the voting arrangement with Huitai, Mr. Tu is deemed to be able to exercise the voting rights of the 270,269,848 Domestic Shares held by Huitai. For more details, see “Directors, Supervisors, Senior Management and Employees.”
- (iv) Mr. Zhang Guoxiang directly holds approximately 62.1% of the equity interest of Huitai, which directly holds 270,269,848 Domestic Shares of our Company. accordingly, under the SFO, Mr. Zhang Guoxiang is deemed to be interested in the 270,269,848 Domestic Shares held by Huitai. Mr. Zhang Guoxiang also directly holds 2,768,861 Domestic Shares of our Company.
- (v) Ms. Wang Fangfei directly holds 55% of the equity interest of Chongqing Jiulong Investment Co., Ltd., which directly holds 231,532,653 Domestic Shares of our Company. Accordingly, under the SFO, Ms. Wang Fangfei is deemed to be interested in the 231,532,653 Domestic Shares held by Chongqing Jiulong Investment Co., Ltd.
- (vi) Ms. Liu Tingrong is the mother of Ms. Wang Mingyue, who directly holds 269,824,593 Domestic Shares of our Company. Accordingly, under the SFO, Ms. Liu Tingrong is deemed to be interested in the 269,824,593 Domestic Shares held by Ms. Wang Mingyue.

For details of our Directors’, Supervisors’ and president’s interests in the Shares immediately following the completion of the Global Offering, see “Appendix VI — Statutory and General Information — 4. Disclosure of Interests — B. Disclosure of the Directors’, Supervisors’ and President’s interests in the registered capital of associated corporations of the Company.”

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

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*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 2011, 2012 and 2013, our net fee and interest income totaled RMB870.3 million, RMB1,143.3 million and RMB1,576.7 million, respectively, representing a CAGR of 34.6%. During the same periods, our profit was RMB476.2 million, RMB517.8 million and RMB356.7 million, respectively. As of December 31, 2011, 2012 and 2013, we had net assets of RMB2,004.5 million, RMB2,508.0 million and RMB5,458.4 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.



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During the Track Record Period, leveraging the additional funds we received through equity contributions from shareholders, we achieved significant business expansion. Our outstanding guarantee balance increased from RMB14.2 billion as of December 31, 2011 to RMB21.3 billion as of December 31, 2013, while our outstanding SME loan balance grew from RMB1.7 billion as of December 31, 2012 to RMB4.8 billion as of December 31, 2013. Our net asset leverage ratio for outstanding financing guarantee were 4.8 times, 4.7 times and 5.7 times, respectively, as of December 31, 2011, 2012 and 2013, and our paid-in capital leverage ratio for outstanding micro and small loans remained stable at 2.2 times and 2.2 times, respectively, as of December 31, 2011 and 2012 and reduced to 1.5 times as of December 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 in the credit guarantee business increased from 11.2% in 2012 to 18.0% in 2013. However, after the notable increase from 0.4% in 2011 to 1.2% in 2012, the default rate in our credit guarantee business only increased slightly to 1.6% in 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 further to 2.5% as of December 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 19.7% in 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 interest 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 interest in Hanhua Guarantee on behalf of our Company and other corporate and individual shareholders based on their respective equity interest in Hanhua Guarantee until the share incentive scheme has been determined and implemented. See “Directors, Supervisors, Senior Management and Employees — Share

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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 interest 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 interest in Hanhua Guarantee.

Following the Reorganization in February 2013 as set out in “History, Reorganization and Corporate Structure,” our Company holds 100% equity interest 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 interest 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 interest 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, 2011, 2012 and 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.

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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 1.6% in 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.”

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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, we understand that 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 2011, 2012 and 2013, our government grants and subsidies amounted to RMB31.5 million, RMB26.2 million and RMB42.7 million, respectively, representing 6.6%, 5.1% and 12.0% 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.

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### 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,		
	2011	2012	2013
	(RMB in millions)		
Net assets of our credit guarantee business. . . . .	2,514.7	2,849.8	3,506.3
Balance of outstanding financing guarantees. . . . .	12,193.7	13,399.1	20,154.1
Paid-in capital of our micro and small loan business . . . . .	540.0	800.0	2,300.0
Balance of outstanding micro and small loans. . . . .	1,185.9	1,736.9	3,354.0

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 December 31, 2013, we had established close business relationships with 65 commercial banks in the PRC, which in aggregate have agreed to extend over RMB38.0 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 continue 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

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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 2.6% as of December 31, 2011 to 11.0% as of December 31, 2012 and further to 21.1% as of December 31, 2013.

### **Competition**

Competition across our two business lines is intense. According to the CBRC and China Financing Guarantee Association, there were approximately 8,350 financing guarantee companies as of June 30, 2013 and 7,840 micro and small loan companies in China as of December 31, 2013.

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

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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.



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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



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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.

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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.

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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

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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 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.

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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.

The shares under the Share Incentive Scheme to which certain of our senior management is entitled have already been issued by our Company and are held by Huitai. Given that the grantees undertook to work at the Group for at least a continuous eight years from January 1, 2013, the share awards would vest in installments on a monthly basis, resulting in non-cash share-based payment expenses to be recognized in our income statement over such eight-year period. Such share-based payment expenses are expected to decrease on a monthly basis along with the decrease in the contractual life of the Share Incentive Scheme. See "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme" and "Financial Information — Principal Components of Consolidated Income Statements — Administrative Expenses."

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## FINANCIAL INFORMATION

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### *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 each 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.

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## FINANCIAL INFORMATION

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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 usually includes a significant or continual decline in the fair value of investments. When deciding whether there is a significant or continual decline in the fair value, we will consider the historical fluctuation records of the market and the debtors' credit condition, financial position and performance in a related industry.

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## FINANCIAL INFORMATION

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### *Provisions for Guarantee Losses*

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

### *Tax*

Determining income tax provisions involves judgment as to 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



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## FINANCIAL INFORMATION

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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.

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### 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, Sichuan and Guangxi are entitled to a reduced tax rate of 15% due to their qualification for preferential tax treatment under the "Western Development Program." In 2011, 2012 and 2013, our effective tax rate was 17.4%, 18.3% and 24.5%, respectively.

## FINANCIAL INFORMATION

### RESULTS OF OPERATIONS

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

	Year ended December 31,					
	2011		2012		2013	
	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 . . . . .	870.3	100.0%	1,143.3	100.0%	1,576.7	100.0%
Other revenue . . . . .	123.1	14.1	29.6	2.6	44.0	2.8
Provisions for guarantee losses . . . . .	(123.9)	(14.2)	(51.7)	(4.5)	(149.0)	(9.5)
Impairment losses . . . . .	(43.5)	(5.0)	(130.1)	(11.4)	(294.4)	(18.7)
Administrative expenses . . . . .	(249.4)	(28.7)	(356.4)	(31.2)	(703.9)	(44.6)
Other net losses . . . . .	(0.4)	-	(0.8)	(0.1)	(1.2)	-
<b>Profit before taxation . . . . .</b>	<b>576.2</b>	<b>66.2</b>	<b>633.9</b>	<b>55.5</b>	<b>472.3</b>	<b>30.0</b>
Income tax . . . . .	(100.0)	(11.5)	(116.1)	(10.2)	(115.6)	(7.4)
<b>Profit . . . . .</b>	<b>476.2</b>	<b>54.7%</b>	<b>517.8</b>	<b>45.3%</b>	<b>356.7</b>	<b>22.6%</b>

### 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,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)					
Net guarantee and consulting fee income . . . . .	452.7	52.0%	784.5	68.6%	913.1	57.9%
Net interest and handling fee income .	417.6	48.0	358.8	31.4	663.6	42.1
<b>Net fee and interest income . . . . .</b>	<b>870.3</b>	<b>100.0%</b>	<b>1,143.3</b>	<b>100.0%</b>	<b>1,576.7</b>	<b>100.0%</b>

### 2013 compared to 2012

Our net fee and interest income increased by 37.9% to RMB1,576.7 million in 2013 from RMB1,143.3 million in 2012. This increase was primarily attributable to (i) a 85.0% increase in our net interest and handling fee income; and (ii) a 16.4% increase in our net guarantee and consulting fee income.

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### *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.

### *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,		
	2011	2012	2013
	(RMB in millions)		
<b>Guarantee and consulting fee income from</b>			
Bank financing guarantees . . . . .	436.5	745.3	821.7
Non-bank financing guarantees . . . . .	4.6	28.9	86.3
Financing guarantees . . . . .	441.1	774.2	908.0
Contract bonds . . . . .	8.8	10.4	5.5
Attachment bonds . . . . .	5.2	2.1	0.8
Non-financing guarantees . . . . .	14.0	12.5	6.3
Less : Re-guarantee expenses . . . . .	(2.4)	(2.2)	(1.2)
<b>Net guarantee and consulting fee income . . . .</b>	<b>452.7</b>	<b>784.5</b>	<b>913.1</b>

### *2013 compared to 2012*

Our net guarantee and consulting fee income increased by 16.4% to RMB913.1 million in 2013 from RMB784.5 million 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 4.57% in 2013 from 4.06% in 2012 as we continued to raise our fee rate.
- The average balance of our non-bank financing guarantees increased significantly to RMB2,516.3 million in 2013 compared to RMB839.8 million in 2012. We guaranteed an increased amount of bond offerings, capital preservation public fund and repurchase transactions in 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 3.43% in 2013 from 3.45% 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.

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The foregoing increases were partially offset by a 29.7% decrease in the average balance of our fully secured bank financing guarantees on which we typically charge a higher fee rate to RMB867.7 million in 2013 from RMB1,234.8 million 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.

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### *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,		
	2011	2012	2013
	(RMB in millions)		
<b>Interest and handling fee income from</b>			
Loans and advances to customers			
Micro and small loans . . . . .	186.5	280.1	470.9
Entrusted loans . . . . .	260.7	104.7	256.3
Subtotal. . . . .	447.2	384.8	727.2
Cash at banks and restricted bank deposits <sup>(1)</sup> . . .	24.9	53.1	54.2
Total interest and handling fee income . . . . .	472.1	437.9	781.4
<b>Interest and commission expenses from</b>			
Borrowings from banks and non-bank institutions . . . . .	(37.7)	(51.6)	(58.9)
Financial assets sold under repurchase agreements . . . . .	(9.2)	(9.5)	(28.2)
Commission paid to agents . . . . .	(7.6)	(18.0)	(30.7)
Total interest and commission fee expenses . . . .	(54.5)	(79.1)	(117.8)
<b>Net interest and handling fee income . . . . .</b>	<b>417.6</b>	<b>358.8</b>	<b>663.6</b>

(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.

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### *2013 compared to 2012*

Our net interest and handling fee income increased by 85.0% to RMB663.6 million in 2013 from RMB358.8 million 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 146.1% to RMB1,043.4 million in 2013 compared to RMB424.0 million 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 72.3% to RMB2,115.6 million in 2013 compared to RMB1,227.8 million 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 RMB18.7 million increase in interest expenses from financial assets sold under repurchase agreements and a RMB12.7 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.

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### Segment Revenue

The following table sets forth the breakdown of our segment revenue for the periods indicated:

	Year ended December 31,					
	2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in millions, except percentages)						
<b>Credit Guarantee</b>						
Net guarantee and consulting fee income . . . . .	452.7	52.0%	784.5	68.6%	913.1	57.9%
Net interest and handling fee income <sup>(1)</sup> . . . . .	14.5	1.7	23.3	2.1	51.4	3.3
Subtotal . . . . .	467.2	53.7	807.8	70.7	964.5	61.2
<b>SME Lending</b>						
Net interest and handling fee income . . . . .	403.1	46.3	335.5	29.3	612.2	38.8
<b>Total</b> . . . . .	<b>870.3</b>	<b>100.0%</b>	<b>1,143.3</b>	<b>100.0%</b>	<b>1,576.7</b>	<b>100.0%</b>

(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 2013 compared to 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.

As a percentage of our net fee and interest income, segment revenue from our credit guarantee business increased from 53.7% in 2011 to 70.7% in 2012, while segment revenue from our SME lending business decreased from 46.3% in 2011 to 29.3% in 2012. Our credit guarantee business achieved a faster growth compared to our SME lending business in 2012 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.



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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,		
	2011	2012	2013
	(RMB in millions)		
Investment income from available-for-sale			
financial assets . . . . .	91.3	–	–
Government grants . . . . .	31.5	26.2	42.7
Others . . . . .	0.3	3.4	1.3
<b>Total</b> . . . . .	123.1	29.6	44.0

#### *2013 compared to 2012*

Other revenue increased by 48.6% to RMB44.0 million in 2013 compared to RMB29.6 million 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 RMB5.0 million one-off government subsidies we received from the Chongqing government in 2011.

### Provisions for Guarantee Losses

#### *2013 compared to 2012*

We made provisions for guarantee losses of RMB149.0 million in 2013 compared to RMB51.7 million 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% to RMB280.2 million as of December 31, 2012 from RMB228.6 million as of December 31, 2011. Such an increase was generally in line with the increase in the balance of our outstanding guarantees.

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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.

### Impairment Losses

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

	Year ended December 31,		
	2011	2012	2013
	(RMB in millions)		
Impairment losses on default payment receivables . . . . .	16.5	90.3	173.7
Impairment losses on loans and advances to customers			
Micro and small loans . . . . .	15.5	42.7	83.2
Entrusted loans . . . . .	11.5	(2.9)	37.5
Subtotal. . . . .	27.0	39.8	120.7
<b>Total . . . . .</b>	<b>43.5</b>	<b>130.1</b>	<b>294.4</b>

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, RMB40.7 million, RMB198.0 million and RMB405.1 million as of December 31, 2011, 2012 and 2013, respectively.

Our impaired loans totaled RMB69.5 million, RMB63.8 million and RMB122.8 million as of December 31, 2011, 2012 and 2013, respectively. See “Business — Provisioning Policies and Asset Quality.”

#### *2013 compared to 2012*

Our impairment losses increased by 126.3% to RMB294.4 million in 2013 from RMB130.1 million 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 RMB173.7 million in 2013 from RMB90.3 million 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 RMB120.7 million in 2013 from RMB39.8 million in 2012, due primarily to the general provision collectively assessed for the increased scale of our loan portfolio in 2013.

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*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.

### Administrative Expenses

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

	Year ended December 31,		
	2011	2012	2013
	(RMB in millions)		
Staff costs . . . . .	93.8	147.2	375.5
Operating lease charges in respect of buildings . .	23.5	36.5	50.5
Depreciation and amortization expenses . . . . .	10.8	15.1	21.7
Others <sup>(1)</sup> . . . . .	121.3	157.6	256.2
<b>Total</b> . . . . .	249.4	356.4	703.9

(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 37.6%, 41.3% and 53.3% of our administrative expenses in 2011, 2012 and 2013, respectively.

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### *2013 compared to 2012*

Our administrative expenses increased by 97.5% to RMB703.9 million in 2013 from RMB356.4 million in 2012, mainly attributable to significant increases in our staff costs and other administrative expenses. In particular:

- Our staff costs increased by 155.1% to RMB375.5 million in 2013 from RMB147.2 million in 2012 due primarily to (i) non-cash share-based payment expenses of RMB144.2 million relating to our newly-implemented share incentive scheme in June 2013; and (ii) an increase in headcount from 1,264 as of December 31, 2012 to 1,662 as of December 31, 2013, which contributed to 57.7% or RMB73.6 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 62.6% to RMB256.2 million in 2013 from RMB157.6 million in 2012, due primarily to (i) expansion in business operations and geographic coverage and additional office spaces, which contributed to a RMB47.3 million increase in miscellaneous expenses, such as travel expenses, office expenses and advertisement fees, and a RMB19.5 million increase in business tax and surcharges; (ii) an increase of RMB18.3 million incurred for third-party's professional services in connection with the Global Offering; and (iii) additional cost of RMB13.5 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.

### **Profit Before Taxation and Profit Margin Before Taxation**

As a result of the foregoing, our profit before taxation increased by 10.0% to RMB633.9 million in 2012 from RMB576.2 million in 2011, and decreased by 25.5% to RMB472.3 million in 2013.

Our profit margin before taxation fluctuated throughout the Track Record Period, being 66.2% 55.5% and 30.0%, respectively, in 2011, 2012 and 2013.

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### *2013 compared to 2012*

Our profit margin before taxation decreased to 30.0% in 2013 from 55.5% in 2012, mainly attributable to a combination of following:

- a slower revenue growth compared to the growth in our outstanding guarantee balance, due to our accounting policy that we recognized our guarantee and consulting fee 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. In particular, segment revenue from our credit guarantee business increased by 19.4% in 2013 compared to that in 2012, while our outstanding credit guarantees increased by 45.0% as of December 31, 2013 compared to that as of December 31, 2012;
- a 188.3%, or RMB97.3 million, increase in provisions for guarantee losses collectively assessed in our credit guarantee business as a result of (i) 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; and (ii) increased provision ratio to 2.0% as of December 31, 2013 from 1.9% as of December 31, 2012 reflecting our increased historical default rate from 1.2% in 2012 to 1.6% in 2013 and loss ratio from 0.6% in 2012 to 1.1% in 2013 as well as the then prevailing general market and macro-economic conditions;
- a 126.3%, or RMB164.3 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 82.5% in 2013 compared to 2012 while our outstanding loan balance increased by 133.5% as of December 31, 2013 compared to December 31, 2012; and
- a 97.5%, or RMB347.5 million, increase in our administrative expenses, particularly non-cash share-based payment expenses of RMB144.2 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 RMB633.9 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.

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### 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,		
	2011	2012	2013
	(RMB in millions, except percentages)		
Segment profit			
– Credit guarantee business. . . . .	224.1	466.5	317.1
– SME lending business. . . . .	263.0	169.8	331.4
Segment profit margin <sup>(1)</sup>			
– Credit guarantee business. . . . .	48.0%	57.7%	32.9%
– SME lending business. . . . .	65.2%	50.6%	54.1%

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

### *Credit Guarantee*

#### *2013 compared to 2012*

Segment profit from our credit guarantee business decreased by 32.1% to RMB317.1 million in 2013 from RMB466.5 million 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 in 2013. Our segment margin decreased to 32.9% in 2013 from 57.7% 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.

### *SME Lending*

#### *2013 compared to 2012*

Segment profit from our SME lending business increased by 95.2% to RMB331.4 million in 2013 compared to RMB169.8 million in 2012, due primarily to the increased average balance of loans we offered in 2013. Our segment profit margin increased to 54.1% in 2013 from 50.6% in 2012, due primarily to the significant increase in net interest and handling income.

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*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.

### ***Loss/revenue Ratios***

Our management uses loss/revenue ratio to monitor our financial results in relation to impairment losses incurred. The following table sets forth the loss/revenue ratios in our two business lines for the years indicated:

	Year ended December 31,		
	2011	2012	2013
	(%)		
<b>Loss/revenue ratio in our credit guarantee business<sup>(1)</sup></b> . . . . .	3.5	11.2	18.0
<b>Loss/revenue ratio in our SME lending business<sup>(2)</sup></b> . . . . .	6.7	11.9	19.7

(1) Impairment losses on default payment receivables divided by segment revenue from our credit guarantee business.

(2) Impairment loss on loans and advances to customers divided by segment revenue from our SME lending business.

### *Credit guarantee*

The loss/revenue ratio in our credit guarantee business was 3.5%, 11.2% and 18.0% in 2011, 2012 and 2013, respectively. The substantial increases in our loss/revenue ratio in 2012 and 2013 were due to the combination of the following:

- the significant growth in our average outstanding balance of financing guarantees since 2011, which increased from RMB10,440.7 million in 2011 to RMB13,954.5 million in 2012, and further to RMB17,279.5 million in 2013. As most of our guarantee contracts have a maturity period of up to 12 months, they may fall due during the year following the date the contracts were initially entered into. As a result, the significant increase in our average balance of guarantees in 2011 also led to a significant increase in guarantees released in 2012, contributing to the relatively significant increase in our default payments and accordingly in our default payment receivables, which in turn contributed to the increase in impairment losses we provided for on such receivables;

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- the unfavorable overall market and industry conditions in China which contributed to increasing customer defaults on the financing we guaranteed that became due in 2012 and 2013, thereby increasing our guarantee default rate from 0.4% in 2011 to 1.2% in 2012 and 1.6% in 2013 and, as a result, an increase in the level of impairment losses we provided for our default payment receivables; and
- an increase in our loss ratio from 0.2% in 2011 to 0.6% in 2012 and 1.1% in 2013, which was a result of the more conservative provisioning policies we adopted in 2012 and 2013 in light of the deteriorating general credit and economic conditions in China as well as the historical recovery rate of our default payment receivables.

In 2011, 2012 and 2013, the segment margin before taxation (calculated based on our reportable segment profit before taxation adding back provisions for guarantee losses and impairment loss, and dividing the sum by our reportable segment revenue) for our credit guarantee business was 78.0%, 75.3% and 66.3%, respectively. Notwithstanding the foregoing increase in our loss/revenue ratio, as our credit guarantee business consistently maintained a pre-tax segment margin (before provision and impairment loss) of above 50% throughout the Track Record Period, our Directors consider that our loss/revenue ratios remained acceptable. The scale of our credit guarantee business increased steadily since 2011, with the balance of our outstanding financing guarantee increased from RMB12.2 billion as of December 31, 2011 to RMB20.2 billion as of December 31, 2013. Our segment margin before taxation (before provision and provision loss) exhibited a general downward trend after 2011, mainly due to the increase in administrative expenses, including staff costs, traveling, operating lease charges and other costs, as a result of establishing new branches.

### *SME lending*

The loss/revenue ratio in our SME lending business was 6.7%, 11.9% and 19.7% in 2011, 2012 and 2013, respectively. The substantial increase in our loss/revenue ratio in 2012 and 2013 was due to the combination of the following:

- a slower revenue growth compared to the growth 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 impairment 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. In particular, segment revenue from our SME lending business increased by 82.5% in 2013 compared to 2012, while our outstanding loan balance increased by 133.5% as of December 31, 2013 compared to December 31, 2012 and resulted in a 102.9%, or RMB80.8 million increase in our impairment losses made.
- unfavorable overall market and industry conditions in China and the resulting increase in customer defaults on our loans that became due in 2012 and 2013; and



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- an increase in our provision for impairment losses ratio from 2.9% as of December 31, 2011 to 4.1% as of December 31, 2012 and 4.1% as of December 31, 2013, which resulted from the more conservative provisioning policies we adopted in 2012 and 2013 in light of the deteriorating general credit and economic conditions in China as well as our historical recovery rate.

In 2011, 2012 and 2013, the segment margin before taxation (calculated based on our reportable segment profit before taxation adding back impairment loss, and dividing the sum by our reportable segment revenue) for our SME lending business was 71.9%, 62.5% and 73.8%, respectively. Despite the foregoing increase in loss/revenue ratio, as our SME lending business consistently maintained a segment margin before taxation (before impairment loss) of over 60% throughout the Track Record Period, our Directors consider that our loss/revenue ratios remained acceptable. Generally, the segment margin before taxation (before provision and impairment loss) for our SME lending business remained consistently over 70% during the Track Record Period except for 2012, in which year it was 62.5%, due primarily to the reduced average balance of our entrusted loans in 2012, which carried a higher interest rate than our micro and small loans.

### **Income Tax**

#### *2013 compared to 2012*

Notwithstanding a decrease in our profit before taxation, our income tax expense remained relatively the same at RMB115.6 million in 2013 compared to RMB116.1 million in 2012. Our effective tax rate was 24.5% in 2013 as compared to 18.3% in 2012. The increase in our effective tax rate was due primarily to the non-cash share-based payment expenses of RMB144.2 million in 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 18.3% in 2012 as compared to 17.4% in 2011.

### **Profit**

#### *2013 compared to 2012*

As a result of the foregoing, our profit decreased by 31.1% to RMB356.7 million in 2013 from RMB517.8 million in 2012, and our net profit margin decreased to 22.6% in 2013 compared to 45.3% in 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.

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### 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 2013, we incurred RMB18.3 million in expenses for the Global Offering, and we expect to incur an additional RMB97.2 million (including the commission and expenses that can be capitalized, assuming an Offer Price of HK\$1.80 per H Share, which is the mid-point of the stated range of the Offer Price of between HK\$1.55 and HK\$2.05 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.

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### Cash Flows

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

	Years ended December 31,		
	2011	2012	2013
	(RMB in millions)		
Net cash used in operating activities . . . . .	(926.5)	(377.8)	(2,192.8)
Net cash generated from/(used in) investing activities . . . . .	168.4	(140.5)	(134.8)
Net cash generated from financing activities. . . . .	723.8	244.1	3,013.7
Net (decrease)/increase in cash and cash equivalents . . . . .	(34.3)	(274.2)	686.1
Cash and cash equivalents at the beginning of the year . . . . .	562.9	528.5	254.4
Cash and cash equivalents at the end of the year . . . . .	528.5	254.4	940.5

### *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 RMB498.2 million, RMB60.0 million and RMB2,400.6 million in 2011, 2012 and 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.

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In 2013, we had net cash used in operating activities of RMB2,192.8 million. Our net cash outflows arising from changes in working capital were due primarily to a combination of the following:

- (i) a RMB2,739.0 million of increase in loans and advances to customers, following two rounds of equity contributions in 2013; and
- (ii) a RMB368.7 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.

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### *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 2013, our net cash used in investing activities was RMB134.8 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.

### *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 2013, our net cash generated from financing activities was RMB3,013.7 million, primarily due to equity contributions of RMB2,400.6 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.

### **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

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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 RMB58.1 million, RMB59.4 million and RMB74.0 million, while the monthly average cash outflows for general and administrative expenses together with default payments (net of cash recovered) amounted to RMB19.0 million, RMB41.0 million and RMB46.8 million, representing an average monthly surplus of RMB39.1 million, RMB18.4 million and RMB27.3 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.

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In 2011, 2012 and 2013, the monthly average free cash balance of our credit guarantee business (i.e., free cash excluding any restricted bank deposits) amounted to RMB414.0 million, RMB229.3 million and RMB497.9 million, representing 3.3%, 1.4% and 2.7% 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,		
	2011	2012	2013
	(RMB in millions, except percentages)		
Average balance of cash and cash equivalents <sup>(1)</sup> . . . . .	414.0	229.3	497.9
Average amount of outstanding guarantees due and released <sup>(2)</sup> . . . . .	707.5	1,329.5	1,333.0
Coverage ratio . . . . .	58.5%	17.2%	37.4%

(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 37.4% in 2013 which is significantly higher than the default rate of 1.6% of our credit guarantee business in the same period. Such coverage ratio was higher in 2011 compared to that in 2012 and 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

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granting loans to our customers. As of December 31, 2011, 2012 and 2013, the total cash and cash equivalents of our micro and small loan subsidiaries amounted to RMB47.3 million, RMB18.0 million and RMB342.8 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,		
	2011	2012	2013
	(RMB in millions)		
<b>Assets</b>			
Cash and cash equivalents . . . . .	528.5	254.4	940.5
Restricted bank deposits. . . . .	2,233.1	2,207.2	2,293.2
Trade and other receivables. . . . .	71.9	310.3	254.4
Loans and advances to customers . . . . .	1,616.9	1,961.6	4,579.9
Available-for-sale financial assets . . . . .	–	10.0	9.6
Fixed assets . . . . .	75.1	81.4	300.2
Intangible assets . . . . .	0.9	0.6	4.6
Deferred tax assets . . . . .	90.7	142.4	245.6
<b>Total assets</b> . . . . .	<b>4,617.1</b>	<b>4,967.9</b>	<b>8,628.0</b>
<b>Liabilities</b>			
Interest-bearing borrowings. . . . .	735.4	880.6	966.7
Financial assets sold under repurchase agreement . . . . .	51.4	222.3	798.0
Liabilities from guarantees . . . . .	488.2	626.8	853.0
Customer pledged deposits . . . . .	1,070.1	446.9	78.2
Accruals and other payables . . . . .	151.5	169.5	332.8
Current tax liabilities . . . . .	116.0	113.8	140.9
<b>Total liabilities</b> . . . . .	<b>2,612.6</b>	<b>2,459.9</b>	<b>3,169.6</b>
<b>Net assets</b> . . . . .	<b>2,004.5</b>	<b>2,508.0</b>	<b>5,458.4</b>

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



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## FINANCIAL INFORMATION

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### 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,		
	2011	2012	2013
	(RMB in millions)		
Cash in hand . . . . .	0.2	0.3	0.3
Cash at banks . . . . .	528.3	254.1	940.2
	<u>528.5</u>	<u>254.4</u>	<u>940.5</u>

The increase in our cash and cash equivalents to RMB940.5 million as of December 31, 2013 from RMB254.4 million as of December 31, 2012 was mainly a result of equity contribution in May 2013, which we are using for our micro and small business and credit guarantee business. As of March 31, 2014, our cash and cash equivalents were RMB952.4 million.

The substantial decrease in our cash and cash equivalents to RMB254.4 million as of December 31, 2012 from RMB528.5 million as of December 31, 2011 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 ranging 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.”

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## FINANCIAL INFORMATION

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

	As of December 31,		
	2011	2012	2013
	(RMB in millions)		
Security deposits . . . . .	1,167.7	1,267.8	1,338.2
Cash deposits or certificates of deposit for fully secured bank financing guarantees . . . . .	1,065.4	939.4	955.0
<b>Total</b> . . . . .	2,233.1	2,207.2	2,293.2

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 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, 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 December 31, 2013, our restricted bank deposits increased to RMB2,293.2 million, due to the growth of our fully secured bank financing guarantees in 2013. As of March 31, 2014, our restricted bank deposits were RMB2,257.2 million.

## FINANCIAL INFORMATION

### 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,		
	2011	2012	2013
	(RMB in millions)		
Micro and small loans . . . . .	1,185.9	1,736.9	3,354.0
Entrusted loans . . . . .	479.4	308.7	1,423.4
Gross loans and advances to customers <sup>(1)</sup> . . . . .	1,665.3	2,045.6	4,777.4
Allowances for impairment losses . . . . .	(48.4)	(84.0)	(197.5)
<b>Total</b> . . . . .	<b>1,616.9</b>	<b>1,961.6</b>	<b>4,579.9</b>

(1) Our gross loans and advances to customers included loans to related parties of RMB51.2 million, RMB4.4 million and nil as of December 31, 2011, 2012 and 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 March 31, 2014, our loans and advances to customers totaled RMB4,976.6 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,		
	2011	2012	2013
	(RMB in millions)		
Repayable on demand . . . . .	80.5	92.9	26.1
Due within three months . . . . .	798.3	916.4	1,364.5
Due between three months and one year . . . . .	731.7	938.3	3,055.4
Due between one year and five years . . . . .	6.4	14.0	133.9
<b>Total</b> . . . . .	<b>1,616.9</b>	<b>1,961.6</b>	<b>4,579.9</b>

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.”

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### 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,		
	2011	2012	2013
	(RMB in millions)		
Default payment receivables . . . . .	40.7	198.0	405.1
Trade receivables . . . . .	7.6	7.6	3.1
Less: Allowance for default payment receivables . . . . .	(24.6)	(114.8)	(288.5)
<b>Subtotal</b> . . . . .	<b>23.7</b>	<b>90.8</b>	<b>119.7</b>
Interest receivables . . . . .	20.7	29.6	44.7
Amount due from related parties . . . . .	5.2	27.9	–
Prepayments for purchase of a building for own use . . . . .	–	109.7	–
Repossessed assets . . . . .	–	–	12.6
Other prepayments, deposits and other receivables . . . . .	22.3	52.3	77.4
<b>Subtotal</b> . . . . .	<b>48.2</b>	<b>219.5</b>	<b>134.7</b>
<b>Total</b> . . . . .	<b>71.9</b>	<b>310.3</b>	<b>254.4</b>

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.

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 March 31, 2014, our trade and other receivables were RMB290.9 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, 2012 and 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.

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## FINANCIAL INFORMATION

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### 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 March 31,
	2011	2012	2013	2014
	(RMB in millions)			
Deferred income . . . . .	259.6	346.6	423.8	405.1
Provisions for guarantee losses. . . . .	228.6	280.2	429.2	432.4
<b>Total . . . . .</b>	<b>488.2</b>	<b>626.8</b>	<b>853.0</b>	<b>837.5</b>

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 March 31, 2014, our liabilities from guarantees were RMB837.5 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 RMB78.2 million as of December 31, 2013 and RMB61.7 million as of March 31, 2014 as we discontinued our practice of taking cash deposits from new guarantee customers in 2012 and continued to return such deposits in 2013.

### 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. We were one of the first few companies to participate in a pilot program for repurchase transactions in Chongqing and have been conducting repurchase transactions since 2011. 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.

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

	As of December 31,			As of
	2011	2012	2013	March 31, 2014
	(RMB in millions)			
Loan receivables sold under repurchase agreements . . . . .	51.4	222.3	798.0	1,131.3

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 RMB798.0 million as of December 31, 2013 and RMB1,131.3 million as of March 31, 2014 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 March 31, 2014, the latest date for determining our indebtedness, our total outstanding borrowings amounted to RMB857.7 million. The following table sets forth our outstanding borrowings as of the dates indicated:

	As of December 31,			As of
	2011	2012	2013	March 31, 2014
	(RMB in millions)			
Bank loans				
– Guaranteed by third parties . . . . .	85.0	312.5	440.0	453.0
– Secured by properties of the Group . . . . .	–	–	97.0	94.0
– Unsecured . . . . .	115.0	168.5	167.2	138.2
	200.0	481.0	704.2	685.2
Loans from related parties . . . . .	505.4	324.6	20.0	–
Other loans . . . . .	30.0	75.0	242.5	172.5
<b>Total</b> . . . . .	<b>735.4</b>	<b>880.6</b>	<b>966.7</b>	<b>857.7</b>

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 December 31, 2013, our outstanding borrowings bore interest rates of between 6.3% and 18.0%. As of March 31, 2014, our outstanding borrowings bore interest rates of between 6.3% and 15.0% on an annual basis.

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

	As of December 31,			As of
	2011	2012	2013	March 31, 2014
	(RMB in millions)			
Due within three months . . . . .	–	111.0	95.0	130.0
Due between three months and one year . . . . .	433.9	436.1	629.5	277.5
Due between one year and five years . . . . .	301.5	333.5	242.2	450.2
<b>Total</b> . . . . .	<b>735.4</b>	<b>880.6</b>	<b>966.7</b>	<b>857.7</b>

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 December 31, 2013 and March 31, 2014, we did not have any unutilized banking facilities.

Except as disclosed above and intra-group liabilities, we did not have, as of March 31, 2014, 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
	2011	2012	2013	March 31, 2014
	(RMB in millions)			
Accrued staff cost . . . . .	25.0	30.6	62.7	32.0
Business tax and other surcharges payable . .	6.0	9.2	16.7	10.9
Interest payables . . . . .	19.4	7.7	2.7	2.2
Other payables . . . . .	5.3	5.0	19.4	23.7
Receipts in advance . . . . .	95.8	117.0	231.3	176.9
<b>Total</b> . . . . .	<b>151.5</b>	<b>169.5</b>	<b>332.8</b>	<b>245.7</b>

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.

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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 March 31, 2014, our accruals and other payables were RMB245.7 million.

### Current Tax Liabilities

Our current tax liabilities, which represent our income tax payables, were RMB116.0 million, RMB113.8 million and RMB140.9 million, respectively, as of December 31, 2011, 2012 and 2013. As of March 31, 2014, our current tax liabilities amounted to RMB146.0 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,			Three months ended March 31,
	2011	2012	2013	2014
	(RMB in millions)			
Capital expenditures . . . . .	27.9	149.8	158.1	13.4

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 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 the three months ended March 31, 2014, we incurred RMB13.4 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.



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### 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,		
	2011	2012	2013
	(RMB in millions)		
Commitments in respect of purchase of fixed assets			
– Contracted for . . . . .	–	98.7	5.1
	–	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,		
	2011	2012	2013
	(RMB in millions)		
Within one year (inclusive) . . . . .	22.7	32.3	47.9
After one year but within three years (inclusive) .	23.1	25.9	29.3
Over three years . . . . .	2.9	3.7	113.4
<b>Total</b> . . . . .	48.7	61.9	190.6

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

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### INTRA-GROUP LIABILITIES

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

- an aggregate of RMB175.0 million of borrowings by our micro and small loan subsidiaries;
- an aggregate of RMB197.2 million of borrowings by our asset management subsidiaries; and
- an aggregate of RMB574.0 million of repurchase transactions originated by our micro and small loan and asset management subsidiaries.

As of December 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, 2012 and 2013, 0.5%, 7.2% and 14.4%, respectively, of our micro and small loans were guaranteed by our credit guarantee subsidiaries, amounting to RMB6.0 million, RMB125.0 million and RMB483.9 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 December 31, 2013 and March 31, 2014, our outstanding guarantees totalled RMB21.3 billion and RMB21.5 billion, respectively.

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### 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 inability 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.

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

	As of December 31,		
	2011	2012	2013
	(RMB in millions, except percentages)		
Fixed interest rate			
Financial assets			
– Restricted bank deposits . . . . .	1,472.1	1,577.6	1,672.2
– Loans and advances to customers . . . . .	1,616.9	1,961.6	4,579.9
	3,089.0	3,539.2	6,252.1
Financial liabilities			
– Interest-bearing borrowing . . . . .	(635.4)	(512.1)	(622.5)
– Financial assets sold under repurchase agreement . . . . .	(51.4)	(222.3)	(798.0)
	(686.8)	(734.4)	(1,420.5)
Net . . . . .	2,402.2	2,804.8	4,831.6
Variable interest rate			
Financial assets			
– Cash and cash equivalents . . . . .	528.3	254.1	940.2
– Restricted bank deposits . . . . .	761.0	629.7	621.0
	1,289.3	883.8	1,561.2
Financial liabilities			
– Interest-bearing borrowing . . . . .	(100.0)	(368.5)	(344.2)
Net . . . . .	1,189.3	515.3	1,217.0
Net fixed rate financial liabilities as a percentage of total financial liabilities . . . . .	87.3%	66.6%	80.5%

### *Sensitivity analysis*

As of December 31, 2011, 2012 and 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 RMB5.9 million, RMB2.6 million and RMB6.1 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

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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, 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)						
<b>Assets</b>						
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
<b>Total</b> . . . . .	<b>944.4</b>	<b>1,627.6</b>	<b>1,771.5</b>	<b>104.9</b>	<b>0.3</b>	<b>4,448.7</b>
<b>Liabilities</b>						
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
Accruals and other payables . . . . .						
–	0.4	49.3	–	–	–	49.7
<b>Total</b> . . . . .	<b>107.7</b>	<b>266.7</b>	<b>1,156.4</b>	<b>375.8</b>	<b>–</b>	<b>1,906.6</b>
<b>Net</b> . . . . .	<b>836.7</b>	<b>1,360.9</b>	<b>615.1</b>	<b>(270.9)</b>	<b>0.3</b>	<b>2,542.1</b>

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As of December 31, 2012

	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Indefinite						
(RMB in millions)						
<b>Assets</b>						
Cash and cash equivalents . . . . .	–	254.4	–	–	–	254.4
Restricted bank deposits . . . . .	–	276.7	672.5	1,220.3	36.9	0.8
Trade and other receivables . . . . .	–	129.8	27.1	13.3	25.9	–
Loans and advances to customers . . . . .	–	92.9	916.4	938.3	14.0	–
Available-for-sale financial assets . . . . .	10.0	–	–	–	–	–
<b>Total . . . . .</b>	<b>10.0</b>	<b>753.8</b>	<b>1,616.0</b>	<b>2,171.9</b>	<b>76.8</b>	<b>0.8</b>
<b>Liabilities</b>						
Customer pledged deposits . . . . .	–	33.6	389.9	1.6	21.2	0.6
Interest-bearing borrowing . . . . .	–	–	111.0	436.1	333.5	–
Financial assets sold under repurchase agreement . . . . .	–	–	96.2	76.1	50.0	–
Accruals and other payables . . . . .	–	–	36.1	6.4	0.6	–
<b>Total . . . . .</b>	<b>–</b>	<b>33.6</b>	<b>633.2</b>	<b>520.2</b>	<b>405.3</b>	<b>0.6</b>
<b>Net . . . . .</b>	<b>10.0</b>	<b>720.2</b>	<b>982.8</b>	<b>1,651.7</b>	<b>(328.5)</b>	<b>0.2</b>

## FINANCIAL INFORMATION

As of December 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)							
<b>Assets</b>							
Cash and cash equivalents . . . . .	–	937.5	3.0	–	–	–	940.5
Restricted bank deposits . . . . .	–	621.0	444.7	1,214.8	12.7	–	2,293.2
Trade and other receivables . . . . .	–	130.8	31.8	48.7	17.8	–	229.1
Loans and advances to customers . . . . .	–	26.1	1,364.5	3,055.4	133.9	–	4,579.9
Available-for-sale financial assets . . . . .	9.6	–	–	–	–	–	9.6
<b>Total . . . . .</b>	<b>9.6</b>	<b>1,715.4</b>	<b>1,844.0</b>	<b>4,318.9</b>	<b>164.4</b>	<b>–</b>	<b>8,052.3</b>
<b>Liabilities</b>							
Interest-bearing borrowings . . . . .	–	–	95.0	629.5	242.2	–	966.7
Financial assets sold under repurchase agreement . . . . .	–	–	125.0	673.0	–	–	798.0
Customer pledged deposits . . . . .	–	69.4	2.2	6.6	–	–	78.2
Accruals and other payables . . . . .	–	–	76.5	8.3	–	–	84.8
<b>Total . . . . .</b>	<b>–</b>	<b>69.4</b>	<b>298.7</b>	<b>1,317.4</b>	<b>242.2</b>	<b>–</b>	<b>1,927.7</b>
<b>Net . . . . .</b>	<b>9.6</b>	<b>1,646.0</b>	<b>1,545.3</b>	<b>3,001.5</b>	<b>(77.8)</b>	<b>–</b>	<b>6,124.6</b>

### *Sensitivity analysis*

As of December 31, 2013, our cash and cash equivalents amounted to RMB940.5 million. Our default payments and default rate in the credit guarantee business amounted to RMB258.8 million and 1.6% in 2013, respectively. For our SME lending business, our provisions for impairment losses and provision for impairment losses ratio amounted to RMB197.5 million and 4.1% as of December 31, 2013, respectively. The following sensitivity analysis on our cash and cash equivalents has not taken into account our restricted bank deposits of RMB2,293.2 million for our credit guarantee business.

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## FINANCIAL INFORMATION

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### *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 2013, with all other variables held constant, would reduce or increase our cash and cash equivalents as of December 31, 2013 by the following amounts:

<u>% change in our default payments made</u>	<u>(Decrease)/Increase in our cash and cash equivalents as of December 31, 2013</u>
	(RMB in millions)
5% increase	(12.9)
10% increase	(25.9)
20% increase	(51.8)
30% increase	(77.6)
5% decrease	12.9
10% decrease	25.9
20% decrease	51.8
30% decrease	77.6

Based on the foregoing analysis, in order for our cash and cash equivalents as of December 31, 2013 to be depleted for default payments, our guarantee default rate would have to increase to 7.5%, a 368.8% increase from the historical default rate of 1.6% in 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 2013, with all other variables held constant, would reduce or increase our cash and cash equivalents as of December 31, 2013 by the following amounts:

<u>% change in our provisions for impairment losses</u>	<u>(Decrease)/Increase in our cash and cash equivalents as of December 31, 2013</u>
	(RMB in millions)
5% increase	(6.0)
10% increase	(12.1)
20% increase	(24.1)
30% increase	(36.2)
5% decrease	6.0
10% decrease	12.1
20% decrease	24.1
30% decrease	36.2

Based on the foregoing analysis, with all other variables held constant, in order for our cash and cash equivalents as of December 31, 2013 to be depleted, our provision ratio for impairment losses would have to increase to 23.8%, a 480.5% increase from the historical provision ratio of 4.1% as of December 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



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## FINANCIAL INFORMATION

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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 RMB80.4 million, RMB135.2 million and RMB142.8 million to non-controlling interests in 2011, 2012 and 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 not 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 December 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 December 31, 2013, adjusted as described below. The

## FINANCIAL INFORMATION

unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders have been prepared for illustrative purposes only, and because of their nature, may not give a true picture of our consolidated financial position as of December 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 December 31, 2013 as if the Global Offering had occurred on December 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.

	<b>Consolidated net tangible assets of our Group attributable to the equity holders of our Company as of December 31, 2013<sup>(1)</sup></b>	<b>Estimated net proceeds from the Global Offering<sup>(2)(5)</sup></b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the equity holders of our Company<sup>(3)</sup></b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the equity holders of our Company per share</b>	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB) <sup>(3)</sup>	(HK\$) <sup>(6)</sup>
Based on offer price of HK\$1.55 for each Offer Share. .	4,827.8	1,320.8	6,148.6	1.34	1.71
Based on offer price of HK\$2.05 for each Offer Share. .	4,827.8	1,756.2	6,584.0	1.44	1.83

- (1) The consolidated net tangible assets attributable to shareholders of the Company as of December 31, 2013 is based on the consolidated net assets attributable to the shareholders of the Company of RMB4,832.3 million as of December 31, 2013 after (i) deduction of intangible assets of RMB4.5 million; and (ii) adjusting the share of intangible assets attributable to non-controlling interests of RMB0.1 million.
- (2) The estimated net proceeds from the Global Offering are based on the offer prices of HK\$1.55 and HK\$2.05 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 4,580,000,000 shares are expected to be in issue following the Global Offering and the respective offer prices of HK\$1.55 and HK\$2.05 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 December 31, 2013.
- (5) The estimated net proceeds from the Global Offering are converted into Renminbi at the rate of RMB0.78623 to HK\$1.00, the exchange rate set by the PBOC prevailing on December 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 RMB0.78623 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.

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## FINANCIAL INFORMATION

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### **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 December 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.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See “Summary — Business Strategies” for a detailed discussion of our future plans.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$1.80 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$1.55 and HK\$2.05 per H Share), we estimate that we will receive net proceeds of approximately HK\$1,957.2 million from the Global Offering after deducting the underwriting commissions and other estimated expenses, if the Over-allotment Option is not exercised.

In line with our strategies, we intend to use our net proceeds from the Global Offering for the purposes and in the amounts (assuming the Over-allotment Option is not exercised) set forth below:

- approximately 70%, or HK\$1,370.1 million, will be used to increase the capital base of our micro and small loan business. We plan to expand our micro and small loan business and enhance its market position by establishing new micro and small loan subsidiaries across China;
- approximately 20%, or HK\$391.5 million, will be used to increase the capital base of our credit guarantee business. We plan to expand our credit guarantee business and enhance its competitive advantages through establishing new credit guarantee subsidiaries or branch offices across China; and
- approximately 10%, or HK\$195.6 million, will be used to (i) develop and offer new products and services to satisfy the diverse financing and business needs of SMEs and microenterprises, and (ii) replenish our working capital and for general corporate use.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds to us from the offering of these additional H Shares will be approximately HK\$138.7 million, after deducting the underwriting commissions and other estimated expenses, assuming an Offer Price of HK\$1.80 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$1.55 and HK\$2.05 per H Share). We intend to use all the additional net proceeds proportionately as earmarked above.

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## FUTURE PLANS AND USE OF PROCEEDS

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The allocation of the proceeds used for the above will be adjusted in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range. If the Offer Price is fixed at HK\$2.05 per H Share, being the high end of the stated Offer Share range, our net proceeds will be (i) increased by approximately HK\$276.9 million, assuming the Over-allotment Option is not exercised; and (ii) increased by approximately HK\$434.8 million, assuming the Over-allotment Option is exercised in full. In such circumstances, we presently intend to use such additional proceeds to increase the net proceeds applied to the same purposes above on a pro rata basis. If the Offer Price is fixed at HK\$1.55 per H Share, being the low end of the stated Offer Share range, our net proceeds will be (i) decreased by approximately HK\$276.9 million, assuming the Over-allotment Option is not exercised; and (ii) decreased by approximately HK\$157.4 million, assuming the Over-allotment Option is exercised in full. In such circumstances, we presently intend to reduce or increase the net proceeds applied to the same purposes on a pro rata basis.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, our Directors currently intend that such proceeds will be placed in short-term interest-bearing instruments such as bank deposits or money market funds with licensed banks or financial institutions in Hong Kong or the PRC.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### Joint Lead Managers

China International Capital Corporation Hong Kong Securities Limited  
China Galaxy International Securities (Hong Kong) Co., Limited  
Credit Suisse (Hong Kong) Limited  
GF Securities (Hong Kong) Brokerage Limited  
CIMB Securities Limited  
CCB International Capital Limited  
Haitong International Securities Company Limited  
ICBC International Securities Limited  
BOCOM International Securities Limited  
DBS Asia Capital Limited

### THE HONG KONG PUBLIC OFFERING

#### Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering 115,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price.

Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

#### *Grounds for Termination*

The Joint Global Coordinators (on behalf of themselves and the Hong Kong Underwriters) may in their absolute discretion, terminate the Hong Kong Underwriting Agreement with immediate effect by written notice to the Company at any time or prior to the commencement of trading in the H Shares on the Listing Date if:

- (a) any of the following shall have come to the notice of any of the Joint Global Coordinators or the Hong Kong Underwriters at any time after the date of the Hong Kong Underwriting Agreement:

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## UNDERWRITING

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- (i) that any statement contained in any of the Public Offer Documents or other Share Offer Documents (as defined in the Hong Kong Underwriting Agreement) was or has become untrue, incorrect or misleading in any material respect; or
- (ii) any matter which would, if the Public Offer Documents or other Share Offer Documents (as defined in the Hong Kong Underwriting Agreement) were issued at that time, constitute a material omission therefrom; or
- (iii) that any of the representations and warranties given by Loncin Group, Loncin Holdings, Huitai and our Company (“**Warrantors**”) in the Hong Kong Underwriting Agreement is (or would if repeated at that time be) untrue or breached in any material respect; or
- (iv) any event, act or omission which gives or is likely to give rise to any material liability of our Company or any of the other Warrantors pursuant to the indemnities in the Hong Kong Underwriting Agreement; or
- (v) any breach of any of the obligations of any party (other than the Joint Sponsors, the Joint Global Coordinators or the Hong Kong Underwriters) to the Hong Kong Underwriting Agreement, or any breach by any such party of any of the other specified documents defined in the Hong Kong Underwriting Agreement, which is, in the sole opinion of the Joint Global Coordinators, materially adverse in the context of the Global Offering; or
- (vi) any adverse change, or any development involving a prospective adverse change, in the condition (financial or otherwise) or in the earnings, business, operations or trading position or prospects of our Group as a whole, or any change in capital stock or long-term debt of our Company or our Group as a whole, or any loss or interference with the assets, operations or business of our Company or our Group as a whole from fire, explosion, flood or other calamity (whether or not covered by insurance) or from any labour dispute or court or governmental action, order or decree, which (in any such case) is not set forth or contemplated in this prospectus and the effect of which is, in the sole opinion of the Joint Global Coordinators, so material and adverse as to make it impracticable or inadvisable to proceed with the Hong Kong Public Offering and/or the Global Offering; or
- (vii) the materialization of any of the risks set out in the section of this prospectus captioned “Risk Factors”; or
- (viii) any claim, litigation, charge, proceeding or allegation in relation to, or having a potentially adverse impact on, our Company or our Group as a whole or this prospectus or the Hong Kong Public Offering or the Global Offering, the effect of which is, in the sole opinion of the Joint Global Coordinators, materially adverse in the context of the Global Offering; or

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## UNDERWRITING

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- (ix) any Director vacating his office, or any Director being charged with a criminal offence, or becoming the subject of or threatened with any investigation, claim, litigation, charge, proceeding or allegation which may result in him being disqualified from taking part in the management of the Company or the effect of which is, in the sole opinion of the Joint Global Coordinators, materially adverse in the context of the Global Offering; or
  - (x) that any certificate given by our Company, any of its officers, or any of the other Warrantors to any of the Joint Global Coordinators under or in connection with the Hong Kong Underwriting Agreement or the Global Offering is false or misleading in any material respect; or
  - (xi) any person (other than any of the Joint Sponsors or Joint Global Coordinators or other Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named as an expert in the Global Offer Documents, or to the issue of the Global Offer Documents; or
  - (xii) any petition being presented for the winding-up or liquidation of our Company or any of our subsidiaries, our Company or any of our subsidiaries making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries; or
  - (xiii) a prohibition on our Company for whatever reason from allotting or selling the H Shares (including the Over-allotment Option) pursuant to the terms of the Hong Kong Public Offering; or
- (b) there develops, occurs, or comes into force:
- (i) any event or series of events resulting in or representing a calamity or crisis, or a change or prospective change, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions or sentiments (including, without limitation, conditions and sentiments in stock and bond markets, money and foreign exchange markets and inter-bank markets) or currency exchange rates or controls in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union as a whole, Japan or Singapore (collectively the “**Relevant Jurisdictions**”); or
  - (ii) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or



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- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, economic or other sanctions, acts of God, epidemic or outbreak of infectious disease) in or affecting any of the Relevant Jurisdictions; or
- (iv) without limiting the foregoing, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism or any other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) the imposition or declaration of (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange or (B) any moratorium on or serious disruption of banking activities or foreign exchange trading or securities settlement or clearing services in or affecting any of the Relevant Jurisdictions; or
- (vi) the revocation or variation of any tax assessment or ruling on stamp duty or other tax matters obtained by our Company or any other member of our Group in connection with the Global Offering and/or the Reorganization; or
- (vii) any tax law or other change or development involving a change or prospective change in taxation in any of the Relevant Jurisdictions having an adverse effect, or prospective adverse effect, on the Hong Kong Public Offering and/or the Global Offering, our Company or the H Shares (or the transfer of any H Shares) or an investment in the H Shares;

and in the sole opinion of the Joint Global Coordinators, the relevant development, occurrence or other eventuality (A) is, will or may be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Group as a whole, or potential investors in H Shares, or (B) will or may make it impracticable or inadvisable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of H Shares on the Listing Date or (C) has or will or may have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged.

### ***Undertakings pursuant to the Hong Kong Listing Rules and Rule 10.07 Lock-Up***

#### ***(A) Undertaking by our Company***

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities may be issued by us or form the subject of any agreement to such an issue by us within six

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## UNDERWRITING

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months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules or pursuant to the Global Offering.

*(B) Undertaking by the Controlling Shareholders*

As required under Note 3 to Rule 10.07(2) of the Hong Kong Listing Rules, each of our Controlling Shareholders has issued an undertaking that until the date which is 12 months from the Listing Date: (i) when it, if and in circumstances permitted by relevant laws and rules including the Hong Kong Listing Rules, pledges or charges any Shares beneficially owned by it, it will immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of those Shares will be disposed of, it will immediately inform us of such indications.

*(C) Rule 10.07 Lock-Up*

Under Rule 10.07 of the Hong Kong Listing Rules, except as otherwise permitted under that rule, any of our Controlling Shareholders shall not: (a) in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (b) in the period of six months commencing on the date on which the period referred to under (a) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of our Company.

*Undertakings Pursuant to the Hong Kong Underwriting Agreement*

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months after the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange (the “**First Six-Month Period**”), we will not, and will procure that our subsidiaries will not (except pursuant to any transaction contemplated in this prospectus, or any issuance or allotment of shares by our subsidiaries or any change in the shareholdings of our subsidiaries which does not result in a change of control, or any pledge or charge over shares in our subsidiaries created in the ordinary course of our Group’s business), without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of themselves and the Hong Kong Underwriters):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or

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## UNDERWRITING

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warrant to purchase or subscribe for, make any short sale, lend, mortgage, assign or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally or repurchase, any of its share capital or any securities or any interest therein (including but not limited to any interest convertible into or exercisable or exchangeable for or that represent the right to receive such share capital or securities or any interest therein);

- (b) enter into any swap, derivative, lending, repurchase and mortgage or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities;
- (c) enter into any transaction with the same economic effect as any transaction specified above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction specified above,

in each case, whether any of the foregoing transactions is to be settled by delivery of H Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not such issue of H Shares or securities will be completed within such period).

### *Commission and Expenses*

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price in respect of all of the Hong Kong Offer Shares (excluding such Offer Shares reallocated to and from the Hong Kong Public Offering pursuant to the Hong Kong Underwriting Agreement).

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters). We will also pay an incentive fee of 0.7% of the aggregate Offer Price of all the Offer Shares finally included in the Global Offering to the Underwriters of the Global Offering.

The aggregate commissions and the maximum incentive fee, together with the listing fees, SFC transaction levy, the Hong Kong Stock Exchange trading fee and other expenses of us relating to the Global Offering are estimated to amount to approximately HK\$145.2 million (assuming an Offer Price of HK\$1.80 per Offer Share, which is the mid-point of our indicative price range for the Global Offering, and the Over-allotment Option is not exercised) in total.

Our Company has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

### *Hong Kong Underwriters' Interests in Our Company*

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company.

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## UNDERWRITING

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Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### THE INTERNATIONAL OFFERING

#### International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers for, or failing which to subscribe for themselves, their respective applicable proportions of the International Offer Shares being offered pursuant to the International Offering which are not taken up under the International Offering.

#### Over-allotment Option

We will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters during the 30-day period from the last day for the lodging of applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 80,000,000 additional H Shares, representing 7.0% of the H Shares initially available under the Global Offering, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of H Shares in the open

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## UNDERWRITING

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market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be sold under the Over-allotment Option, namely, 80,000,000 H Shares, which is 7.0% of the number of Offer Shares initially available under the Global Offering.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price;
- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

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## **UNDERWRITING**

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Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on the 30th day after the date of closing of the application lists under the Hong Kong Public Offering. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

### **INDEPENDENCE OF THE JOINT SPONSORS**

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 115,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the section entitled “The Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of 1,035,000,000 Offer Shares (subject to adjustment as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States to persons who are “qualified institutional buyers,” or QIBs, as defined in Rule 144A under the Securities Act of 1933 of the United States, as amended, and “qualified purchasers,” or QPs, within the meaning of Section 2(a)(51) of the United States Investment Company Act of 1940, as amended.

China International Capital Corporation Hong Kong Securities Limited, China Galaxy International Securities (Hong Kong) Co., Limited, Credit Suisse (Hong Kong) Limited and GF Securities (Hong Kong) Brokerage Limited are the Joint Global Coordinators. China International Capital Corporation Hong Kong Securities Limited, China Galaxy International Securities (Hong Kong) Co., Limited, Credit Suisse (Hong Kong) Limited, GF Securities (Hong Kong) Brokerage Limited, CIMB Securities Limited, CCB International Capital Limited, Haitong International Securities Company Limited, ICBC International Capital Limited, BOCOM International Securities Limited and DBS Asia Capital Limited are the Joint Bookrunners. China International Capital Corporation Hong Kong Securities Limited, China Galaxy International Securities (Hong Kong) Co., Limited, Credit Suisse (Hong Kong) Limited, GF Securities (Hong Kong) Brokerage Limited, CIMB Securities Limited, CCB International Capital Limited, Haitong International Securities Company Limited, ICBC International Securities Limited, BOCOM International Securities Limited and DBS Asia Capital Limited are the Joint Lead Managers for the Global Offering.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 25.11% of the enlarged registered share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 26.39% of the enlarged registered share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph entitled “The International Offering — Over-allotment Option” below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the paragraph entitled “The Hong Kong Public Offering — Reallocation” below.



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## STRUCTURE OF THE GLOBAL OFFERING

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### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

Our Company is initially offering 115,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 2.5% of the Company's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in “— Conditions of the Hong Kong Public Offering.”

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A and B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. Although the allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 57,500,000 Offer Shares for Pool A and 57,500,000 Offer Shares for Pool B. The Offer Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding 1% brokerage, 0.003% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding 1% brokerage, 0.003% SFC transaction levy and 0.005% Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).



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## STRUCTURE OF THE GLOBAL OFFERING

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Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. In addition, multiple or suspected multiple applications and any application for more than 57,500,000 Offer Shares, being the maximum number of Offer Shares initially comprised in pool B in the Hong Kong Public Offering, are liable to be rejected.

### **Reallocation**

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 115,000,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 345,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 460,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 575,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Joint Global Coordinators deem appropriate.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or the applicant (or any person for whose benefit he is making the application) has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.05 per H Share in addition to applicable brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section entitled "Pricing of the Global Offering" below, is less than the maximum price of HK\$2.05 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in "How to Apply for the Hong Kong Offer Shares."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### **THE INTERNATIONAL OFFERING**

#### **Number of Offer Shares offered**

Subject to reallocation as described above, the International Offering will consist of an aggregate of 1,035,000,000 Offer Shares to be offered by us.

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## STRUCTURE OF THE GLOBAL OFFERING

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### **Allocation**

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and its shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

### **Over-allotment Option**

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to 80,000,000 additional Offer Shares, representing 7.0% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 1.72% of the Company’s enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

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## STRUCTURE OF THE GLOBAL OFFERING

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### PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective investors under the International Offering will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, June 13, 2014, and in any event on or before Tuesday, June 17, 2014, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$2.05 per H Share and is expected to be not less than HK\$1.55 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective investors under the International Offering during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause notices to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.hanhua.com](http://www.hanhua.com) of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Company, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. Applicants under the Hong Kong Public Offering should note that in no

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## STRUCTURE OF THE GLOBAL OFFERING

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circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the Offer Price range is so reduced. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Global Coordinators, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of H Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The net proceeds of the Global Offering (after deduction of underwriting fees and other estimated expenses in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$1,680.4 million, assuming an Offer Price per H Share of HK\$1.55, or approximately HK\$2,234.1 million, assuming an Offer Price per H Share of HK\$2.05 (or if the Over-allotment Option is exercised in full, approximately HK\$1,799.8 million, assuming an Offer Price per H Share of HK\$1.55, or approximately HK\$2,392.0 million, assuming an Offer Price per H Share of HK\$2.05).

The Offer Price for H Shares under the Global Offering is expected to be announced on Wednesday, June 18, 2014.

The indications of interest in the Global Offering, the results of applications and the basis of allocation of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, June 18, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.hanhua.com](http://www.hanhua.com).

### HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in “Underwriting.”

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## STRUCTURE OF THE GLOBAL OFFERING

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### H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, June 19, 2014, it is expected that dealings in the Offer Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, June 19, 2014. Our H Shares will be traded in board lots of 2,000 H Shares each.

### CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional, among others on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option);
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

**If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed.**

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## STRUCTURE OF THE GLOBAL OFFERING

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The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in “How to Apply for the Hong Kong Offer Shares.” In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Wednesday, June 18, 2014 but will only become valid certificates of title at 8:00 a.m. on Thursday, June 19, 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in “Underwriting — Hong Kong Public Offering — Grounds for Termination” has not been exercised.



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### I. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### II. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### III. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, June 3, 2014 until 12:00 noon on Tuesday, June 10, 2014 from:

- (i) any of the following offices of the Joint Bookrunners:

**China International Capital Corporation Hong Kong Securities Limited**  
29/F, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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**China Galaxy International Securities (Hong Kong) Co., Limited**

Unit 3501-3507, 35/F  
Cosco Tower, Grand Millennium Plaza  
183 Queen's Road Central, Sheung Wan  
Hong Kong

**Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Center  
One Austin Road West, Kowloon  
Hong Kong

**GF Securities (Hong Kong) Brokerage Limited**

29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**CIMB Securities Limited**

Units 7706-08  
Level 77 International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**CCB International Capital Limited**

12/F., CCB Tower  
3 Connaught Road Central  
Central  
Hong Kong

**Haitong International Securities Company Limited**

22/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**ICBC International Capital Limited**

37/F, ICBC Tower  
3 Garden Road  
Hong Kong

**BOCOM International Securities Limited**

9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

**DBS Asia Capital Limited**

17th Floor, The Center  
99 Queen's Road Central  
Hong Kong

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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(ii) any of the branches of the following receiving banks:

### **Bank of China (Hong Kong) Limited**

	<b>Branch Name</b>	<b>Branch Address</b>
<b>Hong Kong Island</b>	Bank of China Tower Branch	3/F, 1 Garden Road
	North Point (King's Centre) Branch	193-209 King's Road North Point
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
<b>Kowloon</b>	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin
	East Point City Branch	Shop 101, East Point City, Tseung Kwan O
<b>New Territories</b>	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II
	Tai Po Branch	68-70 Po Heung Street, Tai Po Market

### **Wing Lung Bank Limited**

	<b>Branch Name</b>	<b>Branch Address</b>
<b>Hong Kong Island</b>	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
<b>Kowloon</b>	Lam Tin Sceneway Plaza Branch	Shop 59 3/F, Sceneway Plaza 8 Sceneway Road Lam Tin
	Sham Shui Po Branch	111 Tai Po Road
	Mongkok Branch	B/F Wing Lung Bank Centre 636 Nathan Road
<b>New Territories</b>	Shatin Plaza Branch	21 Shatin Centre Street
	Sheung Shui Branch	128 San Fung Avenue

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### Bank of Communications Co., Ltd. Hong Kong Branch

	<b>Branch Name</b>	<b>Branch Address</b>
<b>Hong Kong Island</b>	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
	Wanchai Sub-Branch	G/F., 32-34 Johnston Road
<b>Kowloon</b>	Kwun Tong Sub-Branch	Shop A, G/F., Hong Ning Court, 55 Hong Ning Road, Kwun Tong
	Mongkok Sub-Branch	Shops A & B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road
	Jordan Road Sub-Branch	1/F., Booman Building, 37U Jordan Road
<b>New Territories</b>	Shatin Sub-Branch	Shop No.193, Level 3, Lucky Plaza, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, June 3, 2014 until 12:00 noon on Tuesday, June 10, 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Bank of China (Hong Kong) Nominees Limited – Hanhua Financial Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

<b>Tuesday, June 3, 2014</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Wednesday, June 4, 2014</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Thursday, June 5, 2014</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Friday, June 6, 2014</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Saturday, June 7, 2014</b>	<b>– 9:00 a.m. to 1:00 p.m.</b>
<b>Monday, June 9, 2014</b>	<b>– 9:00 a.m. to 5:00 p.m.</b>
<b>Tuesday, June 10, 2014</b>	<b>– 9:00 a.m. to 12:00 noon</b>

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, June 10, 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

### IV. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (vi) agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **V. APPLYING THROUGH WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application to the **White Form eIPO** Service Provider at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, June 3, 2014 until 11:30 a.m. on Tuesday, June 10, 2014 and the latest time for

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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completing full payment of application monies in respect of such applications will be 12:00 noon, Tuesday, June 10, 2014 or such later time under the “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

### **No Multiple Applications**

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### **Environmental Protection**

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Hanhua Financial Holding Co., Ltd.” **White Form eIPO** application submitted via the website to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

## **VI. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Center  
2/F., Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our H Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - declare that only one set of electronic application instructions has been given for your benefit;

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### **Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### **Minimum Purchase Amount and Permitted Numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### **Time for Inputting Electronic Application Instructions**

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

<b>Tuesday, June 3, 2014</b>	<b>– 9:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Wednesday, June 4, 2014</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Thursday, June 5, 2014</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Friday, June 6, 2014</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Saturday, June 7, 2014</b>	<b>– 8:00 a.m. to 1:00 p.m.<sup>(1)</sup></b>
<b>Monday, June 9, 2014</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Tuesday, June 10, 2014</b>	<b>– 8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

CCASS Investor Participants can input electronic application instructions from 9:00 a.m., Tuesday, June 3, 2014 until 12:00 noon, Tuesday, June 10, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Tuesday, June 10, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

### **No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

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<sup>1</sup> These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the H Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### VII. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Tuesday, June 10, 2014.

### VIII. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange. “Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### IX. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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For further details on the Offer Price, see “Structure of the Global Offering — Pricing of the Global Offering.”

### X. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 10, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, June 10, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

### XI. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, June 18, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the Company’s website at [www.hanhua.com](http://www.hanhua.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at [www.hanhua.com](http://www.hanhua.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Wednesday, June 18, 2014;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, June 18, 2014 to 12:00 midnight Tuesday, June 24, 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, June 18, 2014 to Saturday, June 21, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, June 18, 2014 to Friday, June 20, 2014 at all the receiving bank branches and sub-branches.



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### **XII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES**

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.



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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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**(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### XIII. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.05 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, June 18, 2014.

### XIV. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Wednesday, June 18, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m., Thursday, June 19, 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### **(i) If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, June 18, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, June 18, 2014, by ordinary post and at your own risk.

#### **(ii) If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, June 18, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, June 18, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, June 18, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) If you apply through the White Form eIPO service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, June 18, 2014, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Wednesday, June 18, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

### **(iv) If you apply via Electronic Application Instructions to HKSCC**

#### ***Allocation of Hong Kong Offer Shares***

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, June 18, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Wednesday, June 18, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, June 18, 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, June 18, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, June 18, 2014.

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## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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### **XV. ADMISSION OF THE SHARES INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

June 3, 2014

The Directors  
Hanhua Financial Holding Co., Ltd.

China International Capital Corporation Hong Kong Securities Limited  
China Galaxy International Securities (Hong Kong) Co., Limited

Dear Sirs,

## **INTRODUCTION**

We set out below our report on the financial information relating to Hanhua Financial Holding Co., Ltd. (formerly known as “Hanhua Guarantee Co., Ltd.”) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of financial position of the Group and the statement of financial position of the Company as at December 31, 2011, 2012 and 2013 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated cash flow statements of the Group for each of the years ended December 31, 2011, 2012 and 2013 (the “Relevant Periods”), together with the explanatory notes thereto (the “Financial Information”), for inclusion in the prospectus of the Company dated June 3, 2014 (the “Prospectus”).

The Company was established in Chongqing, the People's Republic of China (the “PRC”) on July 28, 2004 as a limited liability company. In connection with a group reorganisation, as detailed in the section headed “History, Reorganization and Corporate Structure” in the Prospectus, the Company was converted into a joint stock limited liability company on March 13, 2013.

The Company has prepared statutory financial statements in accordance with the “Accounting Standards for Business Enterprises – Basic Standard” issued by the Ministry of Finance of the PRC on February 15, 2006, as well as 38 additional specific accounting standards, the Application Guide and Interpretation of Accounting Standards, and other

relevant regulation (collectively known as the “PRC GAAP”) (the “PRC Accounting Standard Financial Statements”). Chongqing Jinzhou Certified Public Accountants and Pan – China Certified Public Accountants (SGP) Chongqing Branch have acted as the statutory auditors of the Company and had audited the PRC Accounting Standard Financial Statements for each the years ended December 31, 2011 and December 31, 2012 respectively. KPMG Huazhen (SGP) has acted as the statutory auditor of the Company and has audited the PRC Accounting Standard Financial Statements for the year ended December 31, 2013.

All subsidiaries of the Company have adopted December 31 as their financial year end date. Details of the Company’s subsidiaries that were subject to audit during the Relevant Periods and the names of the respective auditors are set out in Section B Note 34. The statutory financial statements of these companies were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Underlying Financial Statements for each of the years ended December 31, 2011, 2012 and 2013 were audited by us under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

#### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

#### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any periods subsequent to December 31, 2013.



**OPINION**

In our opinion, the Financial Information gives, for the purpose of this report and on the basis of preparation set out in Section B Note 1(b) below, a true and fair view of the state of affairs of the Group and the Company as at December 31, 2011, 2012 and 2013 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

## A CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

## 1 Consolidated income statements

(Expressed in Renminbi "RMB")

	Section B Note	Years ended December 31,		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
Guarantee and consulting fee income		455,131	786,685	914,277
Re-guarantee expenses		(2,474)	(2,209)	(1,213)
Net guarantee and consulting fee income		452,657	784,476	913,064
Interest and handling fee income		472,081	437,867	781,403
Interest and commission expenses		(54,444)	(79,091)	(117,735)
Net interest and handling fee income		417,637	358,776	663,668
<b>Net fee and interest income</b>	2	870,294	1,143,252	1,576,732
Other revenue	3	123,125	29,616	43,961
Provisions for guarantee losses	23	(123,946)	(51,669)	(148,984)
Impairment losses	4	(43,531)	(130,068)	(294,367)
Administrative expenses		(249,392)	(356,370)	(703,896)
Other net losses	5(c)	(363)	(798)	(1,174)
<b>Profit before taxation</b>	5	576,187	633,963	472,272
Income tax	6	(99,997)	(116,116)	(115,524)
<b>Profit for the year</b>		<u>476,190</u>	<u>517,847</u>	<u>356,748</u>
<b>Attributable to:</b>				
Equity holders/shareholders of the Company		185,198	199,275	279,736
Non-controlling interests		290,992	318,572	77,012
<b>Profit for the year</b>		<u>476,190</u>	<u>517,847</u>	<u>356,748</u>
Earnings per share				
Basic and diluted (RMB)	11	<u>0.49</u>	<u>0.51</u>	<u>0.10</u>

The accompanying notes form part of the Financial Information.

## 2 Consolidated statements of comprehensive income

(Expressed in RMB)

	<i>Section B Note</i>	<b>Years ended December 31,</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the year</b>		<u>476,190</u>	<u>517,847</u>	<u>356,748</u>
<b>Other comprehensive income for the year (after tax and reclassification adjustments)</b>				
<b>Item that may be reclassified subsequently to profit or loss</b>				
Available-for-sale financial assets: net movement in the fair value reserve	10	<u>(57,800)</u>	<u>—</u>	<u>(305)</u>
<b>Total comprehensive income for the year</b>		<u><u>418,390</u></u>	<u><u>517,847</u></u>	<u><u>356,443</u></u>
<b>Attributable to:</b>				
Equity holders/shareholders of the Company		<u>159,188</u>	<u>199,275</u>	<u>279,431</u>
Non-controlling interests		<u>259,202</u>	<u>318,572</u>	<u>77,012</u>
<b>Total comprehensive income for the year</b>		<u><u>418,390</u></u>	<u><u>517,847</u></u>	<u><u>356,443</u></u>

The accompanying notes form part of the Financial Information.

**3 Consolidated statements of financial position***(Expressed in RMB)*

	<i>Section B</i>	<b>At December 31,</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets</b>				
Cash and cash equivalents	12	528,532	254,355	940,545
Restricted bank deposits	13	2,233,066	2,207,229	2,293,183
Trade and other receivables	14	71,889	310,339	254,435
Loans and advances to customers	16	1,616,934	1,961,599	4,579,902
Available-for-sale financial assets	17	–	10,000	9,593
Fixed assets	19	75,116	81,444	300,154
Intangible assets	20	891	631	4,530
Deferred tax assets	26(b)	90,746	142,336	245,620
<b>Total assets</b>		<b>4,617,174</b>	<b>4,967,933</b>	<b>8,627,962</b>
<b>Liabilities</b>				
Interest-bearing borrowings	21	735,362	880,550	966,740
Financial assets sold under repurchase agreement	22	51,352	222,304	797,959
Liabilities from guarantees	23	488,192	626,750	852,993
Customer pledged deposits	24(a)	1,070,051	446,929	78,182
Accruals and other payables	24(b)	151,556	169,545	332,868
Current tax liabilities	26(a)	116,131	113,816	140,861
<b>Total liabilities</b>		<b>2,612,644</b>	<b>2,459,894</b>	<b>3,169,603</b>
<b>NET ASSETS</b>		<b>2,004,530</b>	<b>2,508,039</b>	<b>5,458,359</b>
<b>CAPITAL AND RESERVES</b>	27			
Paid-in/share capital		300,000	300,000	3,430,000
Reserves		314,494	489,499	1,402,258
<b>Total equity attributable to equity holders/shareholders of the Company</b>		<b>614,494</b>	<b>789,499</b>	<b>4,832,258</b>
<b>Non-controlling interests</b>		<b>1,390,036</b>	<b>1,718,540</b>	<b>626,101</b>
<b>TOTAL EQUITY</b>		<b>2,004,530</b>	<b>2,508,039</b>	<b>5,458,359</b>

The accompanying notes form part of the Financial Information.

**4 Statement of financial position***(Expressed in RMB)*

	<i>Section B</i>	<b>At December 31,</b>		
		<b>2011</b>	<b>2012</b>	<b>2013</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets</b>				
Cash and cash equivalents	12	602	227	452
Restricted bank deposits	13	2,400	1,000	–
Trade and other receivables	14	17,112	31,064	6,377
Loans and advances to customers	16	27,280	–	–
Investment in Hanhua Guarantee	18	909,000	818,100	3,075,592
Investment in other subsidiaries	18	30,004	–	1,252,397
Fixed assets	19	351	263	326
Intangible assets	20	–	–	2,611
<b>Total assets</b>		<b>986,749</b>	<b>850,654</b>	<b>4,337,755</b>
<b>Liabilities</b>				
Interest-bearing borrowings	21	535,362	362,350	–
Liabilities from guarantees	23	278	4,166	171
Customer pledged deposits	24(a)	930	130	130
Accruals and other payables	24(b)	52,647	7,648	109,249
<b>Total liabilities</b>		<b>589,217</b>	<b>374,294</b>	<b>109,550</b>
<b>NET ASSETS</b>		<b>397,532</b>	<b>476,360</b>	<b>4,228,205</b>
<b>CAPITAL AND RESERVES</b>	27			
Paid-in/share capital		300,000	300,000	3,430,000
Reserves		97,532	176,360	798,205
<b>TOTAL EQUITY</b>		<b>397,532</b>	<b>476,360</b>	<b>4,228,205</b>

The accompanying notes form part of the Financial Information.

## 5 Consolidated statements of changes in equity

(Expressed in RMB)

	Attributable to equity holders of the Company					Total	Non-controlling interests	Total equity
	Paid-in capital	Capital reserve	Surplus reserve	General reserve	Retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Section B Note 27(c)	Section B Note 27(d)(ii)	Section B Note 27(d)(iii)	Section B Note 27(d)(iv)				
<b>Balance at January 1, 2011</b>	300,000	26,010	11,212	15,364	86,608	439,194	813,116	1,252,310
<b>Changes in equity for 2011:</b>								
Profit for the year	-	-	-	-	185,198	185,198	290,992	476,190
Other comprehensive income	-	(26,010)	-	-	-	(26,010)	(31,790)	(57,800)
Total comprehensive income	-	(26,010)	-	-	185,198	159,188	259,202	418,390
Purchase of equity interest of subsidiary from non-controlling interests	-	-	-	-	16,112	16,112	(100,112)	(84,000)
Capital injection in subsidiaries from non-controlling interests	-	-	-	-	-	-	498,220	498,220
Appropriation to surplus reserve	-	-	20,576	-	(20,576)	-	-	-
Appropriation to general reserve	-	-	-	47,908	(47,908)	-	-	-
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	(80,390)	(80,390)
<b>Balance at December 31, 2011</b>	<b>300,000</b>	<b>-</b>	<b>31,788</b>	<b>63,272</b>	<b>219,434</b>	<b>614,494</b>	<b>1,390,036</b>	<b>2,004,530</b>

The accompanying notes form part of the Financial Information.

## 5 Consolidated statements of changes in equity (continued)

(Expressed in RMB)

	Attributable to equity holders/shareholders of the Company							Non-controlling interests	Total equity
	Paid-in/ share capital	Capital/ share premium	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total		
	RMB'000 Section B Note 27(c)	RMB'000 Section B Note 27(d)(i)	RMB'000 Section B Note 27(d)(ii)	RMB'000 Section B Note 27(d)(iii)	RMB'000 Section B Note 27(d)(iv)	RMB'000	RMB'000		
<b>Balance at January 1, 2012</b>	300,000	–	–	31,788	63,272	219,434	614,494	1,390,036	2,004,530
<b>Changes in equity for 2012:</b>									
Profit for the year and total comprehensive income	–	–	–	–	–	199,275	199,275	318,572	517,847
Purchase/disposal of shares/equity interest in subsidiaries from/to non-controlling interests	–	–	–	–	–	(24,270)	(24,270)	85,170	60,900
Capital injection in subsidiaries from non-controlling interests	–	–	–	–	–	–	–	60,000	60,000
Appropriation to surplus reserve	–	–	–	18,334	–	(18,334)	–	–	–
Appropriation to general reserve	–	–	–	–	58,680	(58,680)	–	–	–
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	(135,238)	(135,238)
<b>Balance at December 31, 2012</b>	<b>300,000</b>	<b>–</b>	<b>–</b>	<b>50,122</b>	<b>121,952</b>	<b>317,425</b>	<b>789,499</b>	<b>1,718,540</b>	<b>2,508,039</b>
<b>Balance at January 1, 2013</b>	<b>300,000</b>	<b>–</b>	<b>–</b>	<b>50,122</b>	<b>121,952</b>	<b>317,425</b>	<b>789,499</b>	<b>1,718,540</b>	<b>2,508,039</b>
<b>Changes in equity for 2013</b>									
Profit for the year	–	–	–	–	–	279,736	279,736	77,012	356,748
Other comprehensive income	–	–	(305)	–	–	–	(305)	–	(305)
Total comprehensive income	–	–	(305)	–	–	279,736	279,431	77,012	356,443
Capital injection	1,276,128	909,973	–	–	–	(870)	2,185,231	(20,191)	2,165,040
Equity-settled share-based payment	–	–	144,202	–	–	–	144,202	–	144,202
Purchase equity interest from non-controlling interests	–	–	–	–	–	15,233	15,233	(89,781)	(74,548)
Business combination under common control	935,480	383,943	–	44,328	–	79,517	1,443,268	(1,443,268)	–
Capital injection in subsidiaries from non-controlling interests	–	–	(24,606)	–	–	–	(24,606)	526,597	501,991
Share capital increased by retained earnings transfer	125,549	–	–	–	–	(125,549)	–	–	–
Conversion into joint stock company	792,843	(657,201)	–	(50,122)	(50,122)	(35,398)	–	–	–
Appropriation to general reserve	–	–	–	–	108,179	(108,179)	–	–	–
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	(142,808)	(142,808)
<b>Balance at December 31, 2013</b>	<b>3,430,000</b>	<b>636,715</b>	<b>119,291</b>	<b>44,328</b>	<b>180,009</b>	<b>421,915</b>	<b>4,832,258</b>	<b>626,101</b>	<b>5,458,359</b>

The accompanying notes form part of the Financial Information.

**6 Consolidated cash flow statements**  
(Expressed in RMB)

	Section Note	Years ended December 31,		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
<b>Operating activities</b>				
Cash used in operations	12(b)	(857,584)	(207,747)	(2,001,093)
PRC income tax paid		(68,915)	(170,021)	(191,661)
<b>Net cash used in operating activities</b>		<u>(926,499)</u>	<u>(377,768)</u>	<u>(2,192,754)</u>
<b>Investing activities</b>				
Proceeds from disposal of investments		193,807	–	–
Dividends received		–	–	–
Proceeds from sale of fixed assets and other non-current assets		35	503	569
Payments for the purchase of fixed assets and intangible assets		(25,466)	(131,052)	(135,362)
Payments on acquisition of investments		–	(10,000)	–
<b>Net cash generated from/(used in) investing activities</b>		<u>168,376</u>	<u>(140,549)</u>	<u>(134,793)</u>
<b>Financing activities</b>				
Proceeds from capital injection		498,220	60,000	2,400,581
Proceeds from new borrowings		911,362	1,140,708	1,013,612
Proceeds from financial assets sold under repurchase agreement		189,859	369,713	829,121
Purchase of equity interest of subsidiaries from non-controlling interests		(84,000)	(30,000)	(74,548)
Repayment of borrowings		(456,000)	(878,641)	(660,972)
Interest paid		(30,059)	(72,830)	(91,999)
Dividends paid to non-controlling interests		(85,592)	(146,049)	(142,808)
Repurchase of assets with repurchase agreement		(220,007)	(198,761)	(253,466)
Cash paid for other financing activities		–	–	(5,784)
<b>Net cash generated from financing activities</b>		<u>723,783</u>	<u>244,140</u>	<u>3,013,737</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(34,340)</u>	<u>(274,177)</u>	<u>686,190</u>
<b>Cash and cash equivalents at January 1</b>		<u>562,872</u>	<u>528,532</u>	<u>254,355</u>
<b>Cash and cash equivalents at December 31</b>	12(a)	<u>528,532</u>	<u>254,355</u>	<u>940,545</u>

The accompanying notes form part of the Financial Information.



**B NOTES TO THE FINANCIAL INFORMATION**

*(Expressed in RMB'000 unless otherwise indicated)*

**1 SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes Hong Kong Accounting Standards (“HKASs”) and related interpretations, promulgated by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all applicable new and revised HKFRSs to the years ended December 31, 2011, 2012 and 2013 (the “Relevant Periods”), except for any new standards or interpretations that are not yet effective for the accounting period beginning January 1, 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning January 1, 2013 are set out in Note 33.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

**(b) Basis of preparation**

The Financial Information comprises the Company and its subsidiaries (together referred to as the “Group”).

The Company, which was previously known as Chongqing Hanhua Credit Guarantee Co., Ltd., was established as a limited liability company in Chongqing, PRC, in 2004. Since its establishment, a series of equity transfers and capital injections in the Company were conducted. Prior to the reorganisation as further described below, the Company was 100% owned by Loncin Holdings Co., Ltd. (“Loncin Holdings”), a company controlled by Mr. Tu Jianhua (“Mr. Tu”). On March 13, 2013, the Company was converted into a joint stock limited liability company and was renamed to Hanhua Financial Holding Co., Ltd.

The Group is principally engaged in the provision of credit guarantees and lending to small and medium-sized and micro enterprises (“SME lending”), and related consulting services across the PRC. During the Relevant Periods, the Group’s businesses were conducted mainly through Hanhua Guarantee Corporation Limited (“Hanhua Guarantee”) and its subsidiaries. Hanhua Guarantee was established as a joint stock limited liability company in the PRC on August 19, 2009 by the Company, Chongqing Huitai Investment Co., Ltd. (“Huitai”) and certain corporate and individual investors (the shareholders of Hanhua Guarantee other than the Company and Huitai are collectively referred to hereinafter as the “Other Shareholders”). Upon establishment, Hanhua Guarantee was legally owned as to 40.5% by the Company, 10.0% by Huitai and 49.5% by the Other Shareholders.

Huitai was established on July 15, 2009 as an investment holding company for the purpose of providing share incentive to the senior management of the Group. Upon establishment, Huitai was legally owned as to 50% each by two senior management members of the Group and would hold the equity interest (i.e. 10% at inception) in Hanhua Guarantee on behalf the Company and the Other Shareholders based on their respective equity interest in Hanhua Guarantee until the details of the share incentive scheme (see Note 25) had been worked out and the implementation of the scheme. The Company and the Other Shareholders provided Huitai the funding 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 interest in Hanhua Guarantee from the establishment of Hanhua Guarantee until the share incentive scheme was implemented. As a result, Hanhua Guarantee was controlled by Mr. Tu by virtue of his control over the Company through Loncin Holdings and Huitai, which collectively owned a majority equity interest in Hanhua Guarantee.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(b) Basis of preparation (continued)**

As detailed in the section headed "History, Reorganization and Corporate Structure" in the Prospectus, the Group underwent a reorganisation (the "Reorganisation") in February 2013 to rationalize its structure in preparation for the listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Immediately prior to the Reorganisation, Hanhua Guarantee was legally owned (directly and indirectly) as to 42.52% by the Company, 9.56% by Huitai and 47.92% by Other Shareholders. As part of the Reorganisation, each of the then existing shareholders of Hanhua Guarantee, other than the Company and Chongqing Huiwei Investment Co., Ltd. ("Chongqing Huiwei", a wholly owned subsidiary of the Company that held a 0.1% equity interest in Hanhua Guarantee), entered into an equity swap agreement under which the then existing shareholders, other than the Company and Chongqing Huiwei, exchanged their equity interest in Hanhua Guarantee for ordinary shares of the Company. Upon the completion of the share transfers as of February 25, 2013, the Company has 100% direct and indirect equity interest in Hanhua Guarantee. Immediately after the Reorganisation, Loncin Holdings and Huitai respectively held 43.40% and 9.76% equity interest in the Company. Accordingly, the Company continued to be under the control of Mr. Tu through Loncin Holdings and Huitai, which collectively owned a majority equity interest in the Company.

Since the Company and Hanhua Guarantee were controlled by Mr. Tu both before and after the Reorganisation, the increase in the Company's direct and indirect equity interest in Hanhua Guarantee from 42.52% to 100% is considered as a business combination of entities under common control as defined in Accounting Guideline 5, *Merger Accounting for Common Control Combinations*, issued by the HKICPA. Accordingly, the Financial Information has been prepared under the merger basis of accounting as if the common control combination had occurred before the beginning of the Relevant Periods notwithstanding that the Company did not obtain a controlling interest in Hanhua Guarantee until the completion of the Reorganisation in February 2013. The assets and liabilities of Hanhua Guarantee are consolidated using the historical book values from the perspective of Mr. Tu, the ultimate controlling shareholder. The equity interest in Hanhua Guarantee directly and indirectly attributable to the other corporate and individual shareholders for periods prior to the Reorganisation have been presented as non-controlling interests in the Group's Financial Information.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of the Group include the consolidated results of operations of the Company and Hanhua Guarantee, and their respective subsidiaries, for the Relevant Periods. The consolidated statements of financial position of the Group as at December 31, 2011, 2012 and 2013 have been prepared to present the consolidated assets and liabilities of the Company and Hanhua Guarantee, and their respective subsidiaries, as at the respective dates. All material intra-group transactions and balances have been eliminated in consolidation.

**(c) Basis of measurement**

The Financial Information is presented in RMB, rounded to the nearest thousand. It is prepared on the historical cost basis except for available-for-sale financial assets (see Note 1(j)) that are stated at their fair value and liabilities from guarantees (see Note 1(q)(i)).

**(d) Use of estimates and judgments**

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 32.

**(e) Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Subsidiaries and non-controlling interests (continued)**

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity holders/shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statements and the consolidated statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity/shareholders holders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statements of financial position in accordance with Notes 1(j) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the consolidated income statements. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(j)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(m)(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

**(f) Associates and joint ventures**

An associate is an entity in which the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see Note 1(m)(i)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

In all other cases, when the Company ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in income statement. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(j)).

**(g) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see Note 1(m)(ii)).

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour and borrowing costs (see Note 1(s)).

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Fixed assets (continued)**

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	<b>Estimated useful lives</b>
Buildings held for use	30-35 years
Motor vehicles	5 years
Office and other equipments	5 years
Leasehold improvements	1-5 years

Where parts of an item of fixed assets have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(h) Intangible assets**

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 1(m)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	<b>Estimated useful lives</b>
Software	2-10 years

Both the period and method of amortisation are reviewed annually.

**(i) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

**(i) Classification**

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

**(ii) Operating lease charges**

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Financial instruments****(i) Recognition and measurement of financial assets and liabilities**

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes 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 categorised as follows:

- Loans and receivables

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

- (a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;
- (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- (c) those where the Group 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 amortised 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 for 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 recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is reclassified to income statement.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

**(ii) Impairment of financial assets**

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of each reporting period to determine whether there is 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 impact on the estimated future cash flows of the asset, which can be estimated reliably.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Financial instruments (continued)****(ii) Impairment of financial assets (continued)**

Objective evidence includes the following loss event:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- significant changes in the technological, market, economic or legal environment that 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 recognised as follows:

- Loans and receivables

The Group uses 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 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 recognised 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 collateralised 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 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.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Financial instruments (continued)****(ii) Impairment of financial assets (continued)**

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 recognised, 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 amortised cost at the date of the reversal had the impairment not been recognised.

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

- Available-for-sale financial assets

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

Impairment losses recognised 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 recognised 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 recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

**(iii) 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 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, the Group considers 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.

The Group obtains market data from the same market where the financial instrument was originated or purchased.



**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Financial instruments (continued)****(iv) Derecognition of financial assets and financial liabilities**

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in the income statement.

**(v) Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

**(vi) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

**(k) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of borrowings, together with any interest and fees payable, using the effective interest method.

**(l) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.



**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) Impairment of non-financial assets****(i) Impairment of investments in subsidiaries, associates and joint venture**

Investments in subsidiaries, associates and joint venture are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the loss events in Note 1(j)(ii). When any such evidence exists, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 1(e) and Note 1(f). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(m)(ii).

**(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- Fixed assets; and
- Intangible assets.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in the income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

**(n) Employee benefits**

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave and defined contribution the Group makes pursuant to the relevant laws and regulations of the PRC are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations of the PRC, the Group's subsidiaries in the PRC have joined defined contributions for the employees, such as basic pension scheme, housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the above mentioned schemes at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to the income statement on an accrual basis.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) 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 recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised 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 utilised, are recognised. 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 forward. 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 utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation 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 utilised. 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 the Group has 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, the Group intends either to settle on a net basis, or to realise 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:
  - the same taxable entity; or
  - 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(p) Financial guarantees issued**

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (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.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(p) Financial guarantees issued (continued)**

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within liabilities from guarantees. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(q)(i) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in liabilities from guarantees in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

**(q) Provisions and contingent liabilities****(i) Provisions for guarantee losses**

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

**(ii) Provisions and contingent liabilities**

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(r) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

**(i) Guarantee and consulting fee income**

Guarantee income is recognised when guarantee contracts have been made 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. Guarantee income is determined based on the total agreed fee in the guarantee contracts and is recognised in the income statement over the period of guarantee. The Group receives consulting fee income in relation to guarantee services in full at inception and records it as unearned income before amortising it throughout the period of guarantee.

**(ii) Interest and handling fee income**

Interest income is recognised as it accrues using the effective interest method. The Group receives handling fee income from loan services in full at inception and records it as unearned income before amortising it throughout the contractual period of the loan.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(r) Revenue recognition (continued)****(iii) Dividends**

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

**(iv) Government grants**

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for providing guarantee services to SMEs under certain criteria are recognised as income in the income statement upon receiving such grants. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the assets and consequently are effectively recognised in the income statement over the useful life of the asset by way of reduced depreciation expense.

**(s) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**(t) Share-based payments**

The fair value of share awards granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at 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 recognised in prior years is charged /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 vesting date, the amount recognised 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 the company's shares.

**(u) Repossessed assets**

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortized. The impairment losses of initial measurement and subsequent revaluation are charged to the profit or loss.

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(v) Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party;
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) The entity is controlled or jointly controlled by a person identified in (a);
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(w) Segment reporting**

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 2 NET FEE AND INTEREST INCOME

The principal activities of the Group are the provision of credit guarantee and related consulting services, loans to customers and agency services in the PRC. Net fee and interest income represents net guarantee and consulting fee income and net interest and handling fee income. The amount of each significant category of net fee and interest income recognised is as follows:

	Years ended December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Guarantee and consulting fee income</b>			
Financing guarantee and consulting fee income	441,073	774,178	908,041
Performance guarantee and consulting fee income	8,824	10,453	5,447
Litigation guarantee and consulting fee income	5,234	2,054	789
	455,131	786,685	914,277
Less: Re-guarantee expenses	(2,474)	(2,209)	(1,213)
<b>Net guarantee and consulting fee income</b>	452,657	784,476	913,064
<b>Interest and handling fee income arising from:</b>			
– Loans and advances to customers	447,135	384,725	727,151
– Cash at banks	10,104	29,988	22,315
– Restricted bank deposits	14,842	23,154	31,937
	472,081	437,867	781,403
<b>Interest and commission expenses arising from:</b>			
– Borrowings from banks	(11,056)	(18,723)	(41,222)
– Borrowings from non-bank institutions	(26,629)	(32,876)	(17,562)
– Financial assets sold under repurchase agreements	(9,170)	(9,498)	(28,240)
– Commission paid to agents	(7,589)	(17,994)	(30,711)
	(54,444)	(79,091)	(117,735)
<b>Net interest and handling fee income</b>	417,637	358,776	663,668
	870,294	1,143,252	1,576,732

The Group's customer base is diversified and has no customer with whom transactions exceeded 10% of the Group's net fee and interest income during the Relevant Periods. Details of concentrations of credit risk are set out in Note 29(a).

Further details regarding the Group's principal activities are disclosed in Note 28.

**3 OTHER REVENUE**

	Years ended December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investment income from available-for-sale financial assets	91,307	–	–
Government grants	31,534	26,210	42,684
Others	284	3,406	1,277
	<u>123,125</u>	<u>29,616</u>	<u>43,961</u>

**4 IMPAIRMENT LOSSES**

	Years ended December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and other receivables (Note 14(b))	16,529	90,241	173,718
Loans and advances to customers (Note 16(f))	27,002	39,827	120,649
	<u>43,531</u>	<u>130,068</u>	<u>294,367</u>

**5 PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging:

**(a) Staff costs**

	Years ended December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages, bonuses and other benefits	82,304	127,528	201,117
Contributions to retirement schemes	11,492	19,644	30,215
Equity-settled share-based payment expenses	–	–	144,202
	<u>93,796</u>	<u>147,172</u>	<u>375,534</u>

The Group is required to participate in pension schemes organised by the respective municipal governments of the People's Republic of China (the "PRC") whereby the Group is required to pay annual contributions for PRC based employees at certain rate of the standard wages determined by the relevant authorities in the PRC during the year. The Group has no other material obligation for payment of retirement benefits to the PRC based employees beyond the annual contributions described above.

## 5 PROFIT BEFORE TAXATION (CONTINUED)

## (b) Other items

	Years ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Operating lease charges in respect of buildings	23,546	36,466	50,546
Depreciation expenses (Note 19)	10,597	14,789	21,093
Amortisation expenses (Note 20)	178	266	608
Auditors' remuneration	529	799	5,348
	<u>          </u>	<u>          </u>	<u>          </u>

## (c) Other net losses

	Years ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Net losses/(gain) on disposal of fixed assets	67	(228)	137
Others	296	1,026	1,037
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>

## 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS

## (a) Taxation in the consolidated income statements:

	Years ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Current tax (Note 26(a))</b>			
Provision for PRC income tax for the year	151,345	167,706	218,706
<b>Deferred tax (Note 26(b))</b>			
Origination and reversal of temporary differences	(51,348)	(51,590)	(103,182)
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>



## 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENTS (CONTINUED)

## (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Profit before taxation	576,187	633,963	472,272
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (Note)	93,021	105,205	68,352
Effect of PRC tax concessions	(2,169)	(3,329)	–
Effect of non-deductible expenses	3,402	13,638	3,690
Effect of unused tax losses not recognised	5,743	602	43,482
Actual income tax expense	99,997	116,116	115,524

*Note:*

Except for Hanhua Guarantee, Chongqing Hanhua Assets Management Co., Ltd., Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. and Sichuan Hanhua Financing Guarantee Co., Ltd., the Company and its subsidiaries are subject to PRC income tax rate of 25%.

Hanhua Guarantee, Chongqing Hanhua Assets Management Co., Ltd., and Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. are qualified enterprises located in the Western Region and are therefore entitled to preferential tax rate of 15% during the Relevant Periods. Sichuan Hanhua Financing Guarantee Co., Ltd. is a qualified enterprise located in the Western Region and is entitled to preferential tax rate of 15% for the years ended December 31, 2012 and 2013.



## 7 DIRECTORS' REMUNERATION (CONTINUED)

	Director's fees	Salaries allowances and benefits in kind	Discretionary bonuses	Sub-total	Share-based payments	Year ended December 31, 2013 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Chairman</b>						
Tu Minghai (Resigned on February 6, 2013)	-	-	-	-	-	-
Tu Jianhua (Appointed on February 6, 2013 and resigned on March 13, 2013)	-	-	-	-	-	-
Zhang Guoxiang (Appointed on March 13, 2013)	-	1,454	400	1,854	89,535	91,389
<b>Executive directors</b>						
Li Ruping (Resigned on March 13, 2013)	-	82	20	102	950	1,052
Lin Feng (Appointed on March 13, 2013)	-	800	280	1,080	7,658	8,738
<b>Non-executive directors</b>						
Tu Jianhua (Appointed on March 13, 2013)	-	-	-	-	-	-
Duan Xiaohua (Appointed on June 17, 2013)	-	-	-	-	-	-
Liu Jiaoyang (Appointed on March 13, 2013)	-	113	547	660	-	660
Liu Tingrong (Appointed on March 13, 2013)	-	-	-	-	-	-
Wang Fangfei (Appointed on March 13, 2013)	-	49	8	57	-	57
Feng Yongxiang (Appointed on March 13, 2013)	-	-	-	-	-	-
Zhou Xinyu (Appointed on June 17, 2013)	-	-	-	-	-	-
Liu Bolin (Appointed on June 17, 2013)	-	-	-	-	-	-
<b>Independent non-executive directors</b>						
Bai Qinxian (Appointed on March 13, 2013)	-	100	-	100	-	100
Deng Zhaoyu (Appointed on March 13, 2013)	-	100	-	100	-	100
Qian Shizheng (Appointed on June 17, 2013)	-	-	-	-	-	-
Ng Leung Sing (Appointed on June 17, 2013)	-	-	-	-	-	-
Yuan Xiaobin (Appointed on June 17, 2013)	-	-	-	-	-	-
<b>Supervisor</b>						
Li Changjin (Resigned on March 13, 2013)	-	168	40	208	-	208
Zhou Daoxue (Appointed on March 13, 2013)	-	-	-	-	-	-
Chen Zhonghua (Appointed on March 13, 2013)	-	145	300	445	-	445
Li Ruping (Appointed on March 13, 2013)	-	448	100	548	4,890	5,438
	-	3,459	1,695	5,154	103,033	108,187

There were no amounts paid during the Relevant Periods to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one is director of the Company for the years ended December 31, 2011 and 2012, and two are directors of the Company for the year ended December 31, 2013, whose emoluments are disclosed in Note 7.

The aggregate of the emoluments in respect of the remaining four individuals for the years ended December 31, 2011 and 2012, and the remaining three individuals for the year ended December 31, 2013, respectively, are as follows:

	Years ended December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowance and benefits in kind	1,803	1,895	2,904
Discretionary bonuses	780	1,040	1,020
Equity settled share-based payment expenses	–	–	17,016
	<u>2,583</u>	<u>2,935</u>	<u>20,940</u>

No emoluments are paid or payable to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

## 9 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS/SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders/shareholders of the Company includes a profit of RMB24.8 million, RMB78.8 million and a loss of RMB84.1 million for each of the years ended December 31, 2011, 2012 and 2013, respectively, which has been dealt with in the financial statements of the Company (see Note 27(a)).

## 10 OTHER COMPREHENSIVE INCOME

### (a) Tax effects relating to each component of other comprehensive income

	Years ended December 31,								
	2011			2012			2013		
	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Note 26(b))					(Note 26(b))		
Available- for-sale financial assets: net movement in fair value reserve	(68,000)	10,200	(57,800)	–	–	–	(407)	102	(305)

## 10 OTHER COMPREHENSIVE INCOME (CONTINUED)

## (b) Components of other comprehensive income, including reclassification adjustments

	Years ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets:			
Changes in fair value recognised during the year	19,811	–	(305)
Reclassification adjustments for amounts transferred to the consolidated income statement – gains on disposal	(77,611)	–	–
Net movement in the fair value reserve during the year recognised in other comprehensive income	<u>(57,800)</u>	<u>–</u>	<u>(305)</u>

## 11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders/shareholders of the Company and the weighted average of ordinary shares in issue for the Relevant Periods as follows:

	Years ended December 31,		
	2011	2012	2013
Profit attributable to the equity holders/shareholders of the Company (RMB'000)	185,198	199,275	279,736
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share ('000)	<u>378,164</u>	<u>389,753</u>	<u>2,803,463</u>
Basic earnings per share (RMB)	<u>0.49</u>	<u>0.51</u>	<u>0.10</u>

## 11 EARNINGS PER SHARE (CONTINUED)

## (i) Weighted average number of ordinary shares

	Years ended December 31,		
	2011	2012	2013
	'000	'000	'000
Issued ordinary shares at			
January 1	300,000	300,000	300,000
Effect of new issues	–	–	2,503,463
Effect of issue of shares to Huitai in exchange of interest in Hanhua Guarantee (Note)	78,164	89,753	–
Weighted average number of ordinary shares at December 31	<u>378,164</u>	<u>389,753</u>	<u>2,803,463</u>

*Note: This represents 90 million ordinary shares issued to Huitai in exchange of equity interest in Hanhua Guarantee held by Huitai on the Company's behalf as part of the Group's reorganisation in February 2013, which has been described in Note 1(b). For the purpose of calculation of earnings per share, such ordinary shares were included in the calculation of the weighted average number of ordinary shares for all periods presented, adjusted to reflect the changes in ownership interest in Hanhua Guarantee held by Huitai on behalf of the Company during the Relevant Periods.*

There were no dilutive potential ordinary shares during the Relevant Periods, and therefore, diluted earnings per share are the same as the basic earnings per share.

## 12 CASH AND CASH EQUIVALENTS

## (a) Cash and cash equivalents comprise:

**The Group**

	<b>At December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash in hand	236	246	288
Cash at banks	528,296	254,109	940,257
Cash and cash equivalents in the consolidated cash flow statements	<u>528,532</u>	<u>254,355</u>	<u>940,545</u>

**The Company**

	<b>At December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash in hand	82	20	7
Cash at banks	520	207	445
Cash and cash equivalents in the statement of financial position	<u>602</u>	<u>227</u>	<u>452</u>

The Group's operation of guarantees and loans to customers services in the PRC are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## 12 CASH AND CASH EQUIVALENTS (CONTINUED)

## (b) Reconciliation of profit before taxation to cash used in operating activities:

	Years ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Profit before taxation	576,187	633,963	472,272
Adjustments for:			
Impairment losses	43,531	130,068	294,367
Provisions for guarantee losses	123,946	51,669	148,984
Depreciation and amortisation	10,775	15,055	21,701
Losses/(gain) on disposal of fixed assets	67	(228)	137
Interest expenses	46,855	61,097	87,024
Investment income	(91,307)	–	–
Equity-settled share-based payment	–	–	144,202
Change in working capitals:			
(Increase)/decrease in restricted bank deposits	(1,367,299)	25,837	(85,954)
Increase in loans and advances to customers	(721,552)	(422,448)	(2,738,952)
Increase in trade and other receivables	(49,138)	(196,250)	(221,684)
Increase/(decrease) in customer pledged deposits	389,546	(623,122)	(368,747)
Increase in accruals and other payables	180,805	116,612	245,557
Cash used in operations	<u>(857,584)</u>	<u>(207,747)</u>	<u>(2,001,093)</u>

## 13 RESTRICTED BANK DEPOSITS

All restricted bank deposits represent the deposits at banks according to the requirements from banks or related government regulations for the credit guarantees that the Group provides to third parties for their borrowing from banks.

## 14 TRADE AND OTHER RECEIVABLES

## The Group

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade receivables and receivables for default payments ( <i>Note 14(a)</i> )	48,259	205,601	408,208
Less: allowance for doubtful debts ( <i>Note 14(b)</i> )	(24,529)	(114,770)	(288,488)
	23,730	90,831	119,720
Interest receivables	20,685	29,601	44,711
Amount due from related parties ( <i>Note 14(c)</i> )	5,202	27,988	–
Prepayments for purchase of a building for own use	–	109,654	–
Repossessed assets	–	–	12,565
Other prepayments, deposits and other receivables	22,272	52,265	77,439
	<u>71,889</u>	<u>310,339</u>	<u>254,435</u>



## 14 TRADE AND OTHER RECEIVABLES (CONTINUED)

As at December 31, 2011, 2012 and 2013, except for deposits of RMB8.4 million, RMB135.6 million and RMB17.2 million, respectively, all of the remaining trade and other receivables are expected to be recovered or recognised as expense within one year.

**The Company**

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Receivables for the default payment (Note 14(a))	7,304	–	–
Amounts due from related parties/ subsidiaries (Note 14(c))	5,202	27,988	–
Prepayments, deposits and other receivables	4,606	3,076	6,377
	<u>17,112</u>	<u>31,064</u>	<u>6,377</u>

All of the other trade and other receivables were expected to be recovered or recognised as expense within one year.

**(a) Ageing analysis:**

As of the end of the reporting period, the ageing analysis of trade receivables and receivables for default payments, based on the invoice date and net of allowance for doubtful debts, is as follows:

**The Group**

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	34,222	174,354	235,825
Over 1 year but less than 2 years	12,061	23,247	148,442
Over 2 years but less than 3 years	–	8,000	15,941
Over 3 years but less than 4 years	1,976	–	8,000
	<u>48,259</u>	<u>205,601</u>	<u>408,208</u>
Less: allowance for doubtful debts	(24,529)	(114,770)	(288,488)
	<u>23,730</u>	<u>90,831</u>	<u>119,720</u>

## 14 TRADE AND OTHER RECEIVABLES (CONTINUED)

## (a) Ageing analysis: (continued)

## The Company

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 1 year	1,267	–	–
Over 1 years but less than 2 years	4,061	–	–
Over 2 years but less than 3 years	–	–	–
Over 3 years but less than 4 years	1,976	–	–
	<u>7,304</u>	<u>–</u>	<u>–</u>

Receivables that were not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## (b) Impairment of trade receivables:

Impairment losses in respect of trade receivables and receivables for default payments are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and receivables for default payments directly (see Note 1(j)(ii)).

The movement in the allowance for doubtful debts during the Relevant Periods, including both specific and collective loss components, is as follows:

## The Group

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
At the beginning of the year	8,000	24,529	114,770
Impairment losses recognised in the consolidated income statements (Note 4)	16,529	90,241	173,718
At the end of the year	<u>24,529</u>	<u>114,770</u>	<u>288,488</u>

At December 31, 2011, 2012 and 2013, the Group's receivables for default payments of RMB40.7 million, RMB198.0 million and RMB405.1 million, respectively, were individually determined to be impaired. The individually impaired receivables were related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB24.5 million, RMB114.8 million and RMB288.5 million were made at December 31, 2011, 2012 and 2013 respectively.

## (c) Amounts due from related parties and subsidiaries

The amounts due from related parties and subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

## 15 LOANS TO OFFICERS

Loans to officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

## (a) Loans made by a third party under a guarantee given by the Company

Name of borrower	Lin Feng	Zhou Xiaochuan	Xie Jinfeng	Cui Weilan	Li Ruping
Position	Executive Director/Vice President	Vice President	Vice President	Secretary of the Board/Vice President	Supervisor/General Manager
Particulars of guarantee given ( <i>RMB'000</i> )	Guarantee given to financial institution in respect of a loan of 900	Guarantee given to financial institution in respect of a loan of 980	Guarantee given to financial institution in respect of a loan of 970	Guarantee given to financial institution in respect of a loan of 1,000	Guarantee given to financial institution in respect of a loan of 1,000
Maximum liability under the guarantee ( <i>RMB'000</i> )					
– at December 31, 2013	–	–	–	–	–
– at December 31, 2012	–	–	–	1,000	1,000
– at December 31, 2011	810	880	880	950	–
Amount paid or liability incurred under the guarantee	Nil	Nil	Nil	Nil	Nil

The guarantees are given without recourse to the directors and have expired by September 2013.

The directors do not consider it probable that a claim will be made against the Company under Guarantee.

## (b) Loans made by the Group

Name of borrower	Xie Jinfeng	Liu Jiaoyang	Chen Zhonghua	Li Changjin
Position	Vice President	Non-executive Director	Supervisor	Supervisor (Resigned on March 13, 2013)
Terms of the loans				
– duration	three months	1-1.5 years	six months-1.5 years	six months-one year
– loan amount ( <i>RMB'000</i> )	400	100	200	750
– interest rate	10%	5%	10%	10%-12%
– securities	None	Property	None	None
Balance of the loan ( <i>RMB'000</i> )				
– at December 31, 2013	–	–	–	–
– at December 31, 2012	–	–	–	90
– at December 31, 2011	–	33	52	205
Maximum balance outstanding ( <i>RMB'000</i> )				
– during 2013	–	–	–	90
– during 2012	–	33	52	355
– during 2011	400	100	100	467

There was neither amount due but unpaid, nor any provision made against the principal amount or interest on these loans at December 31, 2011, 2012 and 2013.

## 16 LOANS AND ADVANCES TO CUSTOMERS

## (a) Analysed by nature

## The Group

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Micro-lending	886,592	981,866	2,392,587
Retail loans	721,126	716,660	2,164,091
Loans to individual business proprietors	6,440	342,747	220,722
Loans to related parties	51,170	4,323	–
Gross loans and advances to customers	1,665,328	2,045,596	4,777,400
Less: Allowances for impairment losses			
– Individually assessed	(16,484)	(15,958)	(49,344)
– Collectively assessed	(31,910)	(68,039)	(148,154)
Total allowances for impairment losses	(48,394)	(83,997)	(197,498)
Net loans and advances to customers	1,616,934	1,961,599	4,579,902

Loans and advances to customers included loans under repurchase agreements, amounting to RMB50.0 million, RMB220.0 million and RMB794.0 million as at December 31, 2011, 2012 and 2013, respectively (See Note 22).

## The Company

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Micro-lending	27,280	–	–
Less: Allowances for impairment losses	–	–	–
Net loans and advances to customers	27,280	–	–

## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (b) Analysed by industry sector

**The Group**

	At December 31, 2011		At December 31, 2012		At December 31, 2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Wholesale and retail	614,635	36.91%	735,296	35.95%	1,913,045	40.04%
Manufacturing	445,245	26.74%	542,134	26.50%	669,401	14.01%
Real estate	38,800	2.33%	110,530	5.40%	604,910	12.66%
Construction	74,958	4.50%	94,011	4.60%	406,530	8.51%
Leasing and commercial services	61,761	3.71%	141,088	6.90%	197,703	4.14%
Others	378,759	22.74%	418,214	20.44%	985,811	20.64%
	1,614,158	96.93%	2,041,273	99.79%	4,777,400	100.00%
Loans to related parties	51,170	3.07%	4,323	0.21%	–	0.00%
Gross loans and advances to customers	1,665,328	100.00%	2,045,596	100.00%	4,777,400	100.00%
Less: Allowances for impairment losses	(48,394)		(83,997)		(197,498)	
Net loans and advances to customers	<u>1,616,934</u>		<u>1,961,599</u>		<u>4,579,902</u>	

**The Company**

	At December 31, 2011		At December 31, 2012		At December 31, 2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing	27,280	100.00%	–	–	–	–

## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (c) Analysed by type of collateral

**The Group**

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guaranteed loans	1,310,234	1,347,977	1,993,651
Unsecured loans	310,724	515,571	1,548,062
Secured loans	44,370	182,048	1,235,687
Gross loans and advances to customers	<u>1,665,328</u>	<u>2,045,596</u>	<u>4,777,400</u>
Less: Allowances for impairment losses			
– Individually assessed	(16,484)	(15,958)	(49,344)
– Collectively assessed	<u>(31,910)</u>	<u>(68,039)</u>	<u>(148,154)</u>
Total allowances for impairment losses	<u>(48,394)</u>	<u>(83,997)</u>	<u>(197,498)</u>
Net loans and advances to customers	<u><u>1,616,934</u></u>	<u><u>1,961,599</u></u>	<u><u>4,579,902</u></u>

**The Company**

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guaranteed loans	<u>27,280</u>	<u>–</u>	<u>–</u>

## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (d) Overdue loans analysed by overdue period

## The Group

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Overdue within 3 months (inclusive)	15,069	52,281	46,378
Overdue more than 3 months to 6 months (inclusive)	10,735	11,089	41,787
Overdue more than 6 months to one year (inclusive)	49,586	20,520	28,524
Overdue more than one year	27,769	20,117	33,165
	<u>103,159</u>	<u>104,007</u>	<u>149,854</u>

## The Company

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Overdue within 3 months (inclusive)	–	–	–
Overdue more than 3 months to 6 months (inclusive)	–	–	–
Overdue more than 6 months to one year (inclusive)	–	–	–
Overdue more than one year	27,280	–	–
	<u>27,280</u>	<u>–</u>	<u>–</u>

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Analysed by methods for assessing allowances for impairment losses

## The Group

	At December 31, 2011					
	Loans and advances for which allowances are collectively assessed	Impaired loans and advances			Subtotal	Total
		for which allowances are collectively assessed	for which allowances are individually assessed			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Micro-lending	826,913	5,669	54,010	59,679	886,592	
Retail Loans	711,340	2,427	7,359	9,786	721,126	
Loans to individual business proprietors	6,440	–	–	–	6,440	
Loans to related parties	51,170	–	–	–	51,170	
Gross of loans and advances to customers	1,595,863	8,096	61,369	69,465	1,665,328	
Less: Allowances for impairment losses	(24,675)	(7,235)	(16,484)	(23,719)	(48,394)	
Net loans and advances to customers	<u>1,571,188</u>	<u>861</u>	<u>44,885</u>	<u>45,746</u>	<u>1,616,934</u>	

## The Company

	At December 31, 2011					
	Loans and advances for which allowances are collectively assessed	Impaired loans and advances			Subtotal	Total
		for which allowances are collectively assessed	for which allowances are individually assessed			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Micro-lending	–	–	27,280	27,280	27,280	



## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Analysed by methods for assessing allowances for impairment losses (continued)

## The Group

	At December 31, 2012					
	Loans and advances for which allowances are collectively assessed	Impaired loans and advances			Subtotal	Total
		for which allowances are collectively assessed	for which allowances are individually assessed			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Micro-lending	940,947	22,557	18,362	40,919	981,866	
Retail Loans	694,221	11,729	10,710	22,439	716,660	
Loans to individual business proprietors	342,293	454	–	454	342,747	
Loans to related parties	4,323	–	–	–	4,323	
Gross of loans and advances to customers	1,981,784	34,740	29,072	63,812	2,045,596	
Less: Allowances for impairment losses	(37,241)	(30,798)	(15,958)	(46,756)	(83,997)	
Net loans and advances to customers	<u>1,944,543</u>	<u>3,942</u>	<u>13,114</u>	<u>17,056</u>	<u>1,961,599</u>	

## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Analysed by methods for assessing allowances for impairment losses (continued)

## The Group

	At December 31, 2013					
	Loans and advances for which allowances are collectively assessed	Impaired loans and advances			Subtotal	Total
		for which allowances are collectively assessed	for which allowances are individually assessed			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Micro-lending	2,317,863	31,202	43,522	74,724	2,392,587	
Retail Loans	2,118,300	29,561	16,230	45,791	2,164,091	
Loans to individual business proprietors	218,405	2,317	–	2,317	220,722	
Gross loans and advances to customers	4,654,568	63,080	59,752	122,832	4,777,400	
Less: Allowances for impairment losses	(93,931)	(54,223)	(49,344)	(103,567)	(197,498)	
Net loans and advances to customers	<u>4,560,637</u>	<u>8,857</u>	<u>10,408</u>	<u>19,265</u>	<u>4,579,902</u>	

## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (f) Movements of allowances for impairment losses

## The Group

	At December 31, 2011					
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances			Subtotal	Total
		which are collectively assessed	which are individually assessed			
		RMB'000	RMB'000	RMB'000		
As at January 1, 2011	11,980	3,679	7,618	11,297	23,277	
Charge for the year (Note 4)	12,695	5,441	8,866	14,307	27,002	
Write-offs	–	(1,885)	–	(1,885)	(1,885)	
As at December 31, 2011	<u>24,675</u>	<u>7,235</u>	<u>16,484</u>	<u>23,719</u>	<u>48,394</u>	
	At December 31, 2012					
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances			Subtotal	Total
		which are collectively assessed	which are individually assessed			
		RMB'000	RMB'000	RMB'000		
As at January 1, 2012	24,675	7,235	16,484	23,719	48,394	
Charge/(reversals) for the year (Note 4)	12,566	27,787	(526)	27,261	39,827	
Write-offs	–	(4,233)	–	(4,233)	(4,233)	
Recoveries	–	9	–	9	9	
As at December 31, 2012	<u>37,241</u>	<u>30,798</u>	<u>15,958</u>	<u>46,756</u>	<u>83,997</u>	

## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (f) Movements of allowances for impairment losses (continued)

## The Group (continued)

	At December 31, 2013					
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances			Subtotal	Total
		which are collectively assessed	which are individually assessed			
		RMB'000	RMB'000	RMB'000		
As at January 1	37,241	30,798	15,958	46,756	83,997	
Charge for the year (Note 4)	56,690	30,573	33,386	63,959	120,649	
Write-offs	–	(7,423)	–	(7,423)	(7,423)	
Recoveries	–	275	–	275	275	
As at December 31	<u>93,931</u>	<u>54,223</u>	<u>49,344</u>	<u>103,567</u>	<u>197,498</u>	

## (g) Analysed by credit quality

## The Group

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Gross balance of loans and advances to customers			
Neither past due nor impaired	1,543,029	1,941,589	4,627,546
Overdue but not impaired	52,834	40,195	27,022
Impaired	69,465	63,812	122,832
	<u>1,665,328</u>	<u>2,045,596</u>	<u>4,777,400</u>
Less: allowances for impairment losses			
Neither past due nor impaired	(22,738)	(32,194)	(90,296)
Overdue but not impaired	(1,937)	(5,047)	(3,635)
Impaired	(23,719)	(46,756)	(103,567)
	<u>(48,394)</u>	<u>(83,997)</u>	<u>(197,498)</u>
Net balance			
Neither past due nor impaired	1,520,291	1,909,395	4,537,250
Overdue but not impaired	50,897	35,148	23,387
Impaired	45,746	17,056	19,265
	<u>1,616,934</u>	<u>1,961,599</u>	<u>4,579,902</u>

## 16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## (g) Analysed by credit quality (continued)

## The Company

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Gross and net balance of loans and advances to customers			
Neither past due nor impaired	–	–	–
Overdue but not impaired	27,280	–	–
Impaired	–	–	–
	<u>27,280</u>	<u>–</u>	<u>–</u>

## 17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

## The Group

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Unlisted available-for-sale equity instruments	–	10,000	9,593
	<u>–</u>	<u>10,000</u>	<u>9,593</u>

At December 31, 2012 and 2013, available-for-sale equity instruments were all unlisted securities.

## 18 INVESTMENTS IN HANHUA GUARANTEE AND OTHER SUBSIDIARIES

## The Company

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Investment in Hanhua Guarantee	909,000	818,100	3,075,592
Investment in other subsidiaries	30,004	–	1,252,397
	<u>909,000</u>	<u>818,100</u>	<u>3,075,592</u>
	<u>30,004</u>	<u>–</u>	<u>1,252,397</u>

As detailed in Note 1(b), Hanhua Guarantee was established by the Company, Huitai and the Other Shareholders on August 19, 2009. Upon establishment of Hanhua Guarantee and until August 2011, the Company had significant influence over the management of Hanhua Guarantee and accounted for it as an associate on the Company's statement of financial position. As described in Note 1(b), upon establishment, 10% equity interest in Hanhua Guarantee was held by Huitai on behalf of the Company and the Other Shareholders based on their respective equity interest in Hanhua Guarantee. In addition, Mr. Tu was given the right to determine all significant matters related to Huitai including Huitai's voting rights in respect of its equity interest in Hanhua Guarantee. Accordingly, Mr. Tu had control while the Company had significant influence over Hanhua Guarantee upon its establishment. On August 26, 2011, the Company and Huitai entered into an agreement pursuant to which the Company and Huitai agreed to act in concert with respect to all significant matters of Hanhua Guarantee. As a result, Hanhua Guarantee became jointly controlled by the Company and Huitai and was accounted for as a joint venture for the purpose of the Company's statement of financial position. In connection with the Reorganisation as further described in Note 1(b), Hanhua Guarantee became a subsidiary of the Company on February 25, 2013.

## 18 INVESTMENTS IN HANHUA GUARANTEE AND OTHER SUBSIDIARIES (CONTINUED)

In accordance with the accounting policies of the Company as disclosed in Note 1(e) and (f), the investment in Hanhua Guarantee is stated at cost less impairment losses in the Company's statement of financial position. Please refer to Note 1(b) for a discussion of the basis of preparation of the Financial Information of the Group on a consolidated basis.

The following list contains the information of the Company's subsidiaries as at December 31, 2013.

	Place and date of incorporation/ establishment	Equity interest held by the Group			Particulars of registered and paid in capital as at December 31, 2013	Principal activity
		At December 31,				
		2011	2012	2013		
		(Note (ii))			RMB'000	
Sichuan Hanhua Financing Guarantee Co., Ltd. (四川瀚華融資擔保有限公司) (Note (i)), (Note (iii))	Chengdu May 19, 2005	47.24%	42.52%	100.00%	500,000	Financial guarantee
Beijing Hanhua Financing Guarantee Co., Ltd. (北京瀚華融資擔保有限公司) (Note (i)), (Note (iii))	Beijing August 11, 2006	47.24%	42.52%	100.00%	300,000	Financial guarantee
Liaoning Hanhua Investment Guarantee Co., Ltd. (遼寧瀚華投資擔保有限公司) (Note (i)), (Note (iii))	Shenyang August 25, 2006	47.24%	42.52%	100.00%	300,000	Financial guarantee
Guiyang Hanhua Investment Guarantee Co., Ltd. (貴陽瀚華投資擔保有限公司) (Note (i)), (Note (iv))	Guiyang September 7, 2006	100.00%	N/A	N/A	–	Financial guarantee
Chongqing Hanhua Assets Management Co., Ltd. (重慶瀚華資產管理有限公司) (Note (i)), (Note (iii))	Chongqing May 29, 2007	47.24%	42.52%	100.00%	100,000	Assets management
Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. (重慶市渝中區瀚華小額貸款有限責任公司) (Note (i)), (Note (v))	Chongqing September 25, 2008	18.90%	27.64%	56.00%	500,000	SME lending
Sichuan Hanhua Micro-credit Co., Ltd. (四川瀚華小額貸款有限公司) (Note (i)), (Note (vi))	Chengdu May 19, 2009	40.95%	36.85%	76.00%	500,000	SME lending
Hanhua Guarantee (瀚華擔保股份有限公司) (Note (i))	Chongqing August 19, 2009	47.24%	42.52%	100.00%	3,000,000	Financial guarantee
Sichuan Small & Medium-sized Assets Management Co., Ltd. (四川中微資產管理有限公司) (Note (i)), (Note (iii))	Chengdu October 21, 2010	47.24%	42.52%	100.00%	200,000	Assets management
Tianjin Hanhua Micro-credit Co., Ltd. (天津瀚華小額貸款有限公司) (Note (i)), (Note (iii))	Tianjin June 29, 2011	47.24%	42.52%	100.00%	100,000	SME lending
Shenyang Financial and Commercial Development District Hanhua Technology Micro-credit Co., Ltd. (瀋陽金融商貿開發區瀚華科技小額貸款有限公司) (Note (i)), (Note (vii))	Shenyang September 30, 2011	23.15%	31.68%	100.00%	300,000	SME lending
Tianjin Small & Medium-sized International Factoring Co., Ltd. (天津中微國際保理有限公司) (Note (i)), (Note (iii))	Tianjin November 11, 2011	47.24%	42.52%	100.00%	10,000	Investment consulting
Nanning Hanhua Micro-credit Co., Ltd. (南寧市瀚華小額貸款有限公司) (Note (i)), (Note (iii))	Nanning December 8, 2011	47.24%	42.52%	100.00%	150,000	SME lending
Beijing Hanhua Credit Management Co., Ltd. (北京瀚華信用管理有限公司) (Note (i)), (Note (iii))	Beijing March 15, 2012	–	42.52%	100.00%	5,000	Investment consulting
Chongqing Huiwei Investment Co., Ltd. (重慶惠微投資有限公司) (Note (i))	Chongqing January 7, 2013	–	–	100.00%	3,000	Investment consulting
Changchun Hanhua Micro-credit Co., Ltd. (長春市瀚華小額貸款有限公司) (Note (i))	Changchun January 25, 2013	–	–	60.00%	150,000	SME lending
Xi'an Hanhua Micro-credit Co., Ltd. (西安市瀚華小額貸款有限公司) (Note (i))	Xi'an September 12, 2013	–	–	65.00%	400,000	SME lending
Beijing Hanhua Internet Technology Co., Ltd. (北京瀚華網絡科技有限公司) (Note (i))	Beijing October 11, 2013	–	–	100.00%	10,000	Technical consulting and technical service
Kunming Panlong District Hanhua Micro-credit Co., Ltd. (昆明市盤龍區瀚華小額貸款有限公司) (Note (i))	Kunming December 6, 2013	–	–	100.00%	200,000	SME lending

All of the above subsidiaries are incorporated and operated in the PRC.

## 18 INVESTMENTS IN HANHUA GUARANTEE AND OTHER SUBSIDIARIES (CONTINUED)

*Notes:*

- (i) *The English translation of the names of these companies is for reference only. The official names of these companies are in Chinese.*
- (ii) *It included the equity interest in the subsidiaries directly and indirectly held by Huitai on behalf of the Company. (See Note 1(b))*
- (iii) *These entities were wholly owned subsidiaries of Hanhua Guarantee or Hanhua Guarantee's subsidiary since its establishment and before the Reorganisation.*
- (iv) *Guiyang Hanhua Investment Guarantee Co., Ltd, which was a wholly owned subsidiary in the year ended December 31, 2011, was liquidated on July 11, 2012.*
- (v) *Pursuant to the Articles of Association of Chongqing Yuzhong Hanhua Micro-credit Co., Ltd. ("Chongqing Yuzhong"), Hanhua Guarantee and Sichuan Small & Medium-sized Assets Management Co., Ltd. had 60% voting right of the Board of Directors of Chongqing Yuzhong as at December 31, 2011 and 2012 respectively.*
- (vi) *Pursuant to the Articles of Association of Sichuan Hanhua Micro-credit Co., Ltd. ("Sichuan Hanhua Micro-credit"), Hanhua Guarantee, Sichuan Hanhua Financing Guarantee Co., Ltd. and Chongqing Hanhua Assets Management Co., Ltd. had 57.14% voting right of the Board of Directors of Sichuan Hanhua Micro-credit as at December 31, 2011 and 2012 respectively.*
- (vii) *Pursuant to the Articles of Association of Shenyang Financial and Commercial Development District Hanhua Technology Micro-credit Co., Ltd. ("Shenyang Hanhua Micro-credit"), Hanhua Guarantee, Liaoning Hanhua Investment Guarantee Co., Ltd. and Sichuan Small & Medium-sized Assets Management Co., Ltd. had 100.0% voting right of the Board of Directors of Shenyang Hanhua Small Loan since its inception in 2011 and before the Reorganisation.*

## 19 FIXED ASSETS

## The Group

	Buildings held for own use	Motor vehicles	Office and other equipments	Leasehold improvements	Construction in process	Total fixed assets
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>						
At January 1, 2011	41,438	10,637	7,958	7,523	254	67,810
Additions	–	7,237	6,774	10,964	–	24,975
Disposals	–	(282)	(241)	–	–	(523)
<b>At December 31, 2011 and January 1, 2012</b>	41,438	17,592	14,491	18,487	254	92,262
Additions	–	3,768	6,218	11,141	265	21,392
Disposals	–	(1,413)	(45)	–	–	(1,458)
<b>At December 31, 2012 and January 1, 2013</b>	41,438	19,947	20,664	29,628	519	112,196
Additions	213,708	4,373	6,712	8,295	7,421	240,509
Transfers in/(out)	–	–	3,673	–	(3,673)	–
Disposals	–	(1,130)	(943)	–	–	(2,073)
<b>At December 31, 2013</b>	255,146	23,190	30,106	37,923	4,267	350,632
<b>Accumulated depreciation:</b>						
At January 1, 2011	–	(2,694)	(2,293)	(1,983)	–	(6,970)
Charge for the year	(1,202)	(2,594)	(2,036)	(4,765)	–	(10,597)
Written back on disposals	–	268	153	–	–	421
<b>At December 31, 2011 and January 1, 2012</b>	(1,202)	(5,020)	(4,176)	(6,748)	–	(17,146)
Charge for the year	(1,202)	(3,476)	(3,259)	(6,852)	–	(14,789)
Written back on disposals	–	1,160	23	–	–	1,183
<b>At December 31, 2012 and January 1, 2013</b>	(2,404)	(7,336)	(7,412)	(13,600)	–	(30,752)
Charge for the year	(2,952)	(4,049)	(4,487)	(9,605)	–	(21,093)
Written back on disposals	–	621	746	–	–	1,367
<b>At December 31, 2013</b>	(5,356)	(10,764)	(11,153)	(23,205)	–	(50,478)
<b>Net book value:</b>						
<b>At December 31, 2011</b>	40,236	12,572	10,315	11,739	254	75,116
<b>At December 31, 2012</b>	39,034	12,611	13,252	16,028	519	81,444
<b>At December 31, 2013</b>	249,790	12,426	18,953	14,718	4,267	300,154



## 19 FIXED ASSETS (CONTINUED)

## The Company

	Motor vehicles	Office and other equipments	Construction in process	Total fixed assets
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>				
At January 1, 2011	1,277	37	–	1,314
Additions	–	25	–	25
<b>At December 31, 2011, January 1, 2012 and December 31, 2012, January 1, 2013</b>				
	1,277	62	–	1,339
Additions	–	–	940	940
Transfers to intangible assets	–	–	(788)	(788)
<b>At December 31, 2013</b>				
	1,277	62	152	1,491
<b>Accumulated depreciation:</b>				
At January 1, 2011	(830)	(23)	–	(853)
Charge for the year	(128)	(7)	–	(135)
<b>At December 31, 2011 and January 1, 2012</b>				
	(958)	(30)	–	(988)
Charge for the year	(80)	(8)	–	(88)
<b>At December 31, 2012 and January 1, 2013</b>				
	(1,038)	(38)	–	(1,076)
Charge for the year	(81)	(8)	–	(89)
<b>At December 31, 2013</b>				
	(1,119)	(46)	–	(1,165)
<b>Net book value:</b>				
<b>At December 31, 2011</b>	<u>319</u>	<u>32</u>	<u>–</u>	<u>351</u>
<b>At December 31, 2012</b>	<u>239</u>	<u>24</u>	<u>–</u>	<u>263</u>
<b>At December 31, 2013</b>	<u>158</u>	<u>16</u>	<u>152</u>	<u>326</u>

## 20 INTANGIBLE ASSETS

**The Group**

All intangible assets of the Group are software during Relevant Periods.

	<b>At December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost</b>			
At the beginning of the year	953	1,444	1,450
Additions	491	6	4,507
<b>At the end of the year</b>	1,444	1,450	5,957
<b>Less: Accumulated amortisation</b>			
At the beginning of the year	(375)	(553)	(819)
Charge for the year	(178)	(266)	(608)
<b>At the end of the year</b>	(553)	(819)	(1,427)
<b>Net book value</b>			
<b>At the end of the year</b>	891	631	4,530
<b>At the beginning of the year</b>	578	891	631

**The Company**

	<b>At December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost</b>			
At the beginning of the year	–	–	–
Additions	–	–	2,718
<b>At the end of the year</b>	–	–	2,718
<b>Less: Accumulated amortisation</b>			
At the beginning of the year	–	–	–
Charge for the year	–	–	(107)
<b>At the end of the year</b>	–	–	(107)
<b>Net book value</b>			
<b>At the end of the year</b>	–	–	2,611
<b>At the beginning of the year</b>	–	–	–

## 21 INTEREST-BEARING BORROWINGS

The Group's interest-bearing borrowings are analysed as follows:

**The Group**

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bank loans ( <i>Note (i)</i> )			
– Guaranteed by third parties	85,000	312,500	440,000
– Secured by properties of the Group ( <i>Note (ii)</i> )	–	–	97,000
– Unsecured	115,000	168,500	167,240
	200,000	481,000	704,240
Loans from related parties ( <i>Note (iii)</i> )			
– Unsecured	505,362	324,600	20,000
Other loans ( <i>Note (iv)</i> )			
– Unsecured	30,000	74,950	242,500
	735,362	880,550	966,740

**The Company**

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Loans from related parties ( <i>Note (iii)</i> )			
– Unsecured	505,362	287,400	–
Other loans ( <i>Note (iv)</i> )			
– Unsecured	30,000	74,950	–
	535,362	362,350	–

Details of the repayment schedule of the Group's interest-bearing borrowings are set out in Note 29(c).

*Notes:*

- (i) All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 29(c). At December 31, 2011, 2012 and 2013, none of covenants relating to the bank loans had been breached.
- (ii) The bank loans are secured by the Group's buildings held for own use. The aggregate carrying value of the secured properties amounted to RMB211.9 million as at December 31, 2013.
- (iii) Loans from related parties bear interest at a range from 6% to 15% per annum, are unsecured and are repayable by March 15, 2014. Part of the loan, with an amount of RMB266.5 million, was converted into the registered capital of the Company on February 3, 2013.
- (iv) Other loans bear interest at a range from 8% to 18% per annum, are unsecured and are repayable by May 30, 2015.

## 22 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENT

## The Group

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Benefit rights of loans and advances to customers	51,352	222,304	797,959

Details of the carrying values of underlying assets of financial assets under repurchased agreement are set out in Note 16(a).

## 23 LIABILITIES FROM GUARANTEES

## The Group

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred income	259,646	346,535	423,794
Provisions for guarantee losses (Note 23(a))	228,546	280,215	429,199
	488,192	626,750	852,993

## The Company

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred income	–	4,039	44
Provisions for guarantee losses (Note 23(a))	278	127	127
	278	4,166	171

## (a) Provisions for guarantee losses

## The Group

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	104,600	228,546	280,215
Charge for the year	141,903	142,063	322,702
Transfers out	(17,957)	(90,394)	(173,718)
At the end of the year	228,546	280,215	429,199

## 23 LIABILITIES FROM GUARANTEES (CONTINUED)

## (a) Provisions for guarantee losses (continued)

## The Company

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	2,632	278	127
Transfers out	(2,354)	(151)	–
At the end of the year	<u>278</u>	<u>127</u>	<u>127</u>

## 24 CUSTOMER PLEDGED DEPOSITS AND ACCRUALS AND OTHER PAYABLES

## (a) Customer pledged deposits

Customer pledged deposits refer to deposits received from customers as collateral security of the credit guarantee issued by the Group. These deposits are interest-free, and will be returned to customers after the guarantee contracts expire.

## (b) Accruals and other payables

## The Group

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accrued staff cost			
– Salaries, wages, bonuses and other benefits	24,968	30,518	62,670
– Contribution to retirement scheme	8	51	51
Interest payables	19,428	7,695	2,720
Other payables	5,312	4,986	19,362
Financial liabilities measured at amortised cost	49,716	43,250	84,803
Business tax and other surcharges payable	6,020	9,216	16,688
Receipts in advance	95,820	117,079	231,377
Total	<u>151,556</u>	<u>169,545</u>	<u>332,868</u>

## The Company

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest payables	18,997	6,197	–
Amount due to subsidiaries	32,894	–	99,430
Other accruals and payables	756	1,451	9,819
Total	<u>52,647</u>	<u>7,648</u>	<u>109,249</u>

## 25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

As described in Note 1(b), Huitai was established as the Group's vehicle for implementing a share-based incentive scheme (the "Share Incentive Scheme") to provide share incentive to the senior management of the Group. On June 20, 2013 (the "Grant Date"), details of the Share Incentive Scheme were finalised under which 15 directors, supervisors and senior management of the Company (the "Grantees") were granted entitlement to shares of the Company through their equity interest in Huitai (the "share awards") at a discounted price. The share awards would vest in installments on a monthly basis over the 8-year service period from January 1, 2013 to December 31, 2020. When a Grantee terminates his/her employment with the Group, any unvested portion of benefits will be reallocated to the remaining Grantees in proportion to their then respective interests in Huitai.

Huitai held 7.88% of the equity interest of the Company on the Grant Date for the purpose of the Share Incentive Scheme and did not carry out any other business.

## (a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions
Awards granted to directors and supervisors:		
– on June 20, 2013	193,918,615	Every month from January 1, 2013 to December 31, 2020
Awards granted to employees:		
– on June 20, 2013	76,351,233	Every month from January 1, 2013 to December 31, 2020
Total share awards granted	<u>270,269,848</u>	

## (b) The number and weighted average exercise prices of share awards are as follows:

	Year ended December 31, 2013	
	<i>Weighted average exercise price</i> RMB	<i>Number of shares</i>
Outstanding at the beginning of the year	–	–
Granted during the year	0.42	270,269,848
Exercised during the year	–	–
Outstanding at the end of the year	0.42	<u>270,269,848</u>
Exercisable at the end of the year	0.42	33,783,731

## (c) Fair value of share awards and assumptions

The fair value of services received in return for share awards granted is measured by reference to the fair value of share awards granted. The Company accounts for the Share Incentives Scheme on the basis of the pool of shares granted rather than treating the individual Grantee as the unit of account. The fair value of the total pool of shares is measured at the Grant Date with the non-vesting condition effectively ignored for valuation purposes. Subsequent forfeitures and reallocations would have no effect on the accounting treatment and the measurement of share awards granted to management. The estimate of the fair value of the share awards granted is measured based on a Cox-Ross-Rubinstein Binomial Pricing model. The contractual life of the share awards is used as an input into this model.

## 25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

## (c) Fair value of share awards and assumptions (continued)

Fair value of share awards and assumptions	Share awards granted on June 20, 2013
Fair value at measurement date (RMB)	1.77
Share price (RMB)	2.26
Exercise price (RMB)	0.53
Expected volatility (expressed as weighted average volatility used in the modelling under Cox-Ross-Rubinstein Binomial Pricing model)	64.3%
Option life (expressed as weighted average life used in the modelling under Cox-Ross-Rubinstein Binomial Pricing model)	7.53 years
Expected dividend yield	1.3%
Risk-free interest rate (based on Exchange Fund Notes)	1.45%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share awards), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share awards were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share awards grants.

## 26 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION

## (a) Movements in current taxation in the consolidated statement of financial position are as follows:

**The Group**

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance of income tax payable at the beginning of the year	33,701	116,131	113,816
Provision for income tax on the estimated taxable profit for the year ( <i>Note 6(a)</i> )	151,345	167,706	218,706
Income tax paid during the year	(68,915)	(170,021)	(191,661)
Balance of income tax payable at the end of the year	<u>116,131</u>	<u>113,816</u>	<u>140,861</u>

**The Company**

	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance of income tax payable at the beginning of the year	4,820	–	–
Income tax paid during the year	(4,820)	–	–
Balance of income tax payable at the end of the year	<u>–</u>	<u>–</u>	<u>–</u>

## 26 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

## (b) Deferred tax assets and liabilities recognised:

**The Group**

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	Deferred tax assets				Deferred tax Liabilities				
	Provisions for impairment losses	Accrued staff costs	Provisions for guarantee losses and accruals	Fair value adjustments on available- for-sale financial assets	Total	Fair value adjustments on available- for-sale financial assets	Government grants	Total	Net
At January 1, 2011	6,649	2,835	31,040	-	40,524	(10,200)	(1,126)	(11,326)	29,198
Recognised to the consolidated income statements (Note 6(a))	4,188	1,669	45,161	-	51,018	-	330	330	51,348
Charged to reserves (Note 10(a))	-	-	-	-	-	10,200	-	10,200	10,200
At December 31, 2011 and at January 1, 2012	10,837	4,504	76,201	-	91,542	-	(796)	(796)	90,746
Recognised/(credited) to the consolidated income statements (Note 6(a))	14,914	1,036	36,197	-	52,147	-	(557)	(557)	51,590
At December 31, 2012 and at January 1, 2013	25,751	5,540	112,398	-	143,689	-	(1,353)	(1,353)	142,336
Recognised to the consolidated income statements (Note 6(a))	56,122	5,817	39,890	-	101,829	-	1,353	1,353	103,182
Charged to reserves (Note 10(a))	-	-	-	102	102	-	-	-	102
At December 31, 2013	81,873	11,357	152,288	102	245,620	-	-	-	245,620

**The Company**

There were no significant deferred tax assets and liabilities at December 31, 2011, 2012 and 2013.



## 26 INCOME TAX IN THE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

## (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(o), the Group and the Company have not recognised deferred tax assets in respect of cumulative tax losses of RMB23.0 million, RMB25.4 million and RMB199.3 million at December 31, 2011, 2012 and 2013, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in five years since initial occurrence under current tax legislation.

## 27 CAPITAL, RESERVES AND DIVIDENDS

## (a) Movement in components of equity

The reconciliation between the opening and closing of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

**The Company**

	Paid-in/ share capital RMB'000 Note 27(c)	Capital/ share premium RMB'000 Note 27(d)(i)	Capital reserve RMB'000 Note 27(d)(ii)	Surplus reserve RMB'000 Note 27(d)(iii)	General reserve RMB'000 Note 27(d)(iv)	Retained earnings RMB'000	Total RMB'000
<b>Balance at January 1, 2011</b>	300,000	–	–	11,212	11,212	50,289	372,713
<b>Changes in equity for 2011:</b>							
Profit for the year and total comprehensive income	–	–	–	–	–	24,819	24,819
Appropriation to surplus reserve	–	–	–	20,576	–	(20,576)	–
Appropriation to general reserve	–	–	–	–	20,576	(20,576)	–
<b>Balance at December 31, 2011</b>	<u>300,000</u>	<u>–</u>	<u>–</u>	<u>31,788</u>	<u>31,788</u>	<u>33,956</u>	<u>397,532</u>
<b>Balance at January 1, 2012</b>	300,000	–	–	31,788	31,788	33,956	397,532
<b>Changes in equity for 2012:</b>							
Profit for the year and total comprehensive income	–	–	–	–	–	78,828	78,828
Appropriation to surplus reserve	–	–	–	18,334	–	(18,334)	–
Appropriation to general reserve	–	–	–	–	18,334	(18,334)	–
<b>Balance at December 31, 2012</b>	<u>300,000</u>	<u>–</u>	<u>–</u>	<u>50,122</u>	<u>50,122</u>	<u>76,116</u>	<u>476,360</u>
<b>Balance at January 1, 2013</b>	300,000	–	–	50,122	50,122	76,116	476,360
<b>Changes in equity for 2013:</b>							
Loss for the year and total comprehensive income	–	–	–	–	–	(84,128)	(84,128)
Capital injection	2,211,608	1,480,163	–	–	–	–	3,691,771
Equity-settled share-based payment	–	–	144,202	–	–	–	144,202
Share capital increased by retained earnings transfer	125,549	–	–	–	–	(125,549)	–
Conversion into joint stock company	792,843	(657,201)	–	(50,122)	(50,122)	(35,398)	–
<b>Balance at December 31, 2013</b>	<u>3,430,000</u>	<u>822,962</u>	<u>144,202</u>	<u>–</u>	<u>–</u>	<u>(168,959)</u>	<u>4,228,205</u>

**27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)****(b) Dividends**

The Company has not distributed any dividend to the equity holders/shareholders during the Relevant Periods.

**(c) Paid-in/share capital**

The paid-in/share capital of the Group as at January 1, 2011, December 31, 2011, 2012 and 2013 represented the paid-in/share capital of the Company.

**(d) Nature and purpose of reserves****(i) Capital/share premium**

The capital/share premium represents the difference between the paid-in capital/par value of the shares of the Company and capital injection/proceeds received from the issuance of the shares of the Company.

**(ii) Capital reserve**

The capital reserve mainly comprises the following:

- the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policies in Note 1(j)(i);
- the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 1(t).

**(iii) Surplus reserve**

The surplus reserve represents statutory surplus reserve fund. The Company is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC after making good prior year's accumulated loss, to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

**(iv) General reserve**

Pursuant to relevant regulations, the Company and its subsidiaries engaged in credit guarantee business are required to set aside a general reserve through appropriations of profit after tax according to 10% of its profit after tax as determined under the Accounting Standard for Business Enterprise and other relevant requirements issued by the Ministry of Finance of the PRC after making good prior year's accumulated loss to cover potential losses against their assets.

While subsidiaries engaged in SME lending business are required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principal, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

**27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)****(e) Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity holders/shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holder/shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no changes in the Group's approach to capital management during the Relevant Periods.

Particularly for guarantee and credit loan operation, the Group monitors regularly the residual balance of outstanding guarantees or/and credit loans for single customers and multiples of the total outstanding guarantees or/and credit loans in relation to paid-in/share capital of companies in the Group engaging guarantee or/and credit loan business respectively, so as to keep the capital risk within an acceptable limit. The decision to manage the paid-in/share capital of companies in the Group to meet the needs of developing guarantee or/and credit loans business rests with the directors.

**28 SEGMENT REPORTING**

The Group manages its business by business lines. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

*Guarantee business*

This segment represents the provision of a range of guarantee and related consulting services to customers. These guarantee services include financing guarantee, performance guarantee and litigation guarantee. The consulting services include the provision of debt financing, internal control and risk management related consulting services to the guarantee customers.

*SME lending*

This segment represents the provision of a range of loan and services to the small and medium sized and micro enterprises ("SME enterprises") or the owners of SME enterprises.

*Others*

This segment represents the aggregation of other non-significant business lines and the operational results of the headquarters.

**(a) Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets. Segment liabilities include all liabilities managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

## 28 SEGMENT REPORTING (CONTINUED)

## (a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purpose of resource allocation and assessment of segment performance for the Relevant Periods is set out below:

	Year ended December 31, 2011			
	Guarantee business	SME lending	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net guarantee and consulting fee income	452,657	–	–	452,657
Net interest and handling fee income	14,554	403,083	–	417,637
Reportable segment revenue	467,211	403,083	–	870,294
Other net revenue	31,011	264	180	31,455
Investment income	–	–	91,307	91,307
Provisions for guarantee losses	(123,946)	–	–	(123,946)
Impairment losses	(16,529)	(27,002)	–	(43,531)
Administrative expenses	(133,598)	(113,368)	(2,426)	(249,392)
Reportable segment profit before taxation	224,149	262,977	89,061	576,187
	At December 31, 2011			
	Guarantee business	SME lending	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	2,840,890	1,685,538	–	4,526,428
Segment liabilities	2,272,253	340,391	–	2,612,644
	Year ended December 31, 2012			
	Guarantee business	SME lending	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net guarantee and consulting fee income	784,476	–	–	784,476
Net interest and handling fee income	23,295	335,481	–	358,776
Reportable segment revenue	807,771	335,481	–	1,143,252
Other net revenue	26,267	1,312	1,239	28,818
Provisions for guarantee losses	(51,669)	–	–	(51,669)
Impairment losses	(90,241)	(39,827)	–	(130,068)
Administrative expenses	(225,646)	(127,182)	(3,542)	(356,370)
Reportable segment profit before taxation	466,482	169,784	(2,303)	633,963

## 28 SEGMENT REPORTING (CONTINUED)

## (a) Segment results, assets and liabilities (continued)

	At December 31, 2012			
	Guarantee business	SME lending	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	2,785,361	2,030,236	10,000	4,825,597
Segment liabilities	1,581,976	877,918	–	2,459,894
	Year ended December 31, 2013			
	Guarantee business	SME lending	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net guarantee and consulting fee income	913,064	–	–	913,064
Net interest and handling fee income	51,413	612,255	–	663,668
Reportable segment revenue	964,477	612,255	–	1,576,732
Other net revenue	41,054	1,201	532	42,787
Provisions for guarantee losses	(148,984)	–	–	(148,984)
Impairment losses	(173,718)	(120,649)	–	(294,367)
Administrative expenses	(365,695)	(161,386)	(176,815)	(703,896)
Reportable segment profit before taxation	317,134	331,421	(176,283)	472,272
	At December 31, 2013			
	Guarantee business	SME lending	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	3,371,269	5,001,480	9,593	8,382,342
Segment liabilities	1,206,366	1,963,237	–	3,169,603

## (b) Reconciliation of reportable segment assets

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Assets</b>			
Reportable segment assets	4,526,428	4,825,597	8,382,342
Deferred tax assets	90,746	142,336	245,620
Consolidated total assets	4,617,174	4,967,933	8,627,962

**29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES**

Exposure to credit, market and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practice used by the Group to manage these risks are described below.

**(a) Credit risk**

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under loans the Group guaranteed or provided. Credit risk is primarily attributable to unexpired guarantee issued by the Group and the loan business of the Group, loans and advances to customers and trade and other receivables.

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting periods. Except for the guarantee as disclosed below, the Group has no credit risk arising from any other guarantee.

Credit risk arising from guarantee business

The Group has taken measures to identify credit risks arising from guarantee business. The Group manages credit risk at every stage of the risk management system, including pre-approval, review and credit approval and post-transaction monitoring processes. The Group conducts customer acceptance and due diligence by business department and risk management department during the pre-approval process. A transaction may be subject to the review and approval of credit approval officer, regional risk committee, deputy chairman and chairman depending on the transaction size.

During the post-transaction monitoring process, the Group conducts on-site inspection and ongoing post-transaction reviews focusing on various aspects, including but not limited to customers' product markets, operating income, assets and liabilities, cash flows from operating activities to detect potential risks. The Group takes proactive preventive actions based on the risk analysis and design contingency plans accordingly.

When a certain number of clients undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfill contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to specific industries or geographical locations. As the Group mainly operates its businesses in the PRC, there exists a certain level of geographical concentration risk for its guarantee and loan portfolios in that it might be affected by changes in the PRC economic conditions.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (a) Credit risk (continued)

The guarantees issued and outstanding are analysed by type as follows:

**The Group**

	<b>At December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank financing guarantees	11,881,417	11,920,162	15,893,483
Non-bank financing guarantees	312,291	1,478,934	4,260,634
Performance guarantees	2,018,841	1,287,130	1,146,118
	<u>14,212,549</u>	<u>14,686,226</u>	<u>21,300,235</u>
Less: customer pledged deposits	(1,070,051)	(446,929)	(78,182)
	<u>13,142,498</u>	<u>14,239,297</u>	<u>21,222,053</u>

**The Company**

	<b>At December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank financing guarantees	11,216	2,820	970
Performance guarantees	154,706	154,706	122,106
	<u>165,922</u>	<u>157,526</u>	<u>123,076</u>
Less: customer pledged deposits	(930)	(130)	(130)
	<u>164,992</u>	<u>157,396</u>	<u>122,946</u>

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (a) Credit risk (continued)

The maximum exposure to credit risk in respect of guarantees by industry at December 31, 2011, 2012 and 2013 is as follows:

**The Group**

	At December 31, 2011		At December 31, 2012		At December 31, 2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Commercial services	3,611,273	25.41%	3,712,460	25.28%	6,076,881	28.53%
Manufacturing and processing	4,193,387	29.50%	4,187,921	28.52%	6,207,461	29.14%
Construction	3,828,172	26.94%	3,443,772	23.45%	4,661,024	21.88%
Household Goods	1,318,737	9.28%	1,515,087	10.32%	2,315,531	10.87%
Energy	447,021	3.15%	696,689	4.74%	605,395	2.84%
Agricultural processing industry	246,210	1.73%	249,220	1.70%	366,046	1.72%
Service industry	105,790	0.74%	114,540	0.78%	448,711	2.11%
Telecommunications, computer services and software	129,034	0.91%	94,510	0.64%	277,690	1.30%
Agriculture	317,520	2.23%	471,660	3.21%	79,718	0.37%
Others	15,405	0.11%	200,367	1.36%	261,778	1.24%
Subtotal of guarantee	<u>14,212,549</u>	<u>100.00%</u>	<u>14,686,226</u>	<u>100.00%</u>	<u>21,300,235</u>	<u>100.00%</u>

**The Company**

	At December 31, 2011		At December 31, 2012		At December 31, 2013	
	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing and processing	60,937	36.73%	60,000	38.09%	60,000	48.75%
Construction	71,600	43.15%	71,600	45.45%	48,600	39.49%
Commercial services	17,980	10.84%	14,980	9.51%	5,380	4.37%
Others	15,405	9.28%	10,946	6.95%	9,096	7.39%
Subtotal of guarantee	<u>165,922</u>	<u>100.00%</u>	<u>157,526</u>	<u>100.00%</u>	<u>123,076</u>	<u>100.00%</u>

Credit risk arising from micro-lending business

The Group adopts the same pre-approval, review and credit approval risk management system for credit risk arising from micro-lending business. During the post-transaction monitoring process, the Group conducts a visit of customers within one month after disbursement of loans, and conducts on-site inspection on a semi-annual basis. The review focuses on the use of loans, the financial and operational conditions of the borrowers or the progress of projects and status of the collateral.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.



## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (a) Credit risk (continued)

Credit risk arising from micro-lending business (continued)

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special Mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Group has established relevant mechanisms to apply tiered management of credit risks, and set limits to acceptable risks for different individual or group counterparties, different industries and geographical regions. The Group monitors the risk status of these customers regularly and reviews their risk positions at least on a quarterly basis.

In accordance with accounting policies and regulations, if there is objective evidence that indicates the cash flow for a particular loan is expected to decrease, and the amount can be estimated, the loan is recorded as an impaired loan and the impairment loss is recognised in the income statement.

The Group's policy requires regular review of the quality of individually significant financial assets. For assets for which an allowance for impairment loss is provided individually, the amount is determined by an evaluation of the incurred loss at reporting date on a case-by-case basis. In making such assessments, the Group considers the value of collateral held and expected future cash flows from the asset.

Impairment allowances are provided for the following portfolios according to historical data, experience and statistical techniques: (i) those consisting of homogeneous assets that are individually below materiality thresholds; and (ii) those where losses that have been incurred but have not yet been individually identified with any specific asset within the portfolio.

Other credit risks

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluation focus on the customer's past 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, the Group does not obtain collateral from customers.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from loans and advances to customers and trade and other receivables are set out in Note 16 and Note 14, respectively.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (b) Interest rate risk

The Group is principally engaged in the provision of credit guarantee, lending and related consulting services to SME enterprises in the PRC. Its interest rate risk arises primarily from deposits with banks, loans and advances to customers and interest-bearing borrowings.

## (i) Interest rate profile

The following tables details the interest rate profile of the Group's and the Company's assets and liabilities as at the end of the Relevant Periods:

**The Group**

	At December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed interest rate			
Financial assets			
– Restricted bank deposits	1,472,077	1,577,555	1,672,208
– Loans and advances to customers	1,616,934	1,961,599	4,579,902
	<u>3,089,011</u>	<u>3,539,154</u>	<u>6,252,110</u>
Financial liabilities			
– Interest-bearing borrowings	(635,362)	(512,050)	(622,500)
– Financial assets sold under repurchase agreement	(51,352)	(222,304)	(797,959)
	<u>(686,714)</u>	<u>(734,354)</u>	<u>(1,420,459)</u>
Net	<u>2,402,297</u>	<u>2,804,800</u>	<u>4,831,651</u>
Variable interest rate			
Financial assets			
– Cash and cash equivalents	528,296	254,109	940,257
– Restricted bank deposits	760,989	629,674	620,975
	<u>1,289,285</u>	<u>883,783</u>	<u>1,561,232</u>
Financial liabilities			
– Interest-bearing borrowings	(100,000)	(368,500)	(344,240)
Net	<u>1,189,285</u>	<u>515,283</u>	<u>1,216,992</u>
Fixed rate financial liabilities as a percentage of total financial liabilities	<u>87.29%</u>	<u>66.59%</u>	<u>80.49%</u>

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (b) Interest rate risk (continued)

## (i) Interest rate profile (continued)

## The Company

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Fixed interest rate			
Financial assets			
– Loans and advances to customers	27,280	–	–
Financial liabilities			
– Interest-bearing borrowings	(535,362)	(362,350)	–
Net	<u>(508,082)</u>	<u>(362,350)</u>	<u>–</u>
Variable interest rate			
Financial assets			
– Cash and cash equivalents	520	207	445
– Restricted bank deposits	2,400	1,000	–
	<u>2,920</u>	<u>1,207</u>	<u>445</u>
Fixed rate financial liabilities as a percentage of total financial liabilities	<u>100.00%</u>	<u>100.00%</u>	<u>–</u>

## (ii) Sensitivity analysis

At December 31, 2011, 2012 and 2013, it is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would have increased the Group's profit before taxation for the next 12 months by approximately RMB5.9 million, RMB2.6 million and RMB6.1 million, respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (c) Liquidity risk

Management regularly monitors the Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following tables provide an analysis of financial assets and liabilities of the Group and the Company into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods:

**The Group**

	At December 31, 2011						Total
	Indefinite	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>							
Cash and cash equivalents	-	528,532	-	-	-	-	528,532
Restricted bank deposits	-	295,781	814,237	1,032,660	90,088	300	2,233,066
Trade and other receivables	-	39,532	15,146	7,135	8,406	-	70,219
Loans and advances to customers	-	80,530	798,268	731,683	6,453	-	1,616,934
<b>Total</b>	-	944,375	1,627,651	1,771,478	104,947	300	4,448,751
<b>Liabilities</b>							
Customer pledged deposits	-	107,291	196,718	691,778	74,264	-	1,070,051
Interest-bearing borrowings	-	-	-	433,911	301,451	-	735,362
Financial assets sold under repurchase agreement	-	-	20,687	30,665	-	-	51,352
Accruals and other payables	-	431	49,285	-	-	-	49,716
<b>Total</b>	-	107,722	266,690	1,156,354	375,715	-	1,906,481
<b>Net</b>	-	836,653	1,360,961	615,124	(270,768)	300	2,542,270
<b>Guarantee issued</b>							
Maximum amount guaranteed*	-	256,493	2,541,767	8,517,097	1,826,191	950	13,142,498

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (c) Liquidity risk (continued)

## The Group (continued)

	At December 31, 2012						Total
	Indefinite	Repayable on demand	Within three months	Between	Between	More than five years	
				three months and one year	one year and five years		
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Assets</b>							
Cash and cash equivalents	-	254,355	-	-	-	-	254,355
Restricted bank deposits	-	276,767	672,451	1,220,305	36,956	750	2,207,229
Trade and other receivables	-	129,812	27,140	13,320	25,863	-	196,135
Loans and advances to customers	-	92,933	916,389	938,324	13,953	-	1,961,599
Available-for-sale financial assets	10,000	-	-	-	-	-	10,000
<b>Total</b>	10,000	753,867	1,615,980	2,171,949	76,772	750	4,629,318
<b>Liabilities</b>							
Customer pledged deposits	-	33,565	389,980	1,650	21,184	550	446,929
Interest-bearing borrowings	-	-	110,950	436,100	333,500	-	880,550
Financial assets sold under repurchase agreement	-	-	96,221	76,083	50,000	-	222,304
Accruals and other payables	-	-	36,222	6,428	600	-	43,250
<b>Total</b>	-	33,565	633,373	520,261	405,284	550	1,593,033
<b>Net</b>	10,000	720,302	982,607	1,651,688	(328,512)	200	3,036,285
<b>Guarantee issued</b>							
Maximum amount guaranteed*	-	273,266	2,873,212	9,588,824	1,469,095	34,900	14,239,297

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (c) Liquidity risk (continued)

## The Group (continued)

	At December 31, 2013						Total
	Indefinite	Repayable on demand	Within three months	Between three months and one year	Between one year and five years	More than five years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Assets</b>							
Cash and cash equivalents	–	937,478	3,067	–	–	–	940,545
Restricted bank deposits	–	620,975	444,733	1,214,800	12,675	–	2,293,183
Trade and other receivables	–	130,843	31,818	48,670	17,767	–	229,098
Loans and advances to customers	–	26,111	1,364,532	3,055,369	133,890	–	4,579,902
Available-for-sale financial assets	9,593	–	–	–	–	–	9,593
<b>Total</b>	9,593	1,715,407	1,844,150	4,318,839	164,332	–	8,052,321
<b>Liabilities</b>							
Customer pledged deposits	–	69,415	2,190	6,577	–	–	78,182
Interest-bearing borrowings	–	–	95,000	629,500	242,240	–	966,740
Financial assets sold under repurchase agreement	–	–	125,000	672,959	–	–	797,959
Accruals and other payables	–	–	76,544	8,259	–	–	84,803
<b>Total</b>	–	69,415	298,734	1,317,295	242,240	–	1,927,684
<b>Net</b>	9,593	1,645,992	1,545,416	3,001,544	(77,908)	–	6,124,637
<b>Guarantee issued</b>							
Maximum amount guaranteed*	–	345,415	3,614,687	14,864,036	2,362,742	35,173	21,222,053

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (c) Liquidity risk (continued)

## The Company

	At December 31, 2011						Total
	Indefinite	Repayable on demand	Within three months	Between	Between	More than five years	
				three months and one year	one year and five years		
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Assets</b>							
Cash and cash equivalents	-	602	-	-	-	-	602
Restricted bank deposits	-	-	-	1,400	1,000	-	2,400
Trade and other receivables	-	7,322	-	9,735	-	-	17,057
Loans and advances to customers	-	27,280	-	-	-	-	27,280
<b>Total</b>	-	35,204	-	11,135	1,000	-	47,339
<b>Liabilities</b>							
Customer pledged deposits	-	-	-	800	130	-	930
Interest-bearing borrowings	-	-	-	268,911	266,451	-	535,362
Accruals and other payables	-	33,556	19,078	-	-	-	52,634
<b>Total</b>	-	33,556	19,078	269,711	266,581	-	588,926
<b>Net</b>	-	1,648	(19,078)	(258,576)	(265,581)	-	(541,587)
<b>Guarantee issued</b>							
Maximum amount guaranteed*	-	164,992	-	-	-	-	164,992

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (c) Liquidity risk (continued)

## The Company (continued)

	At December 31, 2012						Total
	Indefinite	Repayable on demand	Within three months	Between	Between	More than five years	
				three months and one year	one year and five years		
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Assets</b>							
Cash and cash equivalents	-	227	-	-	-	-	227
Restricted bank deposits	-	-	-	1,000	-	-	1,000
Trade and other receivables	-	8,024	14,976	8,006	-	-	31,006
<b>Total</b>	-	8,251	14,976	9,006	-	-	32,233
<b>Liabilities</b>							
Customer pledged deposits	-	-	-	130	-	-	130
Interest-bearing borrowings	-	-	89,250	273,100	-	-	362,350
Accruals and other payables	-	127	6,281	-	-	-	6,408
<b>Total</b>	-	127	95,531	273,230	-	-	368,888
<b>Net</b>	-	8,124	(80,555)	(264,224)	-	-	(336,655)
<b>Guarantee issued</b>							
Maximum amount guaranteed*	-	157,396	-	-	-	-	157,396



## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (c) Liquidity risk (continued)

## The Company (continued)

	At December 31, 2013						Total
	Indefinite	Repayable on demand	Within three months	Between	Between	More than five years	
				three months and one year	one year and five years		
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
<b>Assets</b>							
Cash and cash equivalents	-	452	-	-	-	-	452
Trade and other receivables	-	64	-	-	470	-	534
<b>Total</b>	-	516	-	-	470	-	986
<b>Liabilities</b>							
Customer pledged deposits	-	130	-	-	-	-	130
Accruals and other payables	-	108,704	-	-	-	-	108,704
<b>Total</b>	-	108,834	-	-	-	-	108,834
<b>Net</b>	-	(108,318)	-	-	470	-	(107,848)
<b>Guarantee issued</b>							
Maximum amount guaranteed*	-	122,946	-	-	-	-	122,946

\* The maximum amount guaranteed represents the total amount of liability less the amount of customer pledged deposits should all customers default. Since a significant portion of guarantee is expected to expire without being called upon, the maximum liabilities do not represent expected future cash outflows.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

## (d) Fair values

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	<b>At December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Level 3	–	10,000	9,593

During the years ended December 31, 2011, 2012 and 2013, there were no transfers between instruments in Level 1 and Level 2. The movements during the period in the balance of Level 3 fair value measurements are as follows:

	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	170,500	–	10,000
Net unrealised gains or losses recognised in other comprehensive income during the year	–	–	(407)
Payment for purchases	–	10,000	–
Proceeds from sales	(170,500)	–	–
At the end of the year	–	10,000	9,593

## 30 COMMITMENTS

- (a) Capital commitments outstanding at December 31, 2011, 2012 and 2013 not provided for in the Financial Information were as follows:

## The Group

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Commitments in respect of purchase of fixed assets/ intangible assets			
– Contracted for	–	98,673	5,119

- (b) The total future minimum lease payments under non-cancellable operating leases of properties were payable as follows:

## The Group

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 1 year (inclusive)	22,726	32,265	47,907
After 1 year but within 3 years (inclusive)	23,127	25,869	29,296
Over 3 years	2,872	3,751	113,389
Total	48,725	61,885	190,592

## The Company

	At December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 1 year (inclusive)	55	58	2,782
After 1 year but within 3 years (inclusive)	–	–	8,164
Over 3 years	–	–	–
Total	55	58	10,946

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 1-5 years, at the end of which period all terms are renegotiated. None of the leases include contingent rentals.

## 31 MATERIAL RELATED PARTY TRANSACTIONS

## (a) Transactions with key management personnel remuneration

	Years ended December 31,		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Key management personnel remuneration ( <i>Note (i)</i> )	5,997	6,303	143,541
Guarantee income	56	–	–
Interest income	29	8	52
Interest expenses	–	(511)	(318)
Additions of interest-bearing borrowings	–	12,000	–
Repayment of interest-bearing borrowings	–	–	(12,000)
Additions of loans and advances to customers	1,500	200	540
Repayment of loans and advances to customers	(1,977)	(400)	(630)
Providing guarantee	950	2,000	–
Releasing guarantee	(280)	(3,520)	(2,000)

*Notes:*

(i) *Remuneration for key management personnel of the Group includes amounts paid to the Company's directors as disclosed in Note 7 and the highest paid employees as disclosed in Note 8.*

(ii) *All the balances with key management personnel are disclosed in relevant notes of this section.*

## 31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

## (b) Transactions with related parties other than key management personnel

	Years ended December 31,		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Guarantee income	1,115	889	1,063
Interest income	1,737	5,796	742
Interest expenses	(20,732)	(25,661)	(10,972)
Additions in			
interest-bearing borrowings	731,362	427,758	260,000
Repayment of			
interest-bearing borrowings (Note (i))	(356,000)	(620,520)	(552,600)
Additions of loans and advances to			
customers	104,780	62,760	250
Repayment of loans and advances to			
customers	(101,320)	(109,407)	(4,483)
Assets transfer (Note (i))	–	128,855	–
Additions of other receivables	5,202	22,786	–
Receipt of other receivables	–	–	(27,988)
Providing guarantee	110,000	48,500	35,000
Releasing guarantee	(107,860)	(137,790)	(25,850)

## Notes:

- (i) Assets transfer represents the transfer of 4.72% equity interest in Hanhua Guarantee to Loncin Holdings Co., Ltd. for a consideration of RMB90.9 million and the transfer of loans to customers with net book value of RMB38.0 million to a related party for a consideration of RMB38.0 million in 2012. Of the consideration, RMB116.9 million was satisfied through the repayment of interest-bearing borrowings from the counterparties, and the remaining RMB12.0 million was satisfied in cash.

RMB266.5 million out of the total repayment of interest-bearing borrowings for the year ended December 31, 2013 was settled as capital injection to the Company by one of its shareholders.

- (ii) At December 31, 2011, 2012 and 2013, the outstanding guarantee provided to related parties are RMB110.1 million, RMB20.8 million, and RMB30.0 million, respectively. The balances of other transactions with related parties are disclosed in relevant notes of this section.

## 32 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 25 and Note 29 contains information about the assumptions and their risk factors relating to fair value of share awards granted to directors, supervisors and senior management of the Company and financial instruments. Other key sources of estimation uncertainty are as follows:

## (a) Impairment of receivables, loans and advances and available-for-sale financial assets

The Group reviews 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 is 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 judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

**32 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)****(a) Impairment of receivables, loans and advances and available-for-sale financial assets (continued)**

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, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

**(b) Impairment of long-lived assets**

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 1(m). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

**(c) Depreciation and amortisation**

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their useful lives after taking into account estimated residual value. The useful lives and residual value are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the rate of depreciation is revised.

**(d) Provisions for guarantee losses**

The Group makes reasonable estimate on costs required to fulfil the relevant obligation of guarantee contracts when the Group computes the provisions of guarantee losses. Such estimation is made based on the available information as at the balance sheet date and is determined by the Group's practical experience, taking into consideration of industry information and market data.

**(e) Tax**

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

### 33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information.

	<u>Effective for accounting periods beginning on or after</u>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27, <i>Investment entities</i>	January 1, 2014
Amendments to HKAS 32, <i>Financial instruments: Presentation – Offsetting financial assets and financial liabilities</i>	January 1, 2014
Amendments to HKAS 36, <i>Recoverable amount disclosures for non-financial assets</i>	January 1, 2014
Amendments to HKAS 39, <i>Novation of derivatives and continuation of hedge accounting</i>	January 1, 2014
HK(IFRIC) 21, <i>Levies</i>	January 1, 2014
Amendments to HKAS 19, <i>Employee benefits: Defined benefit plans: Employee contribution</i>	July 1, 2014
IFRS 14, <i>Regulatory deferral accounts</i>	January 1, 2016
HKFRS 9, <i>Financial instruments (2009)</i>	Unspecified
HKFRS 9, <i>Financial instruments (2010)</i>	Unspecified
Amendments to HKFRS 9, <i>Financial instruments</i> and HKFRS 7 <i>Financial instruments: Disclosures – Mandatory effective date and transition disclosures</i>	Unspecified
HKFRS 9, <i>Financial instruments : Hedge accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39 (2013)</i>	Unspecified

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

### 34 STATUTORY AUDIT

No statutory financial statement has been prepared for Guiyang Hanhua as of and for the year ended December 31, 2011 as Guiyang Hanhua has not carried on any business since the date of incorporation up to its liquidation on July 11, 2012.

Except for Guiyang Hanhua mentioned above, the financial statements of the companies now comprising the Group which are subject to audit during the Relevant Periods were audited by the following auditors:

<u>Name of company (Note (i))</u>	<u>Financial year/period</u>	<u>Name of auditors (Note (i))</u>
Hanhua Financial Holding Co., Ltd. (瀚華金控股份有限公司) Formerly named as Hanhua Guarantee Co., Ltd. (瀚華擔保有限公司)	Year ended December 31, 2011	Chongqing Jinzhou Certified Public Accountants (重慶金洲會計師事務所 有限公司)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
	Year ended December 31, 2013	KPMG Huazhen (SGP) (畢馬威華振會計師事務所(特殊普 通合夥))

## 34 STATUTORY AUDIT (CONTINUED)

<b>Name of company</b> <i>(Note (i))</i>	<b>Financial year/period</b>	<b>Name of auditors</b> <i>(Note (i))</i>
Hanhua Guarantee (瀚華擔保股份有限公司)	Year ended December 31, 2011	Ascenda Certified Public Accountants (天健正信會計師事務所有限公司)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通合夥))
	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Sichuan Hanhua Financing Guarantee Co., Ltd. (四川瀚華融資擔保有限公司)	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Years ended December 31, 2012 and 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Beijing Hanhua Financing Guarantee Co., Ltd. (北京瀚華融資擔保有限公司)	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Years ended December 31, 2012 and 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Liaoning Hanhua Investment Guarantee Co., Ltd. (遼寧瀚華投資擔保有限公司)	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Years ended December 31, 2012 and 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)
Chongqing Hanhua Assets Management Co., Ltd. (重慶瀚華資產管理有限公司)	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所有限公司重慶分所)
	Years ended December 31, 2012 and 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通合夥)重慶分所)



## 34 STATUTORY AUDIT (CONTINUED)

<b>Name of company</b> <i>(Note (i))</i>	<b>Financial year/period</b>	<b>Name of auditors</b> <i>(Note (i))</i>
Chongqing Yuzhong (重慶市渝中區瀚華小額貸款 有限責任公司)	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所 有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通 合夥))
Sichuan Hanhua Micro-credit (四川瀚華小額貸款有限公司)	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所 有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通 合夥))
Sichuan Small & Medium-sized Assets Management Co., Ltd. (四川中微資產管理有限公司)	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所 有限公司重慶分所)
	Years ended December 31, 2012 and 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
Tianjin Hanhua Micro-credit Co., Ltd. (天津瀚華小額貸款有限公司) <i>(Note (ii))</i>	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所 有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通 合夥))

## 34 STATUTORY AUDIT (CONTINUED)

Name of company (Note (i))	Financial year/period	Name of auditors (Note (i))
Shenyang Hanhua Micro-credit (瀋陽金融商貿開發區瀚華科技 小額貸款有限公司) (Note (ii))	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所 有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通 合夥))
Tianjin Small & Medium-sized International Factoring Co., Ltd. (天津中微國際保理有限公司) (Note (ii))	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所 有限公司重慶分所)
	Years ended December 31, 2012 and 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
Nanning Hanhua Micro-credit Co., Ltd. (南寧市瀚華小額貸款有限公司) (Note (ii))	Year ended December 31, 2011	Ascenda Certified Public Accountants Chongqing branch (天健正信會計師事務所 有限公司重慶分所)
	Year ended December 31, 2012	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通 合夥))
Beijing Hanhua Credit Management Co., Ltd. (北京瀚華信用管理有限公司) (Note (iii))	Years ended December 31, 2012 and 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
Chongqing Huiwei Investment Co., Ltd. (重慶惠微投資有限公司) (Note (iv))	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)
Changchun Hanhua Micro-credit Co., Ltd. (長春市瀚華小額貸款有限公司) (Note (iv))	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) (天健會計師事務所(特殊普通 合夥))
Xi'an Hanhua Micro-credit Co., Ltd. (西安市瀚華小額貸款有限公司) (Note (iv))	Year ended December 31, 2013	Shangxi Hongxin Certified Public Accountants Co., Ltd. (陝西鴻信會計師事務所有限責任 公司)
Beijing Hanhua Internet Technology Co., Ltd. (北京瀚華網絡科技有限公司) (Note (iv))	Year ended December 31, 2013	Beijing Zhongcheng Zhengxin Public Accountant Firm Co., Ltd. (北京中誠正信會計師事務所有限 公司)

## 34 STATUTORY AUDIT (CONTINUED)

Name of company <i>(Note (i))</i>	Financial year/period	Name of auditors <i>(Note (i))</i>
Kunming Panlong District Hanhua Micro-credit Co., Ltd. (昆明市盤龍區瀚華小額貸款有 限公司) <i>(Note (iv))</i>	Year ended December 31, 2013	Pan-China Certified Public Accountants (SGP) Chongqing branch (天健會計師事務所(特殊普通 合夥)重慶分所)

Notes:

- (i) *The English translation of the names of these companies and auditors is for reference only. The official names of these companies and auditors are in Chinese.*
- (ii) *These companies were established in 2011.*
- (iii) *The company was established in 2012.*
- (iv) *These companies were established in 2013.*

## 35 SUBSEQUENT EVENT

On April 10, 2014, the Company established Guiyang Nanming Hanhua Micro-credit Co., Ltd. (“Guiyang Micro-credit”) with paid-in-capital of RMB50.0 million. Upon establishment, Guiyang Micro-credit became a wholly owned subsidiary of the Group.

## C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to December 31, 2013. No dividends or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to December 31, 2013.

Yours faithfully,

**KPMG**

Certified Public Accountants

Hong Kong

The information set forth below does not form part of the Accountants' Report from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

**(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following statement of unaudited pro forma statement of adjusted net tangible assets of Hanhua Financial Holding Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the proposed offering by the Company of its shares (the "Global Offering") on the net tangible assets of the Group attributable to the shareholders of the Company as of December 31, 2013, as if the Global Offering had taken place on December 31, 2013.

The pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of December 31, 2013 or at any future date.

	<b>Consolidated net tangible assets attributable to shareholders of the Company as of December 31, 2013</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Pro forma adjusted net tangible assets</b>	<b>Pro forma adjusted net tangible assets per share</b>	
	<i>RMB'000</i> <i>Note (1)</i>	<i>RMB'000</i> <i>Note (2)(5)</i>	<i>RMB'000</i> <i>Note (3)</i>	<i>RMB</i> <i>Note (3)</i>	<i>HK\$</i> <i>Note (6)</i>
Based on an offer price of HK\$1.55 per share	4,827,820	1,320,834	6,148,654	1.34	1.71
Based on an offer price of HK\$2.05 per share	4,827,820	1,756,190	6,584,010	1.44	1.83

*Notes:*

- (1) The consolidated net tangible assets attributable to shareholders of the Company as of December 31, 2013 is based on the consolidated net assets attributable to the shareholders of the Company of RMB4,832.3 million as of December 31, 2013 after (i) deduction of intangible assets of RMB4.5 million; and (ii) adjusting the share of intangible assets attributable to non-controlling interests of RMB0.1 million.*
- (2) The estimated net proceeds from the Global Offering are based on the offer prices of HK\$1.55 and HK\$2.05 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 4,580,000,000 shares are expected to be in issue following the Global Offering and the respective offer prices of HK\$1.55 and HK\$2.05 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 trading result or other transactions of the Group entered into subsequent to December 31, 2013.*
- (5) The estimated net proceeds from the Global Offering are converted into Renminbi at the rate of RMB0.78623 to HK\$1.00, the exchange rate set by the PBOC prevailing on December 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 RMB0.78623 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.*

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the Group's unaudited pro forma financial information relating to the adjusted consolidated net tangible assets.



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

June 3, 2014

**To the directors of Hanhua Financial Holding Co., Ltd.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hanhua Financial Holding Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at December 31, 2013 and related notes as set out in Part A of Appendix II to the prospectus dated June 3, 2014 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at December 31, 2013 as if the Global Offering had taken place at December 31, 2013. As part of this process, information about the Group's financial position as at December 31, 2013 has been extracted by the Directors from the Group's historical financial statements included in the Accountants' Report as set out in Appendix I to the Prospectus.

***Directors' Responsibilities for the Pro Forma Financial Information***

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

*Reporting Accountants' Responsibilities*

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical or forecast financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at December 31, 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Use of Proceeds" in the Prospectus.

*Opinion*

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

Certified Public Accountants

Hong Kong



**TAXATION OF SECURITY HOLDERS**

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section of this prospectus does not address any aspects of Hong Kong or PRC taxation other than income tax, capital tax, stamp duty and estate duty. Prospective investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

**TAXATION IN THE PRC****Taxation of Dividends***Individual Investors*

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) (the "Individual Income Tax Law") promulgated on September 10, 1980, as amended on October 31, 1993, August 30, 1999, October 27, 2005, June 29, 2007, December 29, 2007 and June 30, 2011, and the Rules for Implementation of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法實施條例》) (the "Implementation Rules of Individual Income Tax Law") promulgated on January 28, 1994, as amended on December 19, 2005, February 18, 2008 and July 19, 2011, the receipt of dividends by individuals is subject to an individual income tax of 20%.

Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) promulgated by the SAT on June 28, 2011, overseas resident individual shareholders of a domestic non-foreign-invested enterprise whose shares are listed in Hong Kong may be entitled to preferential tax treatments in accordance with applicable tax treaties between the countries in which they are tax resident and China as well as the tax arrangements between Mainland China and Hong Kong (Macau). Domestic non-foreign-invested enterprises whose shares are listed in Hong Kong generally may withhold individual income tax at the rate of 10% when distributing dividends with respect to such listed shares without prior application to the PRC tax authorities. Where the stipulated tax rates pursuant to applicable tax treaties and arrangements are lower than 10%, individual shareholders receiving dividends may be entitled to apply to the PRC tax authorities to obtain a refund of the excess of the amount withheld over the required payment upon approval from the competent tax authorities. Under PRC law, dividend income of individual shareholders who

are residents of countries that have entered into tax treaties with the PRC stipulating tax rates of higher than 10% but lower than 20% is subject to tax at the applicable treaty rate, while dividend income of individual shareholders who are residents of countries that have not entered into taxation agreements with the PRC is subject to income tax at the rate of 20%. The company that pays dividends is required to withhold at the applicable tax rate (which may be higher than 10% if the company knows the identity of the relevant shareholders).

### *Enterprise*

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (the "EIT Law") and the Rules for Implementation of Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) (the "Implementation Rules of EIT Law"), both of which became effective on January 1, 2008, non-resident enterprises which have not established organizations or premises in the PRC, or if established, the income derived is not actually associated with such organizations or premises, are subject to tax at a rate of 10% for dividend income originated from the PRC. The tax liability may be reduced pursuant to an applicable treaty for the avoidance of double taxation.

According to the Notice Regarding Matters on Withholding Enterprise Income tax on the Dividends Paid by PRC Resident Enterprises to Non-resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) promulgated by the SAT, which became effective on November 6, 2008, PRC resident enterprises shall withhold enterprise income tax at a rate of 10% from dividends distributed to overseas non-resident enterprise shareholders for the year of 2008 and thereafter. The non-resident enterprise shareholders entitled to a reduced tax rate under tax treaties or arrangements may apply to the competent taxation authorities for refund of the excess amount withheld.

According to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, the PRC Government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds 25% equity interest or more in such PRC company, such tax generally shall not exceed 5% of the gross amount of dividends payable by the PRC company.

### *Tax Treaties*

Investors who are not residents of the PRC and reside in countries that have entered into treaties for the avoidance of double taxation with the PRC or reside in Hong Kong Special Administrative Region or Macau Special Administrative Region may be entitled to a reduction of tax on the dividends paid by PRC companies. The PRC has entered into arrangement for the avoidance of double taxation with Hong Kong Special Administrative Region and Macau

Special Administrative Region, and has signed treaties for the avoidance of double taxation with a number of other countries, which include but are not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval.

### **Taxation of Capital Gains**

#### *Individual Investors*

According to the Individual Income Tax Law and Implementation Rules of Individual Income Tax Law, gains derived by individuals from the transfer of PRC property, such as gains from sales of shares in a PRC enterprise, are subject to individual income tax at a rate of 20%. Pursuant to the Notice concerning the Extension of Temporary Exemption on Individual Income Tax on the Income Derived from Transfers of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) jointly promulgated by MOF and SAT on March 30, 1998, the temporary exemption on individual income tax on the gains derived from the transfer of shares of public companies was extended since January 1, 1997. Although it is not certain whether such exemption is applied to H Shares, to our knowledge in practice the PRC tax authorities had not sought to collect tax on such gains from non-PRC individuals. The tax may be reduced or eliminated pursuant to an applicable tax treaty.

According to the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009]No. 167), which became effective on January 1, 2010, the income received by individuals from transfer of listed shares subject to sales limitation shall be subject to an income tax rate of 20% according to the regulations on income derived from property transfer.

#### *Enterprise*

According to the EIT Law and the Implementation Rules of EIT Law, non-resident enterprises which have not established organizations or premises in the PRC, or if established, the income derived is not actually associated with such organizations or premises, are subject to enterprise income tax of 10% on gain originated from the PRC, such as gains from sales of shares in a PRC enterprise. The tax may be reduced or eliminated pursuant to an applicable tax treaty.

### **Stamp Duty**

Pursuant to the Provisional Regulations on Stamp Duty of the People's Republic of China (《中華人民共和國印花稅暫行條例》), which became effective on October 1, 1988 and was amended on January 8, 2011, a stamp duty shall not be applicable to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

**Estate Duty**

No estate duty is imposed by the PRC Government.

**Income Tax**

According to the EIT Law, enterprises and other organizations (excluding sole proprietorships and partnership enterprises) which generate income within the PRC shall pay enterprise income tax at the rate of 25%.

**Business Tax**

Pursuant to the Provisional Regulations on Business Tax of the People's Republic of China (《中華人民共和國營業稅暫行條例》) effective from January 1, 1994 and amended on February 19, 1997, November 10, 2002 and November 10, 2008, respectively, business tax is imposed on units or individuals that provide labor services, transfer intangible assets or sell real estate in the PRC as specified in such regulation. Companies in financial and insurance industries shall be subject to business tax at a rate of 5%.

Pursuant to the Pilot Scheme for the Conversion of Business Tax to VAT (《營業稅改徵增值稅試點方案》 Cai Shui [2011] No.110) promulgated by the MOF and the SAT on November 16, 2011, since January 1, 2012 the State started to introduce taxation reform in certain service industries (namely transportation and certain modern service industries) which are subject to business tax in a gradual manner, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in certain regions including Shanghai and Beijing. The MOF and the SAT further notified that the aforesaid pilot scheme for the conversion of business tax to VAT will be implemented nationwide since August 1, 2013.

**Foreign Exchange Control**

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of PBOC, is responsible for the administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to the Regulation of Foreign Exchange of the People's Republic of China (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996, as amended on January 14, 1997 and August 5, 2008, international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to the approval from the SAFE while capital account items are.

The Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) promulgated by PBOC which took effect on July 1, 1996 abolished the remaining restrictions on foreign exchange in respect of current account items while retaining the restrictions on foreign exchange transactions in respect of capital account items.

On July 21, 2005, PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies. Therefore, the RMB exchange rate was no longer pegged to the U.S. dollar only and the exchange rate system for Renminbi became more flexible. The PBOC will publish the closing price of foreign currencies such as the U.S. dollar against Renminbi in the interbank foreign exchange market after the closing of the market on each working day. This closing price will be used as the middle price for the trading of Renminbi on the following working day. Since January 4, 2006, PBOC has authorized China Foreign Exchange Trading Center to publish the middle price for the exchange of Renminbi to the U.S. dollar, Euro, Japanese yen and Hong Kong dollar at 9:15 am on each business day, which will be used as the middle prices of exchange rates for transactions in interbank spot foreign exchange market (including OTC and automatic price-matching transactions) and bank counter transactions.

On January 28, 2013, SAFE issued the Notice on Relevant Issues of Foreign Exchange Management of Overseas Listing (《關於境外上市外匯管理有關問題的通知》, “SAFE Circular 5”), which came into effect on the day of issuance. According to SAFE Circular 5, a domestic issuer shall, within 15 working days after its overseas IPO, register with SAFE’s local branch at the place of its incorporation. For domestic companies which shares are listed overseas, when the domestic shareholders increase or decrease their overseas shareholdings pursuant to the relevant regulations, these companies should complete the register of overseas shareholdings with the respective local foreign exchange authorities. The SAFE branch shall issue a certificate of overseas listing, based on which the domestic issuer can open a special account with a local bank to deposit proceeds from its overseas IPO. The proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of this prospectus and other disclosure documents. The conversion of proceeds remitted to domestic accounts into RMB shall be approved by the local SAFE branch.

## TAXATION IN HONG KONG

### 1. Taxation on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

### 2. Taxation on Capital Gains and Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H shares. Trading gains from the sale of H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a maximum rate of 15.0%. Gains from sales of the H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

**3. Stamp Duty**

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required). Where a sale or purchase of H shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty.

**4. Estate Duty**

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after February 11, 2006.

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## **APPENDIX IV      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and Hong Kong company law, certain requirements of the Listing Rules and the Mandatory Provisions. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which is important to the potential investors.

### **PRC LAWS AND REGULATIONS**

#### **(a) The PRC legal system**

The PRC legal system is based on the PRC Constitution (hereinafter referred to as “the Constitution”) and is made up of written laws, administrative regulations, local regulations, autonomy regulations and separate rules, rules of State Council departments, rules of local governments and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (“the Legislation Law”), the National People’s Congress (“NPC”) and the standing committee of the NPC (“the Standing Committee”) are empowered to exercise the legislative power of the State. The NPC enacts and amends basic laws governing criminal offenses, civil affairs, the State organs and other matters. The Standing Committee enacts and amends laws other than those that shall be formulated by the NPC, and during the period of adjournment of the NPC, the Standing Committee may partially supplement and amend the laws enacted by the NPC, but not in contradiction to the basic principles of such laws. The State Council is the highest organ of state administration and enacts administrative regulations based on the Constitution and laws. The people’s congresses at the provincial level and their standing committees may, in light of the specific circumstances and actual needs of their respective administrative areas, enact local regulations, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The ministries and commissions of the State Council, the PBOC, the National Audit Office of the PRC as well as other state organs endowed with administrative functions directly under the State Council may, according to laws, administrative regulations, decisions and orders of the State Council, formulate ministerial rules within their authorities. The people’s governments of the provinces, autonomous regions, and municipalities directly under the central government and the comparatively larger cities may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities. The people’s congresses of the national autonomous regions have the power to enact autonomous regulations and separate regulations on the basis of the political, economic and cultural characteristics of the local nationalities that reside in the area.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The significance of laws is greater than that of administrative regulations, local



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regulations, and rules. The significance of administrative regulations is greater than that of local regulations and rules. The significance of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The significance of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the comparatively larger cities within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee has the power to annul any administrative regulation that contravenes the Constitution and laws, to annul any local regulation that contravenes the Constitution, laws or administrative regulations, and to annul any autonomous regulation or local regulation which has been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the Central Government, but which contravene the Constitution and the Legislation Law.

The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the Central Government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at the lower level.

The power to interpret laws is vested in the Standing Committee by the Constitution. According to Resolutions of the Standing Committee on Improving Interpretation of Laws passed on June 10, 1981, in cases where the scope of provisions of laws or decrees needs to be further defined or additional stipulations need to be made, the Standing Committee shall provide interpretations or make stipulations by means of decrees. Interpretation of questions involving the specific application of laws and decrees in court trials shall be provided by the Supreme People's Court. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and supervisory authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities directly under the Central Government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the supervisory authorities under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government.



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### (b) The PRC judicial system

According to the Constitution and the Law of Organization of the People's Courts of the PRC (hereinafter referred to as the "Law of Organization of the People's Courts"), the People's Courts consist of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts, and other special divisions, such as the intellectual property division, where necessary.

The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The people's procuratorates also have the power to exercise legal supervision over the litigation proceedings of people's courts at the same level or below. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the people's courts at all levels.

The people's courts have adopted a "second instance as final" appellate system. A party may appeal against a judgment or ruling by the people's court of first instance to the people's court at the next higher level prior to the judgment or the ruling of the first instance is legally effective. The judgment or the ruling of the second instance by the people's court at the next higher level is final and legally binding. First judgments or rulings by the Supreme People's Court are final as well. However, in the case that the Supreme People's Court or the people's court at a higher level finds definite error(s) in the legally effective judgment or ruling by the people's court at a lower level, or the presiding judge of the people's court finds definite error(s) in the legally effective judgment by the court over which he/she presides, the case may then be retried in accordance with the judicial supervisory procedures.

The Civil Procedure Law of the PRC (hereinafter referred to as the "Civil Procedure Law") sets forth provisions for the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a local court in the defendant's place of domicile. The parties to a contract may, by express agreement, select a court of jurisdiction where civil actions may be brought, provided that the court of jurisdiction is located in either the plaintiff's or the defendant's place of domicile, or the place of execution or implementation, or the place of the object of the action, and provided that the provisions of the Civil Procedure Law regarding jurisdiction by level and exclusive jurisdiction shall not be violated.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. Should the judicial system of a foreign country limit the litigation rights of the PRC citizens or enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action

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refuses to comply with a legally effective judgment or ruling by a people's court or an effective award by an arbitration tribunal in the PRC, the other party may apply to the people's court for the compulsory enforcement of the judgment, ruling or award. However, specific time limits are imposed on the right to apply for such compulsory enforcement. The time limit for the submission of an application for enforcement shall be two years. The suspension or termination of the time limit for the submission of an application for enforcement shall be governed by the provisions on the suspension or termination of the statute of limitation.

When a party applies to a people's court for enforcing an effective judgment or ruling by a people's court against a party who is not located within the territory of the PRC or whose property is not within the PRC, the party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country on the mutual recognition and enforcement of judgments and rulings, or if the judgment or ruling satisfies the court's examination based on the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons related to the public interests.

### **(c) The PRC Company Law, Special Regulations and Mandatory Provisions**

On December 29, 1993, the Company Law of the PRC was adopted by the standing committee of the Eighth NPC, which came into effect on July 1, 1994 and was amended for the first time on December 25, 1999, the second time on August 28, 2004, the third time on October 27, 2005 and the fourth time on December 28, 2013. The newly amended Company Law of the PRC (hereinafter referred to as the new "Company Law") came into effect on March 1, 2014. The Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Shares by Joint Stock Limited Companies (hereinafter referred to as the "Special Provisions") were adopted at the 22nd Standing Committee Meeting of the State Council on July 4, 1994. The Special Provisions was formulated according to Article 85 and Article 155 of the Company Law (in 1993 as was then in effect) and applies to the overseas share subscription and listing of joint stock limited companies.

The Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to be Listed Overseas (hereinafter referred to as the "Mandatory Provisions") were promulgated by the former Securities Commission of the State Council and the State Economic System Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association (which are summarized in Appendix V).

#### *(i) General provisions*

A "joint stock limited company" (hereinafter referred to as the "company") is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

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A State-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by laws and administrative regulations for the modification of its operation mechanisms, the handling and evaluation of the company's assets and liabilities and the establishment of its internal management organs.

A company must conduct its business in accordance with law and professional ethics. A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liability associated with the debts of the invested enterprises.

### *(ii) Incorporation*

A company may be incorporated by promotion or public subscription.

A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC. According to the Special Regulations, state-owned enterprises or enterprises with the majority of their assets owned by the PRC government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors.

A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

The Company Law provides that for companies incorporated by way of promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the relevant administrative bureau for industry and commerce; for companies incorporated by way of public subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administrative bureau for industry and commerce.

Pursuant to the Securities Law, the total capital of a company which proposes to apply for its shares to be listed on a stock exchange shall not be less than RMB30 million. The promoters shall convene an inaugural meeting within 30 days after the issued shares have been completely paid up, and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days prior to the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the inaugural meeting include adopting the draft articles of association proposed by the promoters and electing the board of directors and the Board of Supervisors of the company. Any resolution of the meeting shall be approved by subscribers with more than half of the voting rights of those present at the meeting.

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Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established and has the qualification of a legal person once the registration has been approved by the relevant administrative bureau for industry and commerce and a business license has been issued.

The promoters of a company shall individually and jointly be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on April 22, 1993 (which is only applicable to the issue and trading of shares in the PRC and relevant activities), if a company is incorporated by means of public subscription, the promoters of the company are required to assume joint liability for the accuracy of the contents of this document and to ensure that this document does not contain any misleading statement or omission of any material information.

### *(iii) Share capital*

The promoters of a company may make capital contributions in cash, or in kind that can be valued in currency and transferable according to laws such as intellectual property rights or land-use rights based on their appraised value.

There is no limit under the Company Law as to the percentage of shares held by an individual shareholder in a company.

If capital contribution is made other than in cash by the promoters of the company, valuation and verification of the properties contributed must be carried out and converted into shares. A company may issue registered or bearer shares.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency.

Pursuant to the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan and listed overseas are defined as overseas-listed-foreign-invested shares, and those issued to investors within the PRC other than the aforementioned areas are defined as domestic shares. Qualified Foreign Institutional Investors (“QFII”) approved by China Securities Regulatory Commission (hereinafter referred to as “CSRC”) may hold domestic listed shares. A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Detailed measures shall be specified by the State Council based on the Special Regulations. According to the Special Regulations, upon approval of CSRC, a company may

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agree, in the underwriting agreement on issuing overseas-listed-foreign-invested shares, to retain not more than 15% of the aggregate amount of overseas-listed-foreign-invested shares proposed to be issued less the amount of underwritten shares. The share offering price may be equal to or in excess of par value, but shall not be less than par value. The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council. The transfer of registered shares by a shareholder must be conducted by means of an endorsement or by other means stipulated by laws or by administrative regulations. Bearer shares are transferred by delivery of the share certificates to the transferee. No modification registration shall be made to the registrar of shareholders within thirty (30) days prior to the shareholders' assembly being held or within five (5) days prior to the benchmark date set for the purpose of distribution of dividends.

### *(iv) Increase in capital*

Pursuant to the Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting. Except for abovementioned conditions of obtaining approval at the general meeting required by the Company Law, the Securities Law requires the following conditions for a company to offer new shares to the public: (i) a complete and well-operated organization; (ii) capability of making profits continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three years; (iv) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council.

The public offer requires the approval of the securities administration authority of the State Council. After payment in full for the new shares issued, a company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

### *(v) Reduction of share capital*

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures stipulated by the Company Law:

- the company shall prepare a balance sheet and an inventory of assets;
- the reduction of registered capital must be approved by shareholders in the general meeting;
- the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in newspapers within 30 days once the resolution approving the reduction in capital being passed;
- creditors of the company may require the company to clear its debts or provide guarantees covering the debts within the statutory time limit; and

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- the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction in registered capital.

*(vi) Repurchase of shares*

A company shall not purchase its own shares other than for the following purposes:

- to reduce the registered capital by canceling its shares or to merge with another company holding its shares;
- to grant shares as a reward to the staff of the company;
- to purchase the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting; or
- other purposes permitted by laws and administrative regulations.

The shares repurchased by the company as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any fund for the repurchase shall be paid out of after-tax profits of the company, and the shares repurchased shall be transferred to the staff of the company within one year. The Mandatory Provisions stipulate that upon obtaining approvals from relevant supervisory authorities in accordance with the articles of association of the company, a company may, for the aforementioned purposes, repurchase its issued shares by way of a general offer to its shareholders or purchase on a stock exchange or through outside-market contract.

*(vii) Transfer of shares*

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock changes established pursuant to laws or by other means as stipulated by the State Council. Registered shares may be transferred by endorsement or in any other manner specified in applicable laws and regulations. Shares held by the promoter(s) of a company shall not be transferred within one (1) year from the date of incorporation of the company. Shares issued by a company prior to the public offer of its shares shall not be transferred within one (1) year from the date of its shares being listed on a stock exchange. Directors, supervisors and senior management personnel of the company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the company held by each of them within one (1) year from the listing date.

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### *(viii) Shareholders*

The articles of association of a company set forth the shareholders' rights and obligations and are binding on all the shareholders. Pursuant to the Company Law and the Mandatory Provisions, a shareholder's rights include:

- the right to attend in person or appoint a representative to attend the shareholders' general meeting and to vote in respect of the amount of shares held;
- the right to transfer his/her shares in accordance with applicable laws and regulations as well as the articles of association;
- the right to inspect the company's articles of association, shareholders' registers, records of company's debentures, minutes of shareholders' general meeting, board resolutions, supervisor resolutions and financial accounting reports, and to put forward proposals or raise questions on the business operations of the company;
- if a resolution approved by the shareholders' general meeting or by the board of directors violates any law or regulation, or infringes on the shareholders' lawful rights and interests, the right to institute an action in a people's court demanding that the illegal infringing action be stopped;
- the right to receive dividends based on the number of shares held;
- the right to obtain surplus assets of the company upon its termination in proportion to shares he/she holds; to claim against other shareholders who abuse their rights of shareholders for the damages; and
- any other shareholders' rights specified in the articles of association.

The obligations of shareholders include: abide by the articles of association of the company; pay the subscription monies in respect of shares subscribed for; be liable for debts and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up; no abuse of shareholders' rights to damage the interests of the company or other shareholders of the company; no abuse of the independent status of the company as a legal person and its limited liability companies as to damage the interests of the creditors of the company; and any other obligation specified in the articles of association of the company.



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*(ix) Shareholders' general meeting*

The shareholders' general meeting is the organ of authority of a company, which exercises its functions and powers in accordance with the Company Law.

The shareholders' general meeting exercises the following functions and powers:

- to decide on operational policies and investment plans of the company;
- to elect or remove the directors and supervisors who are not representatives of the employees;
- to decide on matters relevant to remuneration of directors and supervisors;
- to review and approve reports of the board of directors;
- to review and approve reports of the board of supervisors or the supervisors;
- to review and approve annual financial budgets and financial accounts proposed by the company;
- to review and approve proposals for profit distribution and for recovery of losses of the company;
- to decide on increase and reduction of the registered capital of the company;
- to decide on bond issuances of the company;
- to decide on merger, division, dissolution and liquidation of the company and other issues;
- to amend the articles of association of the company; and
- other functions and powers specified in the articles of association of the company.

The annual shareholders' general meeting must be convened once a year. An extraordinary shareholders' general meeting shall be held within two months after the occurrence of any of the following circumstances:

- the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the articles of association of the company;



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- the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;
- as requested by a shareholder holding, or shareholders holding in aggregate, 10% or more of the shares of the company;
- when deemed necessary by the board of directors;
- as suggested by the board of supervisors; or
- other matters required by the articles of association.

The shareholders' general meeting shall be convened by the board of directors and shall be presided over by the chairman of the board of directors.

The notice to convene the shareholders' general meeting shall be dispatched to all the shareholders 20 days before the general meeting pursuant to the Company Law, and 45 days pursuant to the Special Regulations and the Mandatory Provisions, stating the matters to be reviewed at the general meeting. Under the Special Regulations and the Mandatory Provisions, shareholders intending to attend are required to send written confirmations of their attendance to the company 20 days before the general meeting. According to the Special Regulations, at the annual shareholders' general meeting of the company, shareholders with 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be reviewed at the general meeting, which if within the functions and powers of the shareholders' general meeting, are required to be added to the agenda of the general meeting.

Shareholders present at the shareholders' general meeting possess one vote for each share they hold. However, the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be approved by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the general meeting, except that such resolutions as merger, division, increase or reduction of registered capital, the issue of bonds or short-term debentures, the change in the form of the company or the amendment to the articles of association, shall be approved by shareholders with more than two-thirds of the voting rights cast by shareholders present (including those represented by proxies) at the general meeting.

A shareholder may entrust a proxy to attend a shareholders' general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorization scope. There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from

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shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting, and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

*(x) Directors*

A company shall have a board of directors, which shall consist of five to nineteen members, and there can be staff representatives of the company. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years.

The directors may hold consecutive terms upon re-election. Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following functions and powers:

- to convene the shareholders' general meeting and report on its work to the shareholders;
- to implement the resolution of the shareholders' general meeting;
- to decide on the company's business plans and investment plans;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's proposals for profit distribution and for recovery of losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- to prepare plans for the merger, division or dissolution of the company;
- to decide on the company's internal management structure;

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- to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization for another director to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not act as a director of a company:

- persons without capacity or restricted capacity to undertake civil liabilities;
- persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- persons who are former directors, factory managers or managers of a company or enterprise that has been bankrupt and has been liquidated due to mismanagement, and those persons are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

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- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, and less than three years have elapsed since the date of the revocation of the business license; or
- persons who have a relatively large amount of debt due and outstanding; or other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises the following functions and powers (including but not limited to):

- to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- to check on the implementation of the resolutions of the board of directors;

The legal representative of a company, in accordance with the company's articles of association, may be the chairman, any executive director or the manager. The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix V) contains further elaborations of such duties.

### *(xi) Supervisors*

A company shall have a Board of Supervisors composed of not less than three members. Each term of office of a supervisor is three years, and the supervisors may hold consecutive terms upon re-election. The Board of Supervisors is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

The Board of Supervisors exercises the following functions and powers:

- check the financial affairs of the company;
- supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior manager who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting;

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- require the director or senior manager to make corrections if his act is detrimental to the interests of the company;
- propose the convening of extraordinary shareholders' general meetings, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;
- put forward proposals at shareholders' general meetings;
- initiate actions against directors or senior management; and
- other functions and duties as provided for by the articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

*(xii) Managers and senior officers*

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's internal rules;
- recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- attend board meetings as a non-voting attendant; and
- other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management personnel of a company include the financial officers, secretary of the board of directors and other executives as specified in the articles of association of the company.

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The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company. The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management personnel of a company have been incorporated in the Articles of Association (a summary of which is set out in Appendix V).

### *(xiii) Duties of directors, supervisors, managers and senior officers*

A director, supervisor, manager and other senior officers of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and other senior officers of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company unless permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and other senior officers who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

### *(xiv) Finance and accounting*

A company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the responsible financial department of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited and verified as provided by law.

A company shall make available its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders' meeting or the shareholders' general meeting, the company may make an allocation to a discretionary common reserve from the after-tax profits.

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If the aggregate balance of the company's statutory surplus reserve is not enough to make up for the losses of the company of the previous year, the current year's profits shall first be used for making good the losses before the statutory surplus reserve is set aside according to the provisions of the preceding paragraph.

After the losses have been made up and statutory surplus reserves have been set aside from the after-tax profit, the remaining profits shall be distributed to shareholders in proportion to the number of shares held by shareholders as in the case of a joint stock limited company, except as otherwise provided in the articles of association.

The capital common reserve of a joint stock limited company is made up of the premium over the nominal value of the shares of the company on issue, and other amounts required by the financial department of the State Council to be treated the capital reserve.

The company's common reserves shall be used for making up losses, expanding the production and business scale or increasing the registered capital of the company, but the capital reserve shall not be used for making up the company's losses. Where the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve shall not be less than 25% of the registered capital after such conversion.

### *(xv) Appointment and retirement of auditors*

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

### *(xvi) Distribution of profits*

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

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*(xvii) Amendments to articles of association*

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies' approval department of the State Council and CSRC. In relation to matters involving the company's registration, the company shall modify its registration with the companies' registration authority.

*(xviii) Dissolution and liquidation*

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

- (1) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (2) the shareholders in a general meeting have resolved to dissolve the company;
- (3) the company is dissolved by reason of its merger or demerger;
- (4) the company is subject to the revocation of business license, a closure order or dismissal in accordance with laws; or
- (5) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the People's Court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (1), (2), (4) and (5) above, a liquidation committee must be formed within 15 days from the date of dissolution.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment. The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification.



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The liquidation committee shall exercise the following functions and powers during the liquidation period:

- handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- notify creditors or issue public notices;
- deal with and settle any outstanding business of the company;
- pay any tax overdue;
- settle the company's financial claims and liabilities;
- handle the surplus assets of the company after its debts have been paid off; and
- represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall not engage in operating activities unrelated to the liquidation. If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy.

Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors with respect to any loss arising from his willful or material default.

### *(xix) Overseas Listing*

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

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According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from CSRC.

*(xx) Loss of H share certificates*

A shareholder may apply, in accordance with the relevant provision set out in the PRC Civil Procedure Law, to a people's court in the event that H share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

*(xxi) Suspension and Termination of Listing*

The new and amended Company Law has deleted provisions governing suspension and termination of listing. The new Securities Law has been amended as follows: the trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council (the new Securities Law has renamed this as the Securities Exchange) under one of the following circumstances:

- (1) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company;
- (2) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;
- (3) the company has committed a major breach of the law;
- (4) the company has incurred losses for three (3) consecutive years; or
- (5) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (1) above, or the company has refused to rectify the situation in the case described in (2) above, or the company fails to become profitable in the next subsequent year in the case described in (4) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

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The Company Law provides that the securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared bankrupt.

### *(xxii) Merger and demerger*

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

### **(d) Securities law and other relevant regulations**

The PRC has promulgated a number of regulations that relate to the issue and trading of Shares and disclosure of information by the Company. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for co-coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory body of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by the PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis.

The Securities Law took effect on July 1, 1999 and was revised for the first time as of August 28, 2004 and for the second time on October 27, 2005. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a company must obtain prior approval from the State Council's regulatory authorities to list shares outside the PRC. Article 239 of the Securities Law provides that specific measures with respect to shares of companies in the PRC that are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

### **(e) Arbitration and enforcement of arbitral awards**

The Arbitration Law of the People's Republic of China (the "Arbitration Law") was passed by the Standing Committee on August 31, 1994 and became effective on September 1, 1995. It is applicable to contract disputes and other property disputes between natural person, legal person and other organizations where the parties have entered into a written agreement

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to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in a company's Articles of Association and, in the case of the Listing Rules, also in contracts with each of the directors and supervisors, to the effect that whenever any disputes or claims arise between holders of H Shares and the company; holders of H Shares and the directors, supervisors, manager or other senior officers; or holders of H Shares and holders of domestic shares, with respect to any disputes or claims in relation to the companies affairs or as a result of any rights or obligations arising under its Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration. Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim shall comply with the arbitration. Disputes with respect to the definition of shareholders and disputes related to a company's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award by a PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

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The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the request for enforcement is made.

It was declared by the Standing Committee simultaneously with the accession of the PRC that (1) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC will only apply the New York Convention in disputes considered under the PRC laws to arise from contractual and non-contractual mercantile legal relations. On June 18, 1999, an arrangement was made between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under the arrangement, awards made by the PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.

### **HONG KONG LAWS AND REGULATIONS**

#### **(a) Summary of Material Differences Between Hong Kong and PRC Company Law**

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

##### **(i) *Corporate existence***

Under Hong Kong company law, a company having share capital, is incorporated and will acquire an independent corporate existence after the company registrar of Hong Kong issuing a certificate of incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company’s articles of association does not contain such preemptive provisions.

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Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. A joint stock limited company must have a minimum registered capital of RMB5 million, or a higher amount as may otherwise be required by laws and regulations. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

### *(ii) Share capital*

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. The authorized share capital may be larger than its issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital other than registered capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities when applicable.

Under the PRC Company Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or nonmonetary assets that may be valued in currency and lawfully transferable. For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

### *(iii) Restrictions on shareholding and transfer of shares*

Under PRC law, the domestic shares ("domestic shares") in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the domestic investors of the PRC. The overseas listed foreign shares ("foreign shares") issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, as well as other qualified institutions.

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Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law except for the six-month lock-up on the company's issue of shares and the 12 month lock-up on the Controlling Shareholders' disposal of shares as described in the section entitled "Underwriting" in this prospectus.

### *(iv) Financial assistance for acquisition of shares*

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

### *(v) Variation of class rights*

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of a Hong Kong company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares,



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separately or simultaneously, once every 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as of the date of the Shareholders' special resolution; (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) upon approval by CSRC, the shareholders of domestic shares of the Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

### *(vi) Directors*

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts; restrictions on directors' authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V.

### *(vii) Board of Supervisors*

Under the PRC Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a Board of Supervisors but there is no mandatory requirement for the establishment of a Board of Supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

### *(viii) Derivative action by minority shareholders*

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the shareholders in a general meeting, or by the board of directors, that violates any law or infringes the lawful rights and interests of the shareholders. The PRC Company Law also provides that the shareholder can initiate proceedings if the director or senior management of the Company violates the law, administrative regulation or articles of association of the



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Company and thus infringe the shareholder's interest. The Mandatory Provisions further provide remedies to the company against directors, supervisors and senior management in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Hong Kong Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against the directors and supervisors in default.

### *(ix) Protection of minorities*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that where any company encounters any serious difficulty in its operations or management so as that the interests of the shareholders will face serious loss if the company continues to exist and such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

### *(x) Notice of shareholders' meetings*

Under the PRC Company Law, notice of a shareholders' general meeting must be given not less than 20 days before the meeting, or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively. The notice period for an annual general meeting is 21 days.

### *(xi) Quorum for shareholders' meetings*

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum.

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The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

### *(xii) Voting*

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

### *(xiii) Financial disclosure*

A company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the PRC Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

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### *(xiv) Information on directors and shareholders*

The PRC Company Law gives the shareholders of a company the right to inspect the Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

### *(xv) Receiving agent*

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

### *(xvi) Corporate reorganization*

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to sections 668 to 674 of the Companies Ordinance which requires the sanction of the court. Under PRC Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

### *(xvii) Arbitration of disputes*

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

### *(xviii) Mandatory deductions*

Under the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declare any dividends after taxation. The company may not required to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profits. There are no such requirements under Hong Kong law.

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## APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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### *(xix) Remedies of a company*

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been in compliance with the Hong Kong Listing Rules.

### *(xx) Dividends*

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

### *(xii) Closure of register of shareholders*

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

## **(b) Hong Kong Listing Rules**

The Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

### *(i) Compliance advisor*

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other

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## APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

### *(ii) Accountants' report*

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises.

### *(iii) Process agent*

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

### *(iv) Public shareholdings*

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("foreign shares") which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

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## APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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### *(v) Independent non-executive directors and supervisors*

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the Company.

### *(vi) Mandatory provisions*

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V.

### *(vii) Redeemable shares*

The Company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

### *(viii) Pre-emptive rights*

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Company's articles of association, prior to (1) authorizing, allotting,

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## APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the Company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State Counsel, the shareholders of domestic invested shares of the Company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

### *(ix) Supervisors*

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

The Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year.

The remuneration and assessment committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

### *(x) Amendment to the Articles of Association*

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Hong Kong Listing Rules and the Mandatory Provisions or the PRC Company Law.



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## APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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### *(xi) Documents for inspection*

The Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last certificates year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return led with the Beijing Administration for Industry and Commerce; and
- for Shareholders only, copies of minutes of meetings of shareholders.

### *(xii) Receiving agents*

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

### *(xiii) Statements in H share certificates*

The Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;



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**APPENDIX IV      SUMMARY OF PRINCIPAL PRC AND HONG KONG  
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- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his behalf with each Director, Supervisors, Managers and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

***(xiv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association***

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

***(xv) Contract between the Company and its Directors, officers and Supervisors***

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its

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## APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or offer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award. The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

### *(xvi) Subsequent listing*

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

### *(xvii) English translation*

All notices or other documents required under the Hong Kong Listing Rules to be sent by the Company to the Hong Kong Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

### *(xviii) General*

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the Company's listing.

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## **APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### **(c) Other Legal and Regulatory Provisions**

Upon the Company's listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to the Company.

### **(d) Securities Arbitration Rules**

The Articles of Association provide that certain claims arising from the Articles of Association, PRC Company Law and other applicable laws shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend.

Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and China Taiwan.

### **(e) PRC Legal Matter**

DeHeng Law Offices, our legal advisors on PRC law, have confirmed that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. Any person wishing to have detailed advice on PRC law and the laws of any jurisdictions is recommend to seek independent legal advice.

Set out below is a summary of the Articles of Association to provide an overview of the Articles of Association to potential investors. As the information contained below is only a summary, it does not contain all the information that may be important to potential investors.

#### **EFFECTIVE DAY OF THE ARTICLES OF ASSOCIATION**

These Articles have been adopted by a special resolution of the general meeting of the Company and shall be effective upon the listing of the H Shares on the Hong Kong Stock Exchange. Upon the effective day of these Articles, the existing Articles of the Company and the amendments thereto shall lapse automatically.

#### **SCOPE AND OBJECTIVES OF BUSINESS**

The aim of the Company is to take advantage of all relevant parties, contribute to the local economic growth, serve the society and give all shareholders a satisfactory return, in accordance with the necessary of national industrial policies, international and domestic market.

The scope of business of the Company: Investment business, Investment management and Investment Advisory.

#### **SHARES**

##### **Issuance of Shares**

The Company shall have ordinary shares at all times. If required, upon approval by the authorities delegated by the State Council, the Company may create shares of other classes. Shareholders of different classes of the Company shall rank *pari passu* over dividends or any forms of distribution.

The Company shall issue shares under the principles of openness, fairness and equality that shares of the same class shall carry same rights. The issue conditions and price per shares of the same class in the same issue shall be the same.

All shares issued by the Company have a par value of RMB1 per share.

The Company may, with approval from the CSRC or other relevant regulatory authorities, issue shares to domestic and overseas investors. The board of the Company may arrange the issue of domestic and overseas shares separately. Subject to the maximum number of shares proposed to be issued, the Company may issue overseas listed foreign and domestic-invested shares, which shall be fully subscribed for in their initial offerings. If the shares are not fully subscribed for in their initial offerings, the Company may re-issue the unsubscribed shares subject to approval of the CSRC.

**Increment, Reduction and Repurchase of Shares**

Subject to approval of the shareholders at general meeting, the Company may, based on its requirements for operation and development and in accordance with the applicable laws and regulations, increase its capital by way of:

- issue initial offerings to non-specific investors;
- rights issue of new shares to existing shareholders;
- bonus issue of new shares to existing shareholders;
- capitalization of surplus reserve; and
- any other way permitted by the laws, regulations and the relevant regulatory authorities.

The Company may reduce its registered capital. If the Company reduces its registered capital, it must prepare a balance sheet and an inventory of its assets. The Company shall notify its creditors within ten days and shall publish a notice in newspapers within 30 days after the passing of resolution approving the reduction of capital. Creditors shall, within 30 days after receiving the notice or 45 days after the first publication of the notice (for those who have not received the notification), have a right to require the Company to settle its debts or to provide guarantees for their settlement. The reduced registered capital of the Company shall not fall below the minimum statutory requirement.

The Company shall register the change of its registered capital with the company registry.

The Company may, according to the applicable laws, rules, regulations and these Articles, repurchase its shares under the following circumstances:

- to reduce the registered capital of the Company;
- to merge with another company holding shares of the Company;
- to grant shares to employees of the Company as incentives;
- to acquire shares held by dissident shareholders (if so requested) who vote against resolution proposed in shareholders' general meeting on the merger or division of the Company; and
- other circumstances as permitted by laws and regulations.

The Company shall not engage in the trading of its shares save for the circumstances specified above.

The Company may repurchase its shares in one of the following manners:

- to offer to repurchase shares from all shareholders in equal proportions;
- to repurchase through open transaction in stock exchanges;
- to repurchase through over-the-counter agreement; and
- other means as permitted by the laws, regulations and the relevant competent authorities.

Where the Company repurchases its shares through over-the-counter agreement, it shall seek prior approval of shareholders at general meeting in accordance with these Articles.

Shares repurchased by the Company shall be canceled within the period prescribed by laws and regulations. The Company shall apply to the original company registration authority for registration of the change of its registered capital.

#### **Transfer of Shares**

Subject to the applicable laws, regulations and the requirements of the securities regulatory authorities in the place where the Company's shares are listed, the paid-up shares of the Company are transferrable free of lien.

The Company shall not accept any pledge of its shares.

Promoter shares of the Company are not allowed to transfer within a year from the date of the establishment of the Company. Shares issued before the initial public offering of the Company are transferrable subject to the applicable laws, regulations and the relevant requirements of the Listing Rules. The transfer of more than 5% of the Company's shares shall be made in accordance with the applicable laws, regulations, statutory documents and the relevant requirements of the Listing Rules. Directors, supervisors and other senior management of the Company shall notify the Company of their shareholdings in the Company and changes thereof. The number of shares transferred by directors, supervisors and other senior management of the Company in a given year shall not be more than 25% of the total number of shares of the Company. The shares of the Company held by directors, supervisors and other senior management of the Company shall not be transferred within one year from the day on which the shares of the Company are listed. The aforesaid persons shall not transfer the shares of the Company held by them within six months from the date of their resignation.

Where any director, supervisor, senior management of the Company and shareholder holding 5% or above of the Company's shares in issue sell his/her shares within a period six months after their purchase, or repurchase shares in the Company within a period of six months after their disposal, the gains so earned shall belong to the Company. The board of directors of the Company shall demand such gains for the benefit of the Company. However, the six-month restriction shall not apply for a securities company holds 5% or more of the Company's shares as a result of its underwriting of the untaken shares in an offer.

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**APPENDIX V                      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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All paid-up overseas listed foreign shares listed on the Hong Kong Stock Exchange may be transferred freely in accordance with these Articles. However, the board may refuse to recognize any instrument of transfer without giving any reasons unless the following conditions are satisfied:

- a fee (for each instrument of transfer) of HK\$2.50 or any maximum fee as stipulated from time to time by the Stock Exchange has been paid to the Company for registration of any instrument of transfer or any other document which is related to or will affect ownership of or change of ownership of the shares;
- the instrument of transfer only involves Overseas Listed Foreign Shares listed in Hong Kong;
- the stamp duty chargeable on the instrument of transfer has been paid;
- the relevant share certificate and any evidence in relation to the right of the transferor to transfer the shares reasonably requested by the Board has been submitted;
- if it is intended to transfer the shares to joint owners, then the maximum number of joint owners shall not exceed four;
- the Company does not have any lien on the relevant shares; and
- no transfer shall be made to minors or persons of unsound mind or under other legal disability.

If the Company refuses to register the transfer of shares, the Company shall notify the transferor and transferee of the refusal within two months from the date of the application for registration of transfer.

**Financial Assistance for Purchase of Company's Shares**

Subject to the Articles of Association:

- neither the Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to a person who acquires or is proposing to acquire shares in the Company. The said person includes any person who has directly or indirectly incurred a liability as a result of the acquisition of shares in the Company; and
- neither the Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to the person mentioned in the foregoing paragraph for the purposes of reducing or discharging his liabilities.

The following transactions are not prohibited:

- the provision of financial assistance where the Company’s principal purpose for giving that assistance is genuinely for the Company’s interests and not for the purpose of acquiring the Company’s shares or the provision of such assistance is incidental to some broader objective of the Company;
- a distribution of the Company’s assets by way of dividend lawfully declared;
- a distribution of dividends by way of bonus shares;
- a reduction of share capital, repurchase of shares of the Company or a reorganization of the share capital effected in compliance with the Articles of Association;
- the provision of loans by the Company in the ordinary course of its business, provided that the Company’s net assets are not thereby reduced or, to the extent that those assets are reduced, the assistance is provided out of distributable profits; and
- the Company’s contribution to employees’ share schemes provided that the Company’s net assets are not thereby reduced or, to the extent that those assets are thereby reduced, the assistance is provided out of distributable profits.

For these purposes,

- “financial assistance” includes, without limitation to:
  - (1) present;
  - (2) assistance given by way of guarantee (including the provision of any undertaking or property to secure the performance of obligations by the obligor) or indemnity, (other than an indemnity in respect of the Company’s own default) or by way of release or waiver;
  - (3) entering into an agreement under which the Company needs to perform its obligations ahead of the other contracting parties; or entering into an agreement for the change of the loan, the contracting parties or the assignment of rights arising under such loan or such agreement; or
  - (4) assistance given by the Company in any other manner when the Company is insolvent or has no net assets or where its net assets would thereby be reduced to a material extent; and
- “incurring a liability” includes incurring a liability by making an agreement or arrangement (whether enforceable or unenforceable, and whether made on one’s own account or on the account of any other person) or by changing one’s financial position by any other means.



**Share Certificates and Register of Shareholders**

The share certificates of the Company shall be in registered form and shall contain the following particulars:

- the name of the Company;
- the date of establishment of the Company;
- the class and par value of the shares and the number of shares represented by the certificate;
- the serial number of the share certificate; and
- declarations and any other particulars required by the Company Law and the securities regulatory authorities in the place where the Company's shares are listed.

The Company may issue overseas listed foreign shares in the form of foreign depository receipts or other derivatives in accordance with the laws and the practice of registration and depository of securities in the place of its listing.

The Company shall maintain a register of shareholders to record the names and following particulars of its shareholders:

- the name, address, occupation or status of shareholders;
- the class and number of shares held by each shareholder;
- the amount paid or payable on the shares held by each shareholder;
- serial number of share certificates held by each shareholder;
- the date of registration;
- the date of deregistration.

The register of shareholders shall be sufficient evidence of the shareholders' shareholding in the Company unless there is evidence to the contrary.

The Company may, pursuant to the understanding or agreement with the CSRC and overseas securities regulatory authorities, maintain the register of shareholders of overseas listed foreign shares in any place outside China and entrust its administration to an overseas agency. The original register of shareholders of foreign shares listed on Hong Kong Stock Exchange shall be maintained in Hong Kong. The Company shall maintain a copy of the

register of overseas shareholders at the domicile of the Company. The overseas agent entrusted by the Company shall ensure that the original and duplicate of the register of overseas shareholders are consistent at all times. Where there is discrepancy between the original and duplicate of the register of overseas shareholders, the original version shall prevail.

No transfer of share shall be registered within 30 days prior to the date of shareholders' general meeting or within 5 days before the record date set by the Company for the purpose of distribution of dividends.

Any person who objects to the register of shareholders and requests to have his name entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.

Any registered shareholder or any person who claims to be entitled to have his/her name entered into the register of shareholders in respect of shares in the Company may, in the event that his/her share certificate has been stolen, lost or destroyed, apply to the Company for a new share certificate for replacement.

## **SHAREHOLDERS AND GENERAL MEETING**

### **Shareholders**

A shareholder of the Company is a person who lawfully holds shares of the Company and has his/her name recorded in the register of shareholders.

A shareholder shall enjoy the relevant rights and assume the relevant obligations in accordance with the class and number of shares he/she holds. Shareholders holding the same class of shares shall enjoy the same rights and assume the same obligations.

The holders of ordinary share of the Company shall be entitled to the following rights:

- the right to dividends and other distributions in proportion to the number of shares held;
- the right to attend or appoint a proxy to attend shareholders' general meetings and to exercise the voting right;
- the right to supervise and manage the operation of the Company and to raise proposals and inquiries;
- the right to transfer shares in accordance with the laws, regulations and these Articles;

- the right to receive the relevant information in accordance with these Articles, including:
  - (1) the right to obtain a copy of these Articles, subject to payment of the cost of such copy;
  - (2) the right to inspect and copy, subject to payment of a reasonable charge: all or any part of the register of shareholders; personal particulars of each of the Company's directors, supervisors, general manager (or president) and other senior management; report on the capital structure of the Company; the latest audited financial statements of the Company and reports of the board, auditor and supervisory committee; special resolutions of the Company; reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount of cost incurred by the Company for this purpose, minutes of shareholders' general meetings; duplicate of the latest Annual Inspection Form filed with competent authority;
- the right to demand the Company to acquire the shares held by them if they disagree with the resolution adopted at shareholders' general meeting on the merger or division of the Company;
- the right to participate in the distribution of the remaining assets of the Company in proportion to the number of shares held in the event of the termination or liquidation of the Company; and
- any other rights conferred by the laws, rules, regulations, statutory documents and these Articles.

If a resolution passed at the Company's shareholders' general meeting or board meeting violates the laws or regulations, shareholders shall have the right to submit a petition to the people's court to invalidate the resolution. If the procedures for convening, or the voting at, a shareholders' general meeting or board meeting violate the laws, regulations or these Articles, or the resolution violates these Articles, shareholders shall be have the right to submit a petition to the people's court to rescind such resolutions within 60 days from the date of adoption of such resolution. If a director or a senior management violates any laws, regulations or these Articles in performing his duties and causes losses to the Company, shareholders holding in aggregate 1% or more of the Company's shares for 180 consecutive days may propose to the supervisory committee in writing to initiate legal proceedings against such acts in the People's Court; where the Company incurs losses as a result of the members of the supervisory committee having violated any laws, regulations or these Articles in performing their duties, shareholders may propose the board in writing to initiate legal proceedings in the People's Court. If the supervisory committee or the board refuses to initiate legal proceedings after receiving the aforesaid written proposal of shareholder, or fails to initiate such legal proceedings within 30 days on which such proposal is received, or in case of emergency where

failure to initiate such legal proceedings immediately will result in irreparable damage to the Company's interest, such shareholders may initiate legal proceedings in the People's Court directly in their own names in the interest of the Company. These shareholders may also initiate legal proceedings in the People's Court under the aforesaid regulations if any third parties infringe on the lawful interests of the Company and result in damage to the Company. Shareholders may initiate legal proceedings if a director or a senior management violates any laws, regulations or these Articles and impairs the interests of the shareholders.

The holders of ordinary shares of the Company shall have the following obligations:

- to abide by the laws, regulations and these Articles;
- to pay subscription monies according to the number of shares subscribed for and the method of subscription;
- to take the liabilities limited to the amount invested to the Company;
- not to divest the shares unless required by the laws and regulations;
- not to abuse their shareholders' rights to harm the interests of the Company or other shareholders; and not to abuse the independent legal person status of the Company and the limited liability of shareholders to harm the interests of any creditor of the Company; and
- to fulfill other obligations imposed by the laws, regulations and these Articles.

The controlling shareholders and beneficial controller of the Company shall not exploit their relationship with the Company to harm the interests of the Company. They shall be liable for compensation if they exploit their relationship with the Company and cause damage to the company.

#### **General Rules of Shareholders' General Meeting**

The shareholders' general meeting is the highest authority of the Company and shall exercise the following functions and powers in accordance with the laws:

- to decide on the operating policies and investment plans of the Company;
- to elect and remove directors and supervisors (except staff representatives), and to fix the remuneration of the directors and supervisors;
- to review and approve the reports of the board;
- to review and approve the reports of the supervisory committee;
- to review and approve the proposed annual financial budgets and final accounts of the Company;

- to review and approve the profit distribution plans and plans on making up losses of the Company;
- to adopt resolutions on the increment or reduction of registered capital of the Company;
- to adopt resolutions on the issuance of bonds, other securities or IPO project;
- to adopt resolutions on matters such as merger, division, dissolution, liquidation or change of corporate form of the Company;
- to amend these Articles;
- to adopt resolutions on the appointments, dismissals or non-reappointments of accounting firms;
- to consider and approve matters relating to security by the laws and regulations;
- to consider matters relating to the major purchases and disposals of the Company's material assets of a value exceeding 30% the Company's latest audited total assets in a year;
- to consider share incentive plan;
- to consider and approve the proposal submitted by shareholder(s) holding in aggregate more than 3% of the Company's shares; and
- to deal with other matters required by the laws, regulations or these Articles to be resolved by shareholders' general meeting.

Shareholders' general meetings are annual general meetings and extraordinary general meetings. The annual general meeting shall be held once every year within six months after the end of the previous accounting year. The Company shall hold an extraordinary general meeting within two months after the occurrence of one of the following events:

- the number of directors is less than the number required by the Company Law or less than two-thirds of the number specified by these Articles; (i.e. the number of directors is less than ten);
- the uncovered losses are in excess of one third of the Company's total paid-up share capital;
- shareholders individually or collectively holding 10% or more of the Company's voting shares request in writing;
- the board considers it necessary; and
- other circumstances as specified by the laws, rules, regulations and these Articles.

**Motions and Notices of Shareholders' General Meeting**

The board, the supervisory committee, and shareholder(s) individually or jointly holding 3% or more of the Company's shares shall have the right to propose resolutions to the Company for consideration at shareholders' general meeting.

A written notice of shareholders' general meeting shall be given to all shareholders whose names appear in the register of members 45 days before the meeting is held, specifying the matters to be considered at and the date and venue of the meeting. A shareholder who intends to attend the shareholders' general meeting shall deliver a written reply slip to inform the Company of his/her intention to attend 20 days before the meeting is held. In the event that the number of voting shares represented by shareholders who intend to attend the meeting is more than half of the total number of the voting shares of the Company, the Company shall hold the shareholders' general meeting. Otherwise, the Company shall, within five days, notify shareholders again of the matters to be considered at, and the date and venue for, the meeting in writing. The Company shall hold the shareholders' general meeting after such announcement has been made.

A notice of meeting of shareholders shall be:

- in writing;
- specify the time, place, the date of the meeting;
- state the matters to be discussed at the meeting;
- specify the date of record for shareholders entitled to attend;
- provide such information and explanation as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Where a proposal is made to amalgamate the Company with another company, to repurchase shares of the Company, to reorganize the share capital or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the reasons for and consequences of such proposal must be properly explained;
- contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, the President, or other senior officer in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of other shareholders of the same class;
- contain the text of any special resolution proposed to be passed at the meeting;
- contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint;

- one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder;
- specify the name, telephone number and email address of the contact person for the meeting.

Notices of shareholders' general meetings shall be served on the shareholders (whether or not they are entitled to vote at the meeting) by personal delivery or prepaid mail to their addresses registered in the register of shareholders. Notice of shareholders' general meetings may be made by way of public announcement (including published on the website of the Company) subject to prior written or implied consent of the shareholders in accordance with relevant laws and regulations as well as the amended Listing Rules.

Public announcement of notices of shareholders' general meetings for holders of Domestic Shares shall be published in one or more newspapers designated by the securities regulatory authority of the State Council and the website of the Company during 45 days to 50 days prior to the date of the meeting. Upon the publication of announcement, all holders of Domestic Shares shall be deemed to have received notice of the relevant shareholders' meeting.

The accidental omission to give notice of a meeting to, or the non receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the meeting and the decision made at that meeting.

Shareholders or the Board of Supervisors requisitioning an extraordinary general meeting of shareholders or class meeting shall abide by the following procedures:

- The Board of Supervisors or two or more shareholders individually or collectively holding more than ten percent (including the ten percent) of the shares carrying voting rights at the meeting to be convened may, by signing one or more counterpart written requisition(s) stating the object of the meeting, require the board of Directors to convene an extraordinary general meeting or a class shareholders' meeting. The board of Directors shall as soon as possible after receipt of such written requisition(s) proceed to so convene the extraordinary general meeting or class shareholders' meeting. The shareholdings referred to above shall be calculated as at the date of the delivery of the written requisition(s).
- Where the board of Directors fails to issue notice of convening meeting within thirty days upon receipt of the above written request, shareholder(s) individually or collectively holding more than ten percent (including the ten percent) of the shares carrying voting rights at the meeting to be convened may request by written requisition(s) the Board of Supervisors to convene the extraordinary general meeting or class shareholders' meeting. The Board of Supervisors may convene the meeting on their own accord within four months upon the board of Directors having received such request. Where the Board of Supervisors fails to convene and hold the meeting, shareholder(s) individually or collectively holding ten percent or more shares carrying voting rights on such proposed meeting for over ninety consecutive days may convene meeting on their own accord. The convening procedures shall as much as possible be equivalent to those of for meeting convened by the board of Directors.

**The Holding of Shareholders' General Meetings**

All shareholders in the shareholders' register on the record date or proxies thereof shall be entitled to attend the shareholders' general meetings and exercise their voting rights.

The shareholders may attend the shareholders' general meetings and exercise voting rights either in person or by proxy. Any shareholder entitled to attend and vote at a shareholders' general meeting shall have the right to appoint one or several persons (who need not to be shareholders) to act as his proxy to attend and vote at the meeting on his behalf. The proxy(ies) so appointed by the shareholder may, pursuant to the instructions of the shareholder, exercise the following rights:

- the right of the shareholder to speak at the meeting;
- the right to demand a poll alone or jointly with others; and
- except for the exceptions mentioned in Rules Governing the Listing of Stocks or other laws, regulations on securities, the right to exercise voting rights on a show of hands or on a poll, provided that where more than one proxy is appointed, the proxies may only exercise such voting rights on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointing shareholder or his/her attorney duly authorized in writing; where the appointing shareholder is a legal person or any other institution, such instrument shall be under its seal or under the hand of its legal representative duly authorized or attorney duly authorized.

All directors, supervisors and the secretary to the board shall attend the shareholders' general meetings. The other senior management shall also be present at the meeting.

A shareholders' general meeting convened by the board shall be presided over by the chairman of the board. If the chairman of the board is unable or fails to perform his/her duties, The chairman of the board may appoint a director of the company on behalf of himself to call a meeting and serve as the chairman of the meeting; the participating directors may elect a director to serve as the chairman when the appointment aforesaid is absent; Where the shareholders fail to elect a chairman of the shareholders' general meeting, the shareholder (including his/her proxy) present in person or by proxy who holds the largest number of shares carrying the right to vote thereat shall be the chairman of the shareholders' general meeting.

A shareholders' general meeting convened by the supervisory committee shall be presided over by the chairman of the supervisory committee. If the chairman of the supervisory committee is unable or fails to perform his/her duty, a supervisor shall be elected to preside over the meeting by more than half of the supervisors.

A shareholders' general meeting convened by the shareholders shall be presided over by a representative nominated by the convener.



At the annual general meeting, the board and the supervisory committee shall report their respective work of the previous year. Each independent non-executive director shall also make his work report.

Directors, supervisors and senior management shall answer the inquiries and proposals made by shareholders provided that no trade secrets of the Company shall be discussed at the meeting.

The secretary to the board shall be responsible for preparing the minutes of the shareholders' general meeting. The directors, the supervisors, the secretary to the board, the convener or his/her representative, and the chairman of the meeting shall initial on the minutes of the meeting. The minutes of meeting together with the attendance register of attending shareholders and the power of attorney of the proxies, and the relevant information of online voting and other means of voting shall be kept for not less than 20 years.

### **Voting and Resolutions of Shareholders' General Meeting**

Resolutions of a shareholders' general meeting include ordinary resolutions and special resolutions. An ordinary resolution of a shareholders' general meeting shall be passed by affirmative votes of more than half of the Company's total voting shares held by shareholders attending the meeting in person or by proxies. A special resolution of a shareholders' general meeting shall be passed by affirmative votes of more than two-thirds of the Company's total voting shares held by shareholders attending the meeting in person or by proxies.

The following matters shall be approved by special resolutions of a shareholders' general meeting:

- the increment or reduction of the registered capital, repurchase of shares and the issue of any class of shares;
- the issue of corporate bonds by the Company;
- the division, merger, dissolution, liquidation or change of the form of the Company;
- the amendments to these Articles; and
- other matters specified by the laws, regulations, the relevant requirements of the regulatory authorities in the place where the Company's shares are listed or these Articles and matters specified by ordinary resolutions of shareholders' general meeting that are considered to be significant to the Company and shall be approved by special resolutions.

Shareholders (including their proxies) shall exercise their voting rights representing by the number of voting shares they represent. Each share shall have one vote. Shares held by the Company do not carry any voting rights and shall not be counted in the total number of voting shares represented by shareholders present at a shareholders' general meeting.

When a connected transaction is considered at a shareholders' general meeting, the connected shareholders shall abstain from voting. The voting shares held by connected shareholders shall not be counted in the total number of shares with voting rights if specified by the regulations where the Company's shares are listed.

When a resolution is being considered at a shareholders' general meeting, no amendments shall be made thereto.

If votes are counted at the shareholders' general meeting, the voting results shall be recorded in the minutes of the meeting.

### **Special Procedures for Voting by Class Shareholders**

Shareholders holding different class of shares shall be class shareholders. In addition to holders of shares of other classes, the holders of domestic shares and overseas-listed foreign shares are also different classes of shareholders.

Any variation or abrogation of the rights of any class of shareholders proposed by the Company shall be approved by a special resolution of a shareholders' general meeting and by the shareholders of the affected class at a separate class meeting convened in accordance with the relevant provisions. The following circumstances shall be deemed to be variation or abrogation of the rights of shareholders of a certain class:

- (1) increase or decrease in the number of shares of that class, or increase or decrease in the number of shares of another class having the same or more rights in voting, distribution or other privileges;
- (2) conversion of all or part of the shares of that class into shares of other classes, or conversion of all or part of the shares of other classes into shares of that class or granting rights of such conversion;
- (3) removal or reduction of the entitlement and rights to receive and retain dividends attributable to shares of that class;
- (4) reduction or removal of the priority of the shares of that class to receive dividends or distribution of in the event of liquidation;
- (5) increase, removal or reduction of the right of conversion, options, voting rights, the right to transfer, priority in placement of shares and the right to acquire securities of the Company attached to shares of that class;

- (6) removal or reduction of the right to receive sums payable by the Company in particular currencies attached to shares of that class;
- (7) creation of a new class of shares having the same or more rights in voting, distribution or other privileges;
- (8) imposing or strengthening the restriction on the transfer of or the ownership of the shares of that class;
- (9) issue of rights to subscribe for or convert into shares of that class or other classes;
- (10) increase in the rights and privileges of shares of other classes;
- (11) proposed restructure of the Company which shall result in different classes of shareholders having to assume disproportionate liabilities; and
- (12) alteration or cancellation of the provision of this Article.

Shareholders of the affected class, whether or not having the right to vote at shareholders' general meetings, shall have the right to vote at the relevant class meeting in relation to any of the matters under circumstances (2) to (8) and (11) to (12) mentioned above, but interested shareholders shall not be entitled to vote at the relevant class meeting. A resolution of a class meeting shall be passed by at least a two-thirds majority calculated on the basis of the voting rights held by the shareholders present and entitled to vote at the class meeting.

The special procedures for voting by class shareholders shall not apply in the following circumstances:

- pursuant to a special resolution of shareholders' general meeting, the Company issues domestic shares and overseas-listed foreign shares in a period of 12 months, either separately or concurrently, and the respective numbers of domestic shares and overseas-listed foreign shares proposed to be issued do not exceed 20% of the respective numbers of the issued domestic shares and overseas-listed foreign shares;
- issue of domestic shares upon establishment of the Company and issue of overseas-listed foreign shares pursuant to a plan approved by the CSRC within 15 months from the date of approval; and
- where shares of our Company registered on our domestic share register may be transferred to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange, subject to the approval of the CSRC.

**DIRECTORS AND THE BOARD OF DIRECTORS**

**Directors**

The board of Directors shall consist of 15 Directors. A director shall have a term of office of three years and is eligible for re-election.

Non-employee representative directors shall be elected and replaced by shareholders general meetings. Employee representative directors shall be elected and replaced by the employee representatives committee, general meeting of employees or by other democratic means.

The directors shall comply with the laws, regulations and these Articles and shall faithfully perform their following obligations to the Company:

- not to abuse their rights to accept bribes or other illegal income and not to misappropriate the properties of the Company;
- not to misappropriate the money of the Company;
- not to deposit any assets or money of the Company in any accounts under their names or in the names of other persons;
- not to violate these Articles and lend the money of the Company to others or provide guarantee to others by charging the Company's assets without approval of the shareholders' general meetings or the board;
- not to enter into contracts or transactions with the Company in violation of these Articles or without approval of the shareholders' general meeting;
- not to use their position to obtain business opportunities which should be available to the Company for themselves or others, or to run his/her own or others' business which is similar to the Company's business without approval of the shareholders' general meeting;
- not to accept commissions in relation to transactions between any third party and the Company;
- not to disclose the secrets of the Company without consent;
- not to use their connections to harm the interests of the Company; and
- to be bound by other obligations stipulated by the laws, rules, regulations and these Articles.

A director may resign before the expiry of his/her tenure. Unless the resignation will result in the members of the board to be less than a quorum, the resignation of a director shall become effective when the written resignation is served to the board.

A director who fails to attend two consecutive board meetings in person or by proxy shall be deemed as unable to perform his/her duties. The board shall propose to the shareholders' general meeting for removal of such director.

Unless authorized by these Articles or the board, no director shall act on behalf of the Company or the board.

**Independent Directors**

Independent directors shall meet the following basic requirements:

- The director's competence of a listing company, in accordance with laws, regulations, Rules Governing the Listing of Stocks made by the exchange where the company is listed, and other relevant regulations;
- The independence specified in Rules Governing the Listing of Stocks made by the exchange where the company is listed;
- The basic acknowledge of operation a listed company, and familiarity with relevant laws, administrative regulations and rules;
- Minimum 5 years working experience on legal or financial business, or other experience to perform as an independent director;
- Independent performance of the duties despite of the influence from company's main shareholders, actual controller, or other units and individuals with major concerns.

The following persons shall not act as independent non-executive directors:

- Persons who are employed by the Company or its subsidiaries and their lineal relatives and affiliates with close social relationship;
- Natural person shareholders who directly or indirectly hold or control 1% or more of the Company's shares and the top 10 natural person shareholders of the Company and their lineal relatives;
- Persons who are employed by corporate shareholder(s) holding or controlling not less than 5% of the Company's shares or other companies which have business relationship with the Company or the top five corporate shareholders of the Company and their lineal relatives;
- Persons who had been the persons under categories 1 to 3 in the past one year;
- Persons who provide financial, legal or consultation services to the Company or any of its subsidiaries and their lineal relatives;

- Other persons specified by the laws, regulations, listing rules in the place the Company's shares are listed and these Articles.

A independent director shall have a term of office of three years and is eligible for re-election but shall not serve for more than nine years, except for the exceptions mentioned in Rules Governing the Listing of Stocks or other laws, regulations on securities.

In addition to the powers conferred by the relevant laws and regulations, listing rules in the place the Company's shares are listed and these Articles, the independent directors shall have the following powers:

- to propose the appointment and termination of accounting firms to the board;
- to propose the convening of extraordinary shareholders' general meetings to the board;
- to propose the convening of board meetings;
- to engage external auditing firms or consultancy firms independently.

#### **The Board of Directors**

The Company shall have a board of directors accountable to the shareholders' general meeting. The board consists of 15 directors.

The board shall perform the following duties:

- (1) to convene general meetings and report on its work to the shareholders;
- (2) to implement the resolutions of general meetings;
- (3) to decide on the Company's business plans, investment plans, detailed annual business objectives, and financing plans other than by ways of issue of corporate bonds or other securities and of listing;
- (4) to formulate the Company's proposed annual financial budget and final accounts;
- (5) to formulate the Company's profit distribution plan and plan for making up for losses;
- (6) to formulate proposals for the increase or reduction of the Company's registered capital, and plans for the issue of corporate bonds or other securities and the listing plan;
- (7) to prepare plans for material acquisition, purchase of the Company's shares, or merger, demerger, dissolution or change of the form of the Company;

- (8) to decide on the establishment of the Company's internal management structure, and to decide on the establishment and cancellation of the Company's branches and other sub-branches;
- (9) to elect the Company's chairman;
- (10) pursuant to the nominations of the Board chairman to appoint or dismiss the Company's President, the Board secretary of the Company, to appoint or dismiss chairmen of all special committees under the Board;
- (11) pursuant to the president's nominations to appoint or dismiss a vice president and chief accountant of the Company and to decide on their remuneration, incentive and punishment;
- (12) to formulate the Company's basic management system;
- (13) to propose plans for the amendment to these Articles of Association;
- (14) to formulate the Company's share incentive scheme;
- (15) to deal with disclosures of information on our Company;
- (16) to decide on the establishment of special committees;
- (17) to decide on and to monitor the implementation of our Company's risk management system, including risk assessments, financial control, internal audit, legal risk control;
- (18) to propose to the shareholders' general meetings the appointment or replacement of the auditor of our Company;
- (19) to receive regular or irregular work reports submitted by the Company's President or senior officers appointed by the President, and to approve the work reports of the President;
- (20) to decide on corporate guarantees in accordance with the applied laws and the Articles of Association. The Board may delegate the aforesaid rights to the Company's management team;
- (21) to exercise other functions and powers conferred by laws and regulations, the listing rules of the stock exchange on which the shares of the Company are listed, the shareholders' general meetings and these Articles of Association.

Resolutions relating to the above, with the exception of items (6), (7) and (13) above which shall require the consent of more than two thirds of the Directors, shall require the consent of more than half of the attended Directors. The Board shall carry out its duties in accordance with laws and administrative regulations of the State, these Articles of Association and resolutions of the shareholders.

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**APPENDIX V                      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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The board shall explain to the shareholders' general meeting regarding the non-standard auditors' advice given by chartered accountant in relation to the financial report of the Company.

The board shall have an audit committee, a development strategy committee, and a nomination and remuneration committee, a risk management committee.

Board meetings shall be held at least four times a year. A fourteen days' prior written notice of meeting shall be given to all directors. The chairman of the board shall convene an extraordinary board meeting in one of the following circumstances:

- considered necessary by the chairman;
- jointly proposed by not less than one-third of the directors;
- proposed by the supervisory committee;
- proposed by shareholders holding not less than one-tenth of the voting rights;
- proposed by more than half of the independent non-executive directors;
- proposed by the general manager (or president); and
- when a board meeting is required by the applicable laws, regulations and relevant requirements of the Articles of Association.

A meeting of the board shall be held only when over half of the directors attend the meeting. Unless otherwise provided by these Articles, resolutions of the board shall be passed by more than half of all directors.

A director shall have one vote when voting on the resolution of the board when vote is even, the chairman has the right for one more vote.

If any director has connection with the entity involved in the resolution of a board meeting, the director shall abstain from voting on the resolution and shall not vote on behalf of other director. The board meeting may be held when more than half of the attending directors have no connection with the entity. The resolution of the board meeting shall be passed by more than half of the non-connected directors. If the number of non-connected directors attending the meetings is less than three, the matter shall be submitted to the shareholders' general meeting for approval.

Directors shall attend board meetings in person. Where a director is unable to attend board meeting, he or she may authorize in writing another director to attend on his behalf. Any director who is unable to attend a board meeting and does not appoint a proxy to attend on his behalf shall be deemed as waiving the right to vote at that meeting.



The board shall keep minutes of the matters discussed. The attending directors and secretary of the meeting shall initial on the minutes of the meeting. Directors shall be responsible for the resolutions of the board. Where a resolution of the board violates the laws, regulations, the resolution of the shareholders' general meetings or these Articles and causes losses to the Company, the directors who take part in the resolution shall be liable to compensation. However, if a director can prove that he has expressed his opposition to such resolution when it was put to the vote, and such opposition is recorded in the minutes of the meeting, the director may be relieved of such liability. The minutes of board meeting shall be kept by the secretary of the board as records of the Company. The minutes of board meeting shall be filed by the Company after one year and shall be kept for 20 years.

#### **Secretary to the Board of Directors**

The Company shall have a secretary to the board. The secretary is a senior management of the Company and shall report to the board. The secretary to the board shall have the requisite professional knowledge and experience and shall be appointed by the board.

#### **General Manager and Other Senior management**

The Company shall have one general manager, who shall be appointed and dismissed by the board. The Company shall have certain deputy general managers to assist the general manager. The Company shall have one general accountant. The appointment and dismissal of deputy general managers and general accountant shall be approved by the board. The general manager and other senior management are appointed for tenure of three years and they may be re-appointed upon expiry of the tenure.

The general manager (or president) shall be accountable to the board and exercise the following powers:

- to be in charge of the Company's production, operation and management and report to the Board;
- to organize the implementation of the resolutions of the Board;
- to organize the implementation of the Company's annual business plan, investment and funding plan;
- to draft plans for the establishment of the Company's internal management structure;
- to propose plans for the establishment of the Company's branches and sub-branches;
- to propose the Company's basic management system;
- to formulate detailed rules and regulations of the Company;
- to propose the appointment or dismissal of the Company's vice President and general accountant, and to advise on their remuneration;

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**APPENDIX V                      SUMMARY OF THE ARTICLES OF ASSOCIATION**

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- to appoint or dismiss the employees other than those appointed or dismissed by the Board, and decide on their assessment, remuneration, incentive and punishment; and
- other functions and powers conferred by these Articles of Association and the Board.

The general manager may present at the board meetings, but shall have no voting right if he/she is not a director.

The general manager shall prepare detailed rules of the job of general manager for approval by the board.

**Supervisory Committee**

The Company shall have a supervisory committee. The supervisory committee shall compose of three supervisors, including representatives of shareholders, representatives of employees. Not less than one-third of the members of the supervisory committee shall be employees' representatives. The supervisory committee shall have one chairman. The election or removal of the chairman of the supervisory committee shall be determined by the affirmative votes of two-thirds or more of the members of the supervisory committee. Meetings of the supervisory committee shall be convened and presided over by the chairman of the supervisory committee. Where the chairman of the supervisory committee is incapable of performing or fails to perform his/her duties, a supervisor elected by not less than half of the supervisors shall convene and preside over supervisory committee meetings.

The supervisory committee shall be accountable to the shareholders' general meeting and shall perform the following duties:

- to examine the Company's financial affairs;
- to supervise the Directors and senior officers in their performance of duties and to propose the removal of Directors and senior officers who have contravened any law, administrative regulations, these Articles of Association or shareholders' resolutions;
- to demand any Director, the President and other senior officer of the Company who acts in a manner which is harmful to the Company's interests to rectify such behavior;
- to inspect financial information such as financial reports, business reports and profit distribution plans and, in case doubt, professionals such as registered accountants and certified auditors may be hired to provide assistance in the name of the Company;
- to propose to convene a shareholders' extraordinary general meeting, and to convene and preside over shareholders' general meetings when the Board fails to perform the duty of convening and presiding over the general meeting;

- to propose resolutions at a shareholders' general meeting;
- to propose to convene an extraordinary meeting of the board of Directors;
- to elect the chairman of Board of Supervisors;
- to institute a suit to the Directors or senior officers of the Company by laws;
- other functions and powers conferred these Articles of Association.

Supervisors shall be present at meetings of the Board.

The supervisory committee shall meet at least once in every six months. The chairman of supervisory committee shall convene the meeting and notify all supervisors in writing ten days before the meeting. Extraordinary meeting of the supervisory committee may be convened if so proposed by the supervisors.

A supervisory committee meeting shall not be conducted unless it is attended by two-thirds or more of the supervisors. The chairman shall preside over the meeting of supervisory committee. Each supervisor has one vote. The resolution made by the supervisory committee shall be approved by more than two thirds of the members of the supervisory committee.

The supervisory committee shall keep minutes of the matters discussed. The attending supervisors and secretary of the meeting shall initial on the minutes of the meeting. A supervisor is entitled to request that a note of his views made at the meetings be recorded in the minutes. The minutes of supervisory committee meetings shall be kept as records of the Company and shall be maintained by the secretary to the board for a period of 10 years.

#### **The Qualifications and Obligations of the Company Directors, Supervisors, Senior management**

The following persons may not serve as a Director, Supervisor, the President, or other senior officer of the Company:

- an individual who has no civil capacity or has restricted civil capacity;
- persons who have committed the offenses of corruption, bribery, trespass of property, misappropriation of property or damaging the social economic order, and have been penalized due to the above offenses, where less than five years have elapsed since the date of the completion of implementation of the penalty or persons who have committed crimes and have been deprived of their political rights due to such crimes, where less than five years have elapsed since the date of the completion of the implementation of such deprivation;
- persons who were former directors, factory chiefs or managers of a company or enterprise which has become insolvent and has been liquidated and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;

- persons who were legal representatives of a company or enterprise which had its business license revoked due to a violation of the law and were ordered to close down and were personally liable for the matters above, where less than three years have elapsed since the date when the business license of the company or enterprise was revoked;
- persons who have failed to pay a relatively large debt when due and outstanding;
- persons who have committed criminal offenses and are still under investigation by law administration authorities;
- persons who were not allowed to be heads of enterprises as stipulated by laws, administrative regulations;
- persons who are not natural persons;
- persons who have been convicted of offenses of violating provisions of the relevant securities laws and regulations or offenses of fraud or acting in bad faith by the relevant authority, where less than five years have lapsed since the date of conviction; and
- other persons stipulated by the laws and regulations of where the Company's shares are listed.

Director, Supervisor, and senior officer of the Company shall perform their duties in accordance with the principle of fiduciary and shall not put himself/herself in a position where their duty and their interest may conflict. These principles include (but not limited to) the following:

- to act honestly in the best interests of the Company;
- to exercise powers within the scope of his powers;
- to exercise the discretion vested in him personally and not to allow himself/herself to act under the control of another and, unless and to the extent permitted by the laws, regulations or with the informed consent of shareholders at shareholders' general meeting, not to delegate to others for the exercise of his/her discretion;
- to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- unless otherwise provided by these Articles or with the informed consent of shareholders at shareholders' general meeting, not to enter into any contract, transaction or arrangement with the Company;
- without the informed consent of shareholders at shareholders' general meeting, not to use the Company's property for his/her own benefit;

- not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including but not limited to opportunities advantageous to the Company;
- without the informed consent of shareholders at shareholders' general meeting, not to accept commissions in connection with the Company's transactions;
- to abide by these Articles, perform his/her official duties faithfully and protect the Company's interests, and not to exploit his position and power in the Company for his own interests;
- not to compete with the Company in any way unless with the informed consent of shareholders at shareholders' general meeting;
- not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his/her own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets; and
- unless otherwise permitted by informed shareholders at shareholders' general meeting, to keep in confidence information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other government authorities is permitted if: disclosure is by order of the law; in the interests of the public; and in the interest of the relevant director, supervisor, general manager (or president) or other senior management.

The fiduciary duties of the directors, supervisors, general manager (or president) and other senior management of the Company do not cease with the termination of their tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairly required depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

Where a director, supervisor, general manager (or president) and any other senior management of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his contract of service with the Company), he/she shall declare the nature and extent of his interests to the board of directors at the earliest opportunity, whether or not the related matters under normal circumstances is otherwise subject to the approval of the board of directors.

The Company shall not in any manner pay taxes for or on behalf of a director, supervisor, general manager (or president) and any other senior management.

The Company shall not directly or indirectly extend a loan to or provide any guarantee in connect with the extension of a loan to a director, supervisor, general manager and other senior management of the Company or of the Company's parent company or any of their respective associates. However, the following transactions are not subject to such prohibition:

- The provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;
- The provision by the Company of a loan or a guarantee of a loan or any other funds to any of its directors, supervisors, general manager (or president) and other senior management to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in shareholders' general meeting; and
- The company may provide loan and guaranty to relevant directors, supervisors, general managers, other senior managers and their relevant persons when the company's ordinary business scope concludes the loan and guaranty. However the loan and guaranty provisions to aforesaid persons shall be ordinary.

In addition to any rights and remedies provided by the laws, rules, regulations and statutory documents, where a director, supervisor, general manager (or president) or other senior management of the Company is in breach of his duties to the Company, the Company has a right to:

- claim damages from the director, supervisor, general manager (or president) and other senior management in compensation for losses sustained by the Company as a result of such breach;
- rescind any contract or transaction entered into by the Company with the director, supervisor, general manager (or president) and other senior management, and with a third party (where such third party knows or should know that there is such a breach of duties by such director, supervisor, general manager (or president) and other senior management);
- demand an account of the profits made by the director, supervisor, general manager and other senior management in breach of his duties;
- recover any monies received by the director, supervisor, general manager and other senior management which should otherwise have been received by the Company, including but not limited to commissions; and
- request the director, supervisor, general manager and other senior management to return the interests accrued or may be accrued on the monies which should have been paid to the Company.

The Company is required to enter into a contract in writing with each director, supervisor and senior management containing at least the following provisions:

- an undertaking by the director, supervisor and senior management to the Company to comply with the Company Law, the Special Regulations, these Articles, the Code on Takeovers and Mergers, the Code on Share Repurchases and other requirement of the Hong Kong Stock Exchange and an agreement that the Company shall have the remedies provided in these Articles and that neither the contract nor his office is capable of assignment;
- an undertaking by the director, supervisor and senior management to the Company to comply with and perform his obligations to shareholders as stipulated in these Articles; and
- arbitration clause.

The Company shall enter into a contract in writing with a director or supervisor to determine his/her emoluments subject to prior approval of shareholders' general meeting. The contract between the Company and its directors or supervisors in relation to emoluments should provide that in the event of a takeover of the Company, the Company's directors and supervisors shall, subject to approval of shareholders in shareholders' general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement.

## **FINANCIAL AND ACCOUNTING SYSTEM, AND AUDITING**

### **Financial and Accounting System**

The Company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and the requirement of relevant state regulatory department.

The board of Directors of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by the laws, administrative regulations or directives promulgated by competent local governments and supervisory authorities to be prepared by the Company.

The financial statements of the Company shall, in addition to being prepared in accordance with the PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the place outside China where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the aforesaid accounting standards, such difference shall be stated and explained in the financial statements. For the purposes of distribution of the Company's after-tax profits in a financial year, the lower of the after-tax profits as shown in the different set of financial statements shall be adopted.

The financial reports of the Company shall be made available at the Company for inspection by shareholders 20 days before the annual general meeting. Every shareholder of the Company is entitled to a copy of the financial reports.

A copy of the above financial report shall, at least 21 days before the date of the annual general meeting, be delivered or sent by pre-paid post to the registered address of every holder of Foreign Shares.

The Company shall disclose its financial reports two times in each financial year, that is, its interim financial reports within 60 days of the end of the first six months of a financial year and its annual financial reports within 120 days of its financial year end.

The Company shall not keep accounts other than those provided by law. Assets of the Company shall not be deposited in an account maintained in the name of any individual.

When distributing the after-tax profits of the current year, the Company shall allocate 10% of its profits into its statutory common reserve fund. When the cumulated amount of the statutory common reserve fund of the Company has reached 50% or more of its registered capital, no further allocations is required.

Where the statutory common reserve fund of the Company is insufficient to make up for the losses of the Company incurred during the previous years, before making allocation to the statutory common reserve fund in accordance with the preceding paragraph, the profits generated during the current year shall be used to make up for such losses.

After making allocation to the statutory common reserve fund of the Company from its after-tax profits, the Company may, subject to resolutions adopted at a general meeting, also allocate funds from the after-tax profits to the discretionary common reserve fund.

After making up for the losses and making contributions to the common reserve fund, any remaining profits shall be distributed to the shareholders in proportion to their respective shareholdings, except when it is stipulated in the Articles of Association that profit distributions shall not be made in accordance with the shareholding proportion.

If the shareholders' general meeting has, in violation of the provisions of the preceding paragraphs, distributed profits to the shareholders before the Company has made up for its losses and made allocations to the statutory common reserve fund, the shareholders must return the profits distributed in violation of the provision to the company.

For dividends that are not claimed by anyone, the Company may exercise the right of expropriation under the precondition of complying with relevant laws, administrative rules and regulations of the PRC and Hong Kong Stock Exchange, but the right shall be exercised only after the expiration of the related prescription applicable.

No profits shall be distributed in respect of the shares held by the Company.



**Internal Audit**

The Company shall conduct internal audit and assign full-time auditors to conduct internal audit and supervision on the revenues and expenditures and economic activities of the Company.

The internal audit system and the duties of the auditing staff shall be approved by the board of directors. The officer-in-charge of the audit team shall be responsible to the board of directors and report the work of the audit team.

**Appointment of Accounting Firm**

The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State to audit the Company's annual reports and review the Company's other financial reports.

The accounting firm appointed by the Company shall commence from the conclusion of the annual general meeting until the conclusion of the next annual general meeting.

The accounting firm appointed by the Company shall have the following rights:

- to inspect the financial statements, records and vouchers of the Company; to require the directors, general manager (or president) or other senior management of the Company to provide relevant information and explanation;
- to require the Company to take all reasonable steps to obtain from the Company's subsidiaries such information and explanation as are necessary for the purpose of discharging its duties; and
- to attend shareholders' general meetings and to receive all notices of, and other information relating to, any shareholders' general meeting, and to speak at any shareholders' general meeting in relation to matters concerning its role as the Company's appointed accounting firm.

The remuneration of an accounting firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in shareholders' general meeting. The remuneration of an accounting firm appointed by the board of directors shall be determined by the board of directors.

The appointment, removal and non-reappointment of an accounting firm shall be resolved by shareholders in shareholders' general meeting. The resolution of the shareholders' general meeting shall be filed with the CSRC.

Prior notice shall be given to the accounting firm if the Company decides to remove such accounting firm or not to renew the appointment thereof. The accounting firm shall be entitled to make representations at shareholders' general meeting.

Where the accounting firm resigns, it shall make clear to the shareholders' general meeting whether there is any impropriety on the part of the Company. An accounting firm may resign by depositing at the Company's registered address a resignation notice. The notice shall include:

- a statement to the effect that there are no circumstances in connection with its resignation which should be brought to the notice of the shareholders or creditors of the Company; or
- a statement of other circumstances considered necessary.

Where the accounting firm's notice of resignation contains a statement regarding any accountable affair, it may require the board of directors to convene an extraordinary general meeting for the explanation of the circumstances.

## **MERGER, DIVISION, DISSOLUTION AND LIQUIDATION**

### **Merger and Division**

The merger or division of the Company shall be proposed by the board for approval by shareholders' general meeting and shall be processed according to the laws. A dissident shareholder may require the Company or the shareholders who are in favor of such proposal to acquire his/her shares at a fair price.

The merger of the Company may take the form of absorption or the establishment of a new company. In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days from the date of the Company's merger resolution and shall publish a notice through other means such as a newspaper within 30 days from the date of the Company's merger resolution. A creditor has the right within 30 days of receiving such notice from the Company or, for creditors who do not receive the notice, within 45 days from the date of the public notice, to demand the Company to settle its debts or provide a guarantee for such debt. After the merger, rights in relation to debtors and indebtedness of each of the merged parties shall be assumed by the company which survives the merger or the newly established company.

When the Company is divided, its assets shall be split up accordingly. The parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days from the date of the Company's resolution to divide and shall publish a notice through other ways such as a newspaper within 30 days from the date of the Company's resolution to divide. Debts of the Company prior to division shall be jointly assumed by the companies which exist after the division, except provided otherwise in the written agreement between the Company and the creditors relating to the settlement of debt before the division.

Changes in particulars of the companies after merger or division must be registered with the registration authorities in accordance with the laws. Cancellation of a company shall be registered in accordance with the laws when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated in accordance with the laws.

**Dissolution and Liquidation**

The Company shall be dissolved and liquidated according to the laws upon the occurrence of the following events:

- (1) expiration of business term;
- (2) a resolution for dissolution is passed by a shareholders' general meeting;
- (3) dissolution is necessary due to a merger or division of the Company;
- (4) the Company is legally declared insolvent due to its failure to repay debts due;
- (5) the Company is canceled business license, ordered to close down or deregistered;
- (6) where the Company gets into serious trouble in operation and management and its continuation may cause substantial loss to the interests of shareholders, and no solution can be found through any other channel, shareholders representing more than 10% of the voting rights of all shareholders of the Company may request the people's court to dissolve the Company.

Upon the occurrence of the first situation mentioned above, the Company may continue to exist by amending these Articles subject.

Where the Company is dissolved under the (1), (2), (3), (5) or (6) situation mentioned above, a liquidation committee shall be set up in accordance with the laws within 15 days. Members of the liquidation committee shall be determined by shareholders' general meeting by way of ordinary resolution. If a liquidation committee is not set up within the specified period, the creditors may apply to the people's court for appointment of relevant persons to form a liquidation committee to proceed with the liquidation.

Where the Company is dissolved due to the occurrence of the third event mentioned above, the People's Court shall in accordance with the requirements under the relevant laws, organize the shareholders, the relevant authorities and the professional bodies to establish a liquidation committee for the purpose of dissolution of the Company.

The liquidation committee shall perform the following duties:

- to thoroughly examine the Company's assets and prepare a balance sheet and an inventory of assets;
- to notify creditors by notice or announcement;
- to deal with the outstanding affairs of the Company in relation to the liquidation;
- to settle outstanding taxes as well as taxes arising in the course of liquidation;

- to settle credits and debts;
- to dispose of the remaining assets of the Company after the settlement of debts; and
- to represent the Company in any civil proceedings.

The liquidation committee shall notify creditors within ten days from the date of its establishment and make public announcement on newspaper or other channels within 60 days of its establishment. Creditors shall, within 30 days after receipt of the notice, or for those who do not receive the notice, within 45 days from the date of the announcement, declare their claims to the liquidation committee. The liquidation committee shall not settle the debts to creditors until the end of the creditor registration period.

After checking the Company's assets and preparing a balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan for approval of the shareholders' general meetings or the people's court. The remaining property of the Company after the payment of liquidation expenses, the wages, social insurance contribution and statutory compensation of staff, taxes and payment of debts of the Company shall be distributed in proportion to the shareholdings of shareholders.

During the liquidation period, the Company shall continue to exist but shall not carry out any business activities not relating to liquidation. The assets of the Company shall not be distributed to shareholders before the settlement of debts in accordance with the preceding article.

If the liquidation committee, after ascertaining the Company's assets and preparing a balance sheet and an inventory of assets, discovers that the Company's assets are insufficient to settle its debts, it shall immediately apply to the people's court for a declaration of bankruptcy according to the laws. After the Company is declared bankrupt by a ruling of the people's court, the liquidation committee shall transfer the liquidation matters to the people's court.

Upon completion of liquidation, the liquidation committee shall prepare a liquidation report and a statement of the receipts and payments and the financial accounts for the liquidation period which shall be audited by PRC certified public accountants and then submitted to the shareholders' general meeting or relevant competent authorities for approval. The liquidation committee shall submit the aforesaid documents to the company registration authority, apply for cancellation of company registration, and announce the termination of the Company within 30 days after approval is obtained from the relevant competent authorities.

**Amendments to the Articles**

The Company may amend the Articles of Association in accordance with the laws, regulations and the Articles of Association. The Company shall amend these Articles under any of the following situations:

- there is a conflict between these Articles and the laws and regulations after the amendment to the Company Law or relevant laws and regulations;
- there are changes in the Company render these Articles incorrect; and
- the shareholders' general meeting resolves to amend these Articles.

Any amendment to these Articles involving the mandatory provisions shall become effective upon approval by the department in charge of company approval under the State Council and the CSRC. If the amendment involves any registered particulars, application shall be made for change of registration in accordance with the laws.

**Settlement of Disputes**

All disputes and claims between shareholders of overseas-listed foreign-invested shares and the Company, between shareholders of overseas-listed foreign-invested shares and the Company's directors, supervisors and other senior management, or between shareholders of overseas-listed foreign-invested shares and other shareholders arising from these Articles or any rights or obligations conferred or imposed by the Company Law or any other relevant laws and regulations concerning the affairs of the Company shall be referred by the relevant parties to arbitration. The dispute or claim shall be referred to arbitration as a whole. All parties involved in the same dispute or claim shall abide by the arbitration if such parties is the Company or the shareholder, director, supervisor, general manager or other senior management of the Company.

Disputes in relation to the definition of shareholders and register of shareholders need not be resolved by arbitration.

A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its Arbitration Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If a claimant elects arbitration at Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

The award of an arbitration body shall be final and conclusive and binding on all parties.

**1. FURTHER INFORMATION ABOUT OUR COMPANY****A. Incorporation**

The Company, formerly Hanhua Guarantee Co., Ltd., a PRC limited liability company, was established as a joint stock limited company under the Company Law on March 13, 2013. Our Company has established a place of business in Hong Kong at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, and has been registered as a non-Hong Kong company in Hong Kong under Part XI of the Predecessor Companies Ordinance on October 22, 2013. Ms. Lai Siu Kuen has been appointed as our agent for the acceptance of service of process in Hong Kong. As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV.

**B. Changes in Capital**

On the date of our incorporation on July 28, 2004, our registered capital was RMB100 million, which has been fully paid up. The following sets out the changes in our share capital since the date of our incorporation:

- (a) in May 2005, Hainan Gelindao Investment Co., Ltd. transferred its 40% equity interest in our Company to Chongqing Tianqi Asset Management Co., Ltd.;
- (b) in March 2006, Hainan Xinghuayuan Trading Investment Co., Ltd. transferred its 40% equity interest in our Company to Chongqing Tianqi Asset Management Co., Ltd.. In the meantime, our registered capital was increased from RMB100 million to RMB200 million. The increased registered capital was subscribed by Chongqing Tianqi Asset Management Co., Ltd.;
- (c) in July 2006, Hainan Xinghuayuan Trading Investment Co., Ltd. transferred its 10% equity interest in our Company to Chongqing Zhaoqi Investment Advisory Co., Ltd.;
- (d) in December 2008, our registered capital was increased from RMB200 million to RMB250 million. The increased registered capital was subscribed by Chongqing Tianqi Asset Management Co., Ltd. (as to RMB45 million) and Chongqing Zhaoqi Investment Advisory Co., Ltd. (as to RMB5 million);
- (e) in September 2009, Chongqing Tianqi Asset Management Co., Ltd. and Chongqing Zhaoqi Investment Advisory Co., Ltd. transferred their respective equity interest in our Company to Chongqing Loncin Industry (Group) Co., Ltd.;
- (f) in January 2010, Chongqing Loncin Industry (Group) Co., Ltd. transferred its equity interest in our Company to Chongqing Loncin Enterprise Co., Ltd.;

- (g) in March 2010, our registered capital was increased from RMB250 million to RMB300 million. The increased registered capital was subscribed by Chongqing Loncin Enterprise Co., Ltd. (as to RMB35 million) and Chongqing Lian'en Enterprise Co., Ltd. (as to RMB15 million);
- (h) in December 2012, Chongqing Lian'en Enterprise Co., Ltd. transferred its 5% equity interest in our Company to Chongqing Loncin Investment Co., Ltd.;
- (i) in January 2013, Chongqing Loncin Enterprise Co., Ltd. and Chongqing Loncin Investment Co., Ltd. transferred their respective equity interest in our Company to Loncin Holdings;
- (j) during our Reorganization in February 2013, our registered capital was increased from RMB300 million to approximately RMB1,977 million. For more details of the Reorganization, see "History, Reorganization and Corporate Structure — History, Development and Reorganization — Reorganization" in this prospectus;
- (k) at the time of our establishment as a joint stock limited liability company on March 13, 2013, our initial registered capital was RMB2,769,856,131, divided into 2,769,856,131 Domestic Shares with a nominal value of RMB1.00 each, all of which were fully paid up;
- (l) in March 2013, our registered capital was increased from RMB2,769,856,131 to RMB2,850 million. The increased registered capital was subscribed by 148 management personnel and employees of our Group;
- (m) in May 2013, our registered capital was increased from RMB2,850 million to RMB3,010 million. The increased registered capital was subscribed by Xinjiang Huarong and Chongqing Renhe; and
- (n) in May 2013, our registered capital was increased from RMB3,010 million to RMB3,430 million. The increased registered capital was subscribed by the Eleven Investors.

Upon completion of the Global Offering, but without taking into account any H Shares which may be issued by our Company pursuant to the Over-allotment Option, our registered capital will be increased to RMB4,580,000,000, made up of 3,430,000,000 Domestic Shares and 1,150,000,000 H Shares fully paid up or credited as fully paid up, representing approximately 74.89% and 25.11% of our registered capital, respectively. Save as aforesaid, there has been no alteration in our share capital since our establishment.

**C. The Company's Extraordinary General Meetings held on June 17, 2013 and April 16, 2014**

At the two extraordinary general meetings of our Company held on June 17, 2013 and April 16, 2014, among other things, the following resolutions were passed by the Shareholders of our Company:

- (a) the issue by the Company of the H Shares with a nominal value of RMB1.00 each up to 1,230 million Shares in total (regardless of the H Shares which may be issued upon the exercise of the Over-allotment Option) and such H Shares to be listed on the Stock Exchange; and
- (b) subject to the completion of the Global Offering, the Articles of Association has been approved and adopted, which shall only become effective on the Listing Date, and the Board has been authorized to amend the Articles of Association in accordance with any comments from the Stock Exchange and the relevant PRC regulatory authorities.

**D. Our Reorganization**

We underwent the Reorganization, details of which are set out in the section headed "History, Reorganization and Corporate Structure" in this prospectus. As confirmed by DeHeng Law Offices, our PRC legal advisors, we have obtained all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Reorganization.

**2. OUR SUBSIDIARIES**

Our subsidiaries (for the purpose of the Listing Rules) are set out under the financial information in the Accountants' Report as included in Appendix I to this prospectus. The following alterations in the registered capital of our subsidiaries have taken place within the two years preceding the date of this prospectus:

**(1) Hanhua Guarantee**

On March 28, 2013, the registered capital of Hanhua Guarantee was increased from RMB2,095,500,000 to RMB3,000,000,000.

**(2) Sichuan Micro-credit**

- (a) On July 26, 2013, the registered capital of Sichuan Micro-credit was increased from RMB300,000,000 to RMB400,000,000.



- (b) On December 30, 2013, the registered capital of Sichuan Micro-credit was increased from RMB400,000,000 to RMB500,000,000; and
- (c) On January 23, 2014, the registered capital of Sichuan Micro-credit was increased from RMB500,000,000 to RMB700,000,000.

**(3) Sichuan Assets Management**

On June 25, 2013, the registered capital of Sichuan Assets Management was increased from RMB60,000,000 to RMB200,000,000.

**(4) Liaoning Hanhua**

On April 8, 2013, the registered capital of Liaoning Hanhua was increased from RMB200,000,000 to RMB300,000,000.

**(5) Sichuan Hanhua**

- (a) On April 9, 2013, the registered capital of Sichuan Hanhua was increased from RMB300,000,000 to RMB500,000,000; and
- (b) On April 24, 2014, the registered capital of Sichuan Hanhua was increased from RMB500,000,000 to RMB600,000,000.

**(6) Nanning Micro-credit**

- (a) On August 24, 2012, the registered capital of Nanning Micro-credit was increased from RMB40,000,000 to RMB50,000,000; and
- (b) On June 21, 2013, the registered capital of Nanning Micro-credit was increased from RMB50,000,000 to RMB150,000,000.

**(7) Shenyang Micro-credit**

- (a) On June 7, 2012, the registered capital of Shenyang Micro-credit was increased from RMB50,000,000 to RMB100,000,000; and
- (b) On June 5, 2013, the registered capital of Shenyang Micro-credit was increased from RMB100,000,000 to RMB300,000,000.

**(8) Chongqing Micro-credit**

On May 30, 2013, the registered capital of Chongqing Micro-credit was increased from RMB300,000,000 to RMB500,000,000.

**(9) Changchun Micro-credit**

- (a) On May 23, 2013, the registered capital of Changchun Micro-credit was increased from RMB50,000,000 to RMB100,000,000; and
- (b) On November 14, 2013, the registered capital of Changchun Micro-credit was increased from RMB100,000,000 to RMB150,000,000.

**(10) Tianjin Micro-credit**

On July 31, 2013, the registered capital of Tianjin Micro-credit was increased from RMB50,000,000 to RMB100,000,000.

Save as disclosed in this prospectus, there has been no alteration in the share capital of any of our subsidiaries mentioned above within the two years immediately preceding the date of this prospectus.

**3. FURTHER INFORMATION ABOUT OUR BUSINESS****A. Summary of Our Material Contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus which are or may be material, and a copy of each has been delivered to the Registrar for registration:

- (1) a share transfer agreement dated January 9, 2013, entered into between Hanhua Guarantee Co., Ltd. and Chongqing Huiwei, pursuant to which Chongqing Huiwei acquired 2.0955 million shares of Huanhua Guarantee from Hanhua Guarantee Co., Ltd. for a consideration of RMB2.0955 million;
- (2) an equity transfer agreement dated January 28, 2013, entered into between Hanhua Guarantee Co., Ltd. and Huang Jie, pursuant to which Hanhua Guarantee Co., Ltd. acquired 6.67% of equity interest of Sichuan Micro-credit from Huang Jie for a consideration equivalent to the lower of the audited or valued net assets of the above equity interest as of December 31, 2012. If Sichuan Micro-credit made dividends for the profits of the year of 2012, such dividends should be deducted accordingly;
- (3) an equity transfer agreement dated January 28, 2013, entered into between Hanhua Guarantee and Chongqing Hanhua, pursuant to which Chongqing Hanhua acquired 45% of equity interest of Sichuan Micro-credit from Hanhua Guarantee for a consideration of RMB151.2 million;

- (4) a debt-to-equity conversion agreement dated February 2, 2013, entered into between Hanhua Guarantee Co., Ltd. and Loncin Holdings, pursuant to which Loncin Holdings agreed to convert the outstanding debt owed by Hanhua Guarantee Co., Ltd. to Loncin Holdings with an amount of RMB266,451,337.47 valued as of December 31, 2012, into the registered capital with an amount of RMB266,451,337.47 of Hanhua Guarantee Co., Ltd.;
- (5) a capital increase agreement dated February 21, 2013, entered into by Hanhua Guarantee Co., Ltd. with 28 then existing shareholders of Hanhua Guarantee and Huang Jie (then existing shareholder of Sichuan Micro-credit), who agreed thereunder to subscribe for the newly issued capital of Hanhua Guarantee Co., Ltd. by their respective equity interest in Hanhua Guarantee and in Sichuan Micro-credit and by cash for a total consideration of RMB2,068,250,402;
- (6) a share capital subscription agreement dated March 13, 2013, entered into among our Company and 148 management members and employees of our Group, pursuant to which the 148 management members and employees of our Group agreed to subscribe for 80,143,869 shares of our Company for a total consideration of RMB92.07 million, details of which are set out in “History, Reorganization and Corporate Structure — History, Development and Reorganization — Reorganization — 4. Capital Contribution to the Company by 148 Management and Employees”;
- (7) an equity transfer agreement dated March 18, 2013, entered into between our Company and Hanhua Guarantee, pursuant to which our Company acquired 100% of equity interest of Sichuan Assets Management from Hanhua Guarantee for a consideration of RMB60 million;
- (8) an equity transfer agreement dated March 20, 2013, entered into between our Company and Hanhua Guarantee, pursuant to which our Company acquired 100% of equity interest of Chongqing Hanhua from Hanhua Guarantee for a consideration of RMB100 million;
- (9) an equity transfer agreement dated March 20, 2013, entered into between our Company and Hanhua Guarantee, pursuant to which our Company acquired 100% of equity interest of Beijing Credit from Hanhua Guarantee for a consideration of RMB5 million;
- (10) an equity transfer agreement dated April 2, 2013, entered into between Hanhua Guarantee and Chongqing Boxin Investment Co., Ltd., pursuant to which Hanhua Guarantee acquired 6% of equity interest of Chongqing Micro-credit from Chongqing Boxin Investment Co., Ltd. for a consideration of RMB31.74 million;
- (11) an equity transfer agreement dated April 2, 2013, entered into between Hanhua Guarantee and Chongqing Huiyuan Investment Co., Ltd., pursuant to which Hanhua Guarantee acquired 2% of equity interest of Chongqing Micro-credit from Chongqing Huiyuan Investment Co., Ltd. for a consideration of RMB10.58 million;

- (12) an equity transfer agreement dated April 2, 2013, entered into between Hanhua Guarantee and Hu Xuejun, pursuant to which Hanhua Guarantee acquired 6% of equity interest of Chongqing Micro-credit from Hu Xuejun for a consideration of RMB36,613,649.65;
- (13) an equity transfer agreement dated April 2, 2013, entered into between Hanhua Guarantee and Peng Ying, pursuant to which Hanhua Guarantee acquired 6% of equity interest of Chongqing Micro-credit from Peng Ying for a consideration of RMB44,873,649.65;
- (14) an equity transfer agreement dated April 2, 2013, entered into between Hanhua Guarantee and Qin Yong, pursuant to which Hanhua Guarantee acquired 3% of equity interest of Chongqing Micro-credit from Qin Yong for a consideration of RMB22,436,824.83;
- (15) a capital subscription agreement dated May 10, 2013, entered into among Tianjin Micro-credit, our Company, and the existing shareholders of Tianjin Micro-credit (Beijing Hanhua, Sichuan Assets Management and Chongqing Hanhua), pursuant to which our Company agreed to subscribe for the newly issued RMB50 million registered capital of Tianjin Micro-credit for a consideration of RMB50 million;
- (16) a capital increase agreement dated May 10, 2013, entered into among our Company, Xinjiang Huarong, Chongqing Renhe, Loncin Holdings and Huitai, pursuant to which Xinjiang Huarong agreed to subscribe for the newly issued 100 million shares of our Company for a consideration of RMB200 million and Chongqing Renhe agreed to subscribe for the newly issued 60 million shares of our Company for a consideration of RMB120 million;
- (17) a capital increase agreement dated May 27, 2013, entered into among Sichuan Hongrun Trading Co., Ltd., Chongqing Pingwei Technology (Group) Co., Ltd., Fan Xiulian, Wang Junmin, Chongqing Xinjiali Lamp Co., Ltd., Chongqing Auto Muffler Co., Ltd., Shandong Binhai Huifu Investment L.L.P., Chongqing Longli Real Estate Development Co., Ltd., Yan Kai, Chongqing Qianneng Industry (Group) Co., Ltd. and Shenyang Huining Investment Co., Ltd. (the “Eleven Investors”), and our Company, pursuant to which the Eleven Investors agreed to subscribe for the total newly issued 420 million shares of our Company for a total consideration of RMB945 million. Details of the capital increase agreement are set out in the section headed “History, Reorganization and Corporate Structure — Capital Subscription After Reorganization — 2. Capital Subscription on May 27, 2013”;
- (18) an undertaking dated June 3, 2013 issued by Loncin Group, Loncin Holdings and Tu Jianhua, pursuant to which Loncin Group, Loncin Holdings and Tu Jianhua have jointly and severally undertaken to fully indemnify the Company for any cost arising from the historical incidents of untimely payments of social security fund and housing provident fund;

- (19) an equity transfer agreement dated June 5, 2013, entered into between our Company and Li Wenjing, pursuant to which our Company agreed to acquire the equity interest held by Li Wenjing in Shengyang Micro-credit for a consideration of RMB5 million;
- (20) an equity transfer agreement dated June 5, 2013, entered into between our Company and Tan Liyan, pursuant to which our Company agreed to acquire the equity interest held by Tan Liyan in Shengyang Micro-credit for a consideration of RMB0.5 million;
- (21) an equity transfer agreement dated June 5, 2013, entered into between our Company and Hu Xuejun, pursuant to which our Company agreed to acquire the equity interest held by Hu Xuejun in Shengyang Micro-credit for a consideration of RMB5 million;
- (22) an equity transfer agreement dated June 5, 2013, entered into between our Company and Qin Yong, pursuant to which our Company agreed to acquire the equity interest held by Qin Yong in Shengyang Micro-credit for a consideration of RMB5 million;
- (23) an equity transfer agreement dated June 5, 2013, entered into between our Company and Sichuan Assets Management, pursuant to which our Company agreed to acquire the equity interest held by Sichuan Assets Management in Shengyang Micro-credit for a consideration of RMB29.5 million;
- (24) an equity transfer agreement dated June 5, 2013, entered into between our Company and Chongqing Huiyuan Investment Co., Ltd., pursuant to which our Company agreed to acquire the equity interest held by Chongqing Huiyuan Investment Co., Ltd. in Shengyang Micro-credit for a consideration of RMB5 million;
- (25) an equity transfer agreement dated June 5, 2013, entered into between our Company and Hanhua Guarantee, pursuant to which our Company agreed to acquire the equity interest held by Hanhua Guarantee in Shengyang Micro-credit for a consideration of RMB15 million;
- (26) an equity transfer agreement dated June 5, 2013, entered into between our Company and Chongqing Honghua Financial Consultants Ltd. Co., pursuant to which our Company agreed to acquire the equity interest held by Chongqing Honghua Financial Consultants Ltd. Co. in Shengyang Micro-credit for a consideration of RMB5 million;
- (27) an equity transfer agreement dated June 5, 2013, entered into between our Company and Liaoning Hanhua, pursuant to which our Company agreed to acquire the equity interest held by Liaoning Hanhua in Shengyang Micro-credit for a consideration of RMB30 million;

- (28) a share incentive agreement dated June 20, 2013, entered into among our Company, Huitai, Zhang Guoxiang, Li Ruping and other 13 senior management members of our Company, details of which are set out in “Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme — Implementation of Share Incentive Scheme”;
- (29) an equity transfer agreement dated June 21, 2013, entered into between our Company and Hanhua Guarantee, pursuant to which our Company acquired 28.33% of equity interest of Sichuan Micro-credit from Hanhua Guarantee for a consideration of RMB93.42 million;
- (30) an equity transfer agreement dated July 10, 2013, entered into between our Company and Sichuan Hanhua, pursuant to which our Company acquired 13.33% of equity interest of Sichuan Micro-credit from Sichuan Hanhua for a consideration of RMB43.96 million;
- (31) a capital increase agreement dated December 11, 2013 entered into among our Company, Li Tong and Chongqing Hanhua (together the “Existing Shareholders”), Sichuan Chuanzhixin Commercial Trading Co., Ltd. (四川川之信商貿有限公司) and Chengdu Huachuan Highway Construction Group Co., Ltd. (成都華川公路建設集團有限公司) (together the “New Shareholders”) and Sichuan Micro-credit, pursuant to which each of the New Shareholders agreed to contribute an amount of RMB52 million to Sichuan Micro-credit respectively, and each to pay additional RMB5.2 million to the Existing Shareholders as the consideration for the Existing Shareholders to waive their pre-emptive rights to subscribe for the newly issued shares of Sichuan Micro-credit;
- (32) a capital increase agreement dated January 9, 2014, entered into among our Company, Li Tong, Chongqing Hanhua, Sichuan Chuanzhixin Commercial Trading Co., Ltd., Chengdu Huachuan Highway Construction Group Co., Ltd., Chengdu Metallic Materials Co., Ltd. (成都市金屬材料有限公司) and Sichuan Micro-credit, pursuant to which, 1) our Company, Chengdu Huachuan Highway Construction Group Co., Ltd. and Chengdu Metallic Materials Co., Ltd. agreed to contribute an amount of RMB52.5 million, RMB52.5 million and RMB105 million to Sichuan Micro-credit, respectively; and 2) Chengdu Huachuan Highway Construction Group Co., Ltd. and Chengdu Metallic Materials Co., Ltd. agreed to pay additional RMB5.25 million and RMB10.50 million, respectively, to the Company, Li Tong and Chongqing Hanhua as the consideration for the Company, Li Tong and Chongqing Hanhua to waive their pre-emptive rights to subscribe for the newly issued shares of Sichuan Micro-credit;
- (33) the Non-competition Undertaking; and

(34) the Hong Kong Underwriting Agreement.

## B. Our intellectual property rights

### (a) Patents

Based on the information provided by the Company and pursuant to due examination by the Company's PRC legal advisors, as of December 31, 2013, the Group did not own any patent which is within the period of validity or under application.

### (b) Proprietary Technology

Based on the information provided by the Company and pursuant to due examination by the Company's PRC legal advisors, as of December 31, 2013, the Group did not have any self-owned proprietary technology or any licensed proprietary technology.

### (c) Trademarks

As of December 31, 2013, the trademarks owned by the Group are set out as follows:

No.	Trademark	Registered Number	Applicant	Duration	Class (Note)
1		4347526	The Company	October 28, 2008 – October 27, 2018	36
2		4347527	The Company	October 28, 2008 – October 27, 2018	36
3		4347528	The Company	October 28, 2008 – October 27, 2018	36
4	HANHUA	4347529	The Company	April 28, 2009 – April 27, 2019	36
5	HANHUA	4347530	The Company	August 28, 2008 – August 27, 2018	35
6		4347531	The Company	May 21, 2008 – May 20, 2018	36

No.	Trademark	Registered Number	Applicant	Duration	Class (Note)
7		4347532	The Company	May 21, 2008 – May 20, 2018	35
8		4347533	The Company	October 28, 2008 – October 27, 2018	36
9	HANHUA	7066742	The Company	August 21, 2010 – August 20, 2020	36
10	HANHUA	7066743	The Company	August 7, 2010 – August 6, 2020	45
11		7066752	The Company	August 28, 2010 – August 27, 2020	35
12		7066753	The Company	August 21, 2010 – August 20, 2020	36
13		7066755	The Company	August 28, 2010 – August 27, 2020	35
14		7066757	The Company	August 21, 2010 – August 20, 2020	36
15		7066758	The Company	August 7, 2010 – August 6, 2020	45
16		7066759	The Company	August 28, 2010 – August 27, 2020	35



No.	Trademark	Registered Number	Applicant	Duration	Class (Note)
17		7066760	The Company	August 21, 2010 – August 20, 2020	36
18		7066976	The Company	August 7, 2010 – August 6, 2020	45
19		7066977	The Company	August 21, 2010 – August 20, 2020	36
20		7124662	The Company	September 14, 2010 – September 13, 2020	36
21		10995894	Hanhua Guarantee	September 28, 2013 – September 27, 2023	35
22		10996135	Hanhua Guarantee	September 21, 2013 – September 20, 2023	36
23		10996323	Hanhua Guarantee	September 28, 2013 – September 27, 2023	35
24		10996443	Hanhua Guarantee	September 28, 2013 – September 27, 2023	36
25		10996576	Hanhua Guarantee	January 7, 2014 – January 6, 2024	35
26		10996722	Hanhua Guarantee	September 28, 2013 – September 27, 2023	36

No.	Trademark	Registered Number	Applicant	Duration	Class (Note)
27		10996831	Hanhua Guarantee	September 21, 2013 – September 20, 2023	35
28		10996961	Hanhua Guarantee	October 7, 2013 – October 6, 2023	36
29		11002425	Hanhua Guarantee	January 7, 2014 – January 6, 2024	35
30		11002134	Hanhua Guarantee	March 7, 2014 – March 6, 2024	35

*Notes:*

Class 35 Advertising; business management; business administration; office functions.

Class 36 Insurance; financial affairs; monetary affairs; real estate affairs.

Class 45 Legal services; personal and social services rendered by others to meet the needs of individuals; security services for the protection of property and individuals.

## 4. DISCLOSURE OF INTERESTS

## A. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering (without taking into account the H shares which may be issued upon exercise of the Over-allotment Option), the following persons will have an interest or a short position in our Shares or underlying shares of our Company which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Shareholder	Number of Shares held after the Global Offering	Nature of interests	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering (%)	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering (%)
Loncin Holdings (i)	1,472,458,628 Domestic Shares	Legal owner and interest through voting arrangement with Huitai	42.93	32.15
Loncin Group (ii)	1,472,458,628 Domestic Shares	Beneficial owner/interest of controlled corporation and interest through voting arrangement with Huitai	42.93	32.15
Mr. Tu (iii)	1,472,458,628 Domestic Shares	Beneficial owner/interest of controlled corporation and interest through voting arrangement with Huitai	42.93	32.15
Huitai	270,269,848 Domestic Shares	Legal owner	7.88	5.90
Mr. Zhang Guoxiang (iv)	273,038,709 Domestic Shares	Legal owner and beneficial owner/interest of controlled corporation	7.96	5.96

Shareholder	Number of Shares held after the Global Offering	Nature of interests	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering
			(%)	(%)
Chongqing Jiulong	231,532,653	Legal owner	6.75	5.06
	Domestic Shares			
Ms. Wang Fangfei (v)	231,532,653	Beneficial owner/interest of controlled corporation	6.75	5.06
	Domestic Shares			
Ms. Wang Mingyue	269,824,593	Legal owner	7.87	5.89
	Domestic Shares			
Ms. Liu Tingrong (vi)	269,824,593	Beneficial owner	7.87	5.89
	Domestic Shares			

*Notes:*

- (i) Loncin Holdings directly holds 1,202,188,780 Domestic Shares of our Company. Based on the voting arrangement with Huitai, Loncin Holdings is deemed to be able to exercise the voting rights of the 270,269,848 Domestic Shares held by Huitai. For more details, see “Directors, Supervisors, Senior Management and Employees.”
- (ii) Loncin Group directly holds 98% of the equity interest of Loncin Holdings, which directly holds 1,202,188,780 Domestic Shares of our Company. Accordingly, under the SFO, Loncin Group is deemed to be interested in the 1,202,188,780 Domestic Shares held by Loncin Holdings. Based on the voting arrangement with Huitai, Loncin Group is deemed to be able to exercise the voting rights of the 270,269,848 Domestic Shares held by Huitai. For more details, see “Directors, Supervisors, Senior Management and Employees.”
- (iii) Mr. Tu directly holds 98% of the equity interest of Loncin Group, which directly holds 98% of the equity interest of Loncin Holdings. Mr. Tu also directly holds 2% of the remaining equity interest of Loncin Holdings. Accordingly, under the SFO, Mr. Tu is deemed to be interested in the 1,202,188,780 Domestic Shares held by Loncin Holdings. Based on the voting arrangement with Huitai, Mr. Tu is deemed to be able to exercise the voting rights of the 270,269,848 Domestic Shares held by Huitai. For more details, see “Directors, Supervisors, Senior Management and Employees.”
- (iv) Mr. Zhang Guoxiang directly holds approximately 62.1% of the equity interest of Huitai, which directly holds 270,269,848 Domestic Shares of our Company. Accordingly, under the SFO, Mr. Zhang Guoxiang is deemed to be interested in the 270,269,848 Domestic Shares held by Huitai. Mr. Zhang Guoxiang also directly holds 2,768,861 Domestic Shares of our Company.
- (v) Ms. Wang Fangfei directly holds 55% of the equity interest of Chongqing Jiulong Investment Co., Ltd., which directly holds 231,532,653 Domestic Shares of our Company. Accordingly, under the SFO, Ms. Wang Fangfei is deemed to be interested in the 231,532,653 Domestic Shares held by Chongqing Jiulong Investment Co., Ltd.
- (vi) Ms. Liu Tingrong is the mother of Ms. Wang Mingyue, who directly holds 269,824,593 Domestic Shares of our Company. Accordingly, under the SFO, Ms. Liu Tingrong is deemed to be interested in the 269,824,593 Domestic Shares held by Ms. Wang Mingyue.

**B. Disclosure of the Directors', Supervisors' and President's interests in the registered capital of associated corporations of the Company**

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, the interests and short positions of each of our Directors, Supervisors and President of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Issuers to be notified to us and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors) will be as follows:

*(a) Interest in our Company*

Name	Position	Type of Interest	Number of Shares held after the Global Offering	Approximate percentage of shareholding interests immediately prior to the Global Offering (%)	Approximate percentage of shareholding interests after the Global Offering (assuming the Over-Allotment Option is not exercised) (%)	Approximate percentage of shareholding interests immediately after the Global Offering (assuming the Over-Allotment Option is exercised in full) (%)
Mr. Tu (i)	Non-executive Director	Beneficial owner/interest of controlled corporation and interest through voting arrangement with Huitai	1,472,458,628 Domestic Shares	42.93	32.15	31.60
Mr. Zhang Guoxiang (ii)	Executive Director, Chairman of Board and president	Legal Owner and beneficial owner/interest of controlled corporation	273,038,709 Domestic Shares	7.96	5.96	5.86
Ms. Liu Tingrong (iii)	Non-executive Director	Beneficial owner	269,824,593 Domestic Shares	7.87	5.89	5.79

Name	Position	Type of Interest	Number of Shares held after the Global Offering	Approximate percentage of shareholding interests immediately prior to the Global Offering (%)	Approximate percentage of shareholding interests after the Global Offering (assuming the Over-Allotment Option is not exercised) (%)	Approximate percentage of shareholding interests immediately after the Global Offering (assuming the Over-Allotment Option is exercised in full) (%)
Ms. Wang Fangfei (iv)	Non-executive Director	Beneficial owner/interest of controlled corporation	231,532,653 Domestic Shares	6.75	5.06	4.97
Mr. Zhou Daoxue (v)	Supervisor	Beneficial owner/interest of controlled corporation	140,145,918 Domestic Shares	4.09	3.06	3.00
Mr. Liu Bolin (vi)	Non-executive Director	Beneficial owner/interest of controlled corporation	120,000,000 Domestic Shares	3.50	2.62	2.58
Mr. Feng Yongxiang (vii)	Non-executive Director	Beneficial owner/interest of controlled corporation	106,861,226 Domestic Shares	3.12	2.33	2.29
Mr. Li Ruping	Supervisor	Legal Owner	2,205,795 Domestic Shares	0.06	0.05	0.05
Mr. Lin Feng	Executive Director	Legal Owner	2,058,742 Domestic Shares	0.06	0.04	0.04
Ms. Liu Jiaoyang	Non-executive Director	Legal Owner	441,159 Domestic Shares	0.01	0.01	0.01
Mr. Chen Zhonghua	Supervisor	Legal Owner	441,159 Domestic Shares	0.01	0.01	0.01

*Notes:*

- (i) Mr. Tu directly holds 98% of the equity interest of Loncin Group, which directly holds 98% of the equity interest of Loncin Holdings. Mr. Tu also directly holds 2% of the remaining equity interest of Loncin Holdings. Accordingly, Mr. Tu is deemed to be interested in the 1,202,188,780 Domestic Shares held by of Loncin Holdings. Based on the voting arrangement with Huitai, Mr. Tu is deemed to be able to exercise the voting rights of the 270,269,848 Domestic Shares held by Huitai. For more details, see “Directors, Supervisors, Senior Management and Employees.”

- (ii) Mr. Zhang Guoxiang directly holds approximately 62.1% of the equity interest of Huitai, which directly holds 270,269,848 Domestic Shares of our Company. Accordingly, Mr. Zhang Guoxiang is deemed to be interested in the 270,269,848 Domestic Shares held by Huitai. Mr. Zhang Guoxiang also directly holds 2,768,861 Domestic Shares of our Company.
- (iii) Ms. Liu Tingrong is the mother of Ms. Wang Mingyue, who directly holds 269,824,593 Domestic Shares of our Company. Accordingly, Ms. Liu Tingrong is deemed to be interested in the 269,824,593 Domestic Shares held by Ms. Wang Mingyue.
- (iv) Ms. Wang Fangfei directly holds 55% of the equity interest of Chongqing Jiulong Investment Co., Ltd., which directly holds 231,532,653 Domestic Shares of our Company. Accordingly, Ms. Wang Fangfei is deemed to be interested in the 231,532,653 Domestic Shares held by Chongqing Jiulong Investment Co., Ltd.
- (v) Mr. Zhou Hongyu, nephew of Mr. Zhou Daoxue, holds 98% of the equity interest of Chongqing Renhe, which directly holds 60,000,000 Domestic Shares of our Company. Mr. Zhou Daoxue also act as supervisor of Chongqing Renhe's supervisor. Accordingly, Mr. Zhou Daoxue is deemed to be interested in the 60,000,000 Domestic Shares held by Chongqing Renhe. Mr. Zhou Daoxue also directly holds 80,145,918 Domestic Shares of our Company.
- (vi) Mr. Liu Bolin directly holds 75% of the equity interest of Sichuan Hongrun Trading Co., Ltd., which directly holds 120,000,000 Domestic Shares of our Company. Accordingly, Mr. Liu Bolin is deemed to be interested in the 120,000,000 Domestic Shares held by Sichuan Hongrun Trading Co., Ltd.
- (vii) Mr. Feng Yongxiang is the brother of Mr. Feng Yonglin, who directly holds 80% of the equity interest of Chongqing Puzhao Hengyi Investment Co., Ltd., which directly holds 53,430,613 Domestic Shares of our Company. Accordingly, Mr. Feng Yongxiang is deemed to be interested in the 53,430,613 Domestic Shares held by Chongqing Puzhao Hengyi Investment Co., Ltd.. Mr. Feng Yongxiang is the son of Ms. Yu Zhaoheng, who directly holds 53,430,613 Domestic Shares of our Company. Accordingly, Mr. Feng Yongxiang is deemed to be interested in the 53,430,613 Domestic Shares held by Ms. Yu Zhaoheng.

**(b) Interest in our Associated Corporations**

<b>Name</b>	<b>Position</b>	<b>Name of Associated Corporations</b>	<b>Percentage Shareholding</b>
Mr. Tu (i)	Non-executive Director	Loncin Holdings, Loncin Group and their respective associates	100
Mr. Zhang Guoxiang	Executive Director	Huitai	62.09
Mr. Lin Feng	Executive Director	Huitai	5.61
Mr. Li Ruping	Supervisor	Huitai	4.05

*Note:*

- (i) Mr. Tu directly holds 98% of the equity interest of Loncin Group, which directly holds 98% of the equity interest of Loncin Holdings. Mr. Tu also directly holds 2% of the remaining equity interest of Loncin Holdings. Accordingly, Mr. Tu is deemed to hold 100% equity interest of Loncin Holdings.

**C. Particulars of Service Contracts**

Each of our executive Directors and non-executive Directors has entered into a service contract with our Company on February 17, 2014, with a term of three years commencing from the Listing Date, which may be terminated in accordance with their respective terms. The service agreements may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations.

Each of the Supervisors has entered into a contract in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and provision of arbitration with our Company on February 17, 2014.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

**D. Directors' and Supervisors' Remuneration**

For the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors and Supervisors were approximately RMB1.6 million, RMB1.5 million and RMB5.2 million, respectively. In addition, we also recognized RMB103.0 million of sharebased payment expense during the year ended December 31, 2013 in connection with the share incentive plan granted to our Directors and Supervisors. Given that the executive share incentive scheme will last for a continuous eight years starting from January 1, 2013 and that each Grantee is entitled to dispose 12.5% of his effective interest each year as disclosed in the "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme", we expect to incur relevant non-cash share based payment on a monthly basis for each of the aforementioned eight years. Save as disclosed under Note 7 in the Accountants' Report set out in Appendix I to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of the three financial years ended December 31, 2011, 2012 and 2013.

Under the current arrangements, our Directors and Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2014 under arrangement in force as of the date of this prospectus which is expected to be approximately RMB8.0 million in aggregate. In addition, we expect to recognize RMB86.7 million of sharebased payment expense during the year ending December 31, 2014 in connection with the share incentive plan granted to our Directors and Supervisors. Given that the executive share incentive scheme will last for a continuous eight years starting from January 1, 2013 and that each Grantee is entitled to dispose 12.5% of his effective interest each year as disclosed in the "Directors, Supervisors, Senior Management and Employees — Share Incentive Scheme", we expect to incur relevant non-cash share based payment on a monthly basis for each of the aforementioned eight years.



**E. Agency Fees or Commissions Paid or Payable**

Save as disclosed in this prospectus, none of the Directors or any of the persons whose names are listed in the paragraph headed “Consents” in this Appendix VI had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of our Company or any of our subsidiaries within the two years ended on the date of this prospectus.

**F. Related Party Transactions**

During the two years preceding the date of this prospectus, we have engaged in the material related party transactions as described in Note 31 to the financial information in the Accountants’ Report set out in Appendix I to this prospectus.

**G. Personal Guarantees**

Our Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

**H. Disclaimers**

Save as disclosed in this prospectus:

- (a) none of the Directors, Supervisors or chief executive of our Company has any interests and short positions in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code to be notified to us and the Stock Exchange, in each case once our Shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;
- (b) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed “Qualification of Experts” of this appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;
- (c) none of our Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the Shares are listed on the Stock Exchange;

- (d) save as disclosed in this prospectus or in connection with the Underwriting Agreements, none of our Directors or Supervisors nor any of the parties listed in paragraph headed “Qualification of Experts” of this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is unusual in nature or which is significant in relation to our business;
- (e) none of the parties listed in the paragraph headed “Qualification of Experts” of this appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities; and
- (f) none of our Directors or Supervisors or their respective associates or any Shareholders of our Company (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest customers.

## 5. OTHER INFORMATION

### A. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

### B. Litigation

Save as disclosed in the “Business — Legal Proceedings and Compliance” section of this prospectus, as of the Latest Practicable Date, our Company is not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened against any member of the Company.

### C. Joint Sponsors

The Joint Sponsors have declared their independence pursuant to Rule 3A.07 of the Listing Rules. The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our Shares, including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

### D. Preliminary Expenses

The preliminary expenses of our Company are approximately RMB3.04 million and were borne by our Company.

**E. Qualification of Experts**

The qualifications of the experts who have given opinions in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
China International Capital Corporation Hong Kong Securities Limited	Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 3 (leveraged foreign exchange trading), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO
China Galaxy International Securities (Hong Kong) Co., Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified public accountants
DeHeng Law Offices	PRC legal advisors

**F. No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2013.

**G. Binding Effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**H. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**I. Miscellaneous**

Save as disclosed in this prospectus within the two years immediately preceding the date of this prospectus,

- (a) no share or loan capital of our Company or any of our subsidiaries has been issued or is proposed to be fully or partly paid for in cash or a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (d) the Company has no outstanding convertible debt securities or debentures;
- (e) no commissions, discounts, brokerages or other special terms have been granted or agreed to be in connection with the issue or sale of any share or loan capital of the Company or any of our subsidiaries;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;
- (g) there has been no interruption in the business of the Company which may have or has had a significant effect on the financial position of the Company in the last 12 months preceding the date of this prospectus;
- (h) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (i) there is no subsidiary in our Group which is a Sino-foreign equity joint venture or which operates as or under a cooperative or contractual joint venture; and
- (j) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

**J. Consents**

Each of the experts as referred to in the paragraph headed “Qualification of Experts” in this appendix has given, and has not withdrawn, their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

Save as disclosed in this prospectus, none of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company.

**K. Promoters**

The promoter of our Company are ten corporate investors and 19 individual investors, including Loncin Holdings and Huitai.

Saved as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Hong Kong Public Offering and the related transactions described in this prospectus.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** application forms, the written consents referred to in the section entitled “Other Information — Consents” in Appendix VI to this prospectus and copies of the material contracts referred to in the section entitled “Further Information about Our Business — Summary of Our Material Contracts” in Appendix VI to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 28th Floor, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the accountants’ report on our Group prepared by KPMG, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information prepared by KPMG, the text of which is set out in Appendix II to this prospectus;
- (d) the material contracts referred to in the paragraph headed “Summary of Our Material Contracts” in Appendix VI to this prospectus;
- (e) the service contracts referred to in the paragraph headed “Particulars of Service Contracts” in Appendix VI to this prospectus;
- (f) the written consents referred to in the paragraph headed “Consents” in Appendix VI to this prospectus;
- (g) the industry report prepared by Euromonitor, the industry consultant;
- (h) the PRC legal opinion dated June 3, 2014 and issued by DeHeng Law Offices, the PRC legal advisors of the Company; and
- (i) the Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation.

