

RISK FACTORS

RISKS RELATING TO OUR GROUP’S BUSINESS

Our Group provides financial and non-financial guarantee services to our customers and guarantees the repayment of loans or performance by our customers of their obligations and our Group will be liable under the guarantees given by us if our customers default; and the counter-guarantees obtained from our customers may not be sufficient to cover our corresponding exposure under the guarantees given by us

Our Group provides financial and non-financial guarantee services to our customers and we guarantee the repayment of loans granted to our customers or, in the case of performance guarantee, the performance by our customers of their contractual obligations or, in the case of litigation guarantee, the losses suffered by litigating counter-party as a result of our customers’ inappropriate application for property preservation against such litigating counter-party. In the case of banks, we are required to provide cash deposits for the loans granted by such banks to our customers, from which the banks may recover default loan payments by our customers. In order to protect our Group’s interest, we will require our customers, their owner(s) and/or any third parties to provide counter-guarantees to us to secure our obligations under the guarantees given by us, and such counter-guarantees may include (a) charges over fixed assets such as properties, vehicles and machineries; (b) charges over movable and intangible assets such as income rights, account receivables, inventories and land use rights; and/or (c) guarantee(s) from the owners or directors of the customer and their spouse or other third parties. Such counter-guarantees would be discharged after our obligations under the guarantees given by us are discharged.

As at 31 December 2010, 2011 and 2012 and 31 May 2013, the amounts of our Group’s exposure under financial and non-financial guarantees provided by our Group were approximately RMB[1,066.5] million, RMB[1,544.5] million, RMB[1,483.5] million and RMB[1,539.1] million respectively, while our Group has made provision for financial guarantee losses in the amount of RMB[6.3 million], RMB[8.2 million], RMB[6.9 million] and RMB[7.2] million respectively. Our Group’s exposure with respect to guarantee services provided to customers varies on a case-by-case basis, and depends on factors such as, among others, the credibility of customers, the principal amount of guarantee obligation, duration of the guarantee period, and the counter-guarantees provided by our customers to us.

If our customers default on a loan or fail to perform their contractual obligations, we would have to pay to the bank or the contractual counter-party in question the amount guaranteed by us under the relevant guarantees given by us; or in the case of litigation preservation, if the litigating counter-party should have suffered loss as a result of the freezing of such counter-party’s property by the court as a result of our customer’s inappropriate application for property preservation against it, we would have to compensate such litigating counter-party for such losses in accordance with the guarantee given by us to the relevant court. When we are called upon to make payment under the guarantees given by us, we would in turn recover such liabilities from liquidating the collaterals provided to us or from funds obtained from guarantors, under the counter-guarantees given to us by the relevant customers.

It is possible that collaterals provided to us under the counter-guarantee(s) cannot be realised, or cannot be realised in time, or cannot be realised at prices that are equal to or above the amount of our liability under the guarantees given by us or the relevant guarantor(s) may fail to perform his/her/its

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obligations under the counter-guarantee(s) provided to us. As advised by our PRC Legal Advisers, for collaterals provided to us including machineries, inventories and vehicles, we will be entitled to the collateral right to the collateral from the date when the relevant counter-guarantee agreement is signed but such right is not enforceable against a bona fide third party until it is properly registered. Moreover, as advised by our PRC Legal Advisers, with regard to interests in collaterals other than those listed above, such as land and property, account receivables, etc., provided to us which are not registered in our favour under the PRC laws and regulations, we will only be entitled to our contractual rights to such collaterals under the counter-guarantee agreements. In the event of liquidation of our customers, we will not be able to claim priority on such collaterals over the other creditors of our customer and we may not be able to recover the full value of those collaterals under the counter-guarantees or at all. In addition, the procedures for liquidating or otherwise realising 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 in accordance with the Guarantee Law, the Property Law and other relevant laws and regulations.

As at 31 May 2013, the value of the unregistered collaterals and/or counter-guarantees provided in respect of obligations guaranteed by us amounted to approximately RMB[3,464.3] million, representing approximately [63.7]% of the total value (which is internally verifiable by our internal record and documentation) of the collaterals and/or counter-guarantees provided in respect of obligations guaranteed by us outstanding as of 31 May 2013. [Where the collaterals provided in respect of obligations guaranteed by us are charged and registered exclusively in favour of third parties such as the lending institutions and, in the event of default, we are required to indemnify the lending institution for the default amount, it is possible that the lending institution decides not to transfer its rights to the collaterals to us, thereby preventing us from realising the value of such collaterals. As at 31 May 2013, the value of collaterals registered exclusively in favour of third parties amounted to approximately RMB[485.1] million.] In cases where collaterals which had been charged to certain banks were subsequently charged to us, the mortgagee bank and Success Guarantee were registered as the first and the second beneficiary of the collateral respectively, such that proceeds from the realisation of the collateral shall be applied to the settlement of liabilities owed to the beneficiaries according to the sequence of their registration. Accordingly, the mortgagee bank enjoys priority over our interest in such collaterals and thus proceeds from the realisation of the collaterals will be repaid to the mortgagee bank before they can be applied to the settlement of our payment to the relevant lending bank in cases where our customers default on the loan. The total asset value of the collaterals and/or counter-guarantees not registered in favour of our Group exclusively which were subject to guarantees outstanding as at 31 May 2013 amounted to approximately RMB[6.8] million, representing approximately [0.4]% of our Group’s outstanding guarantee amount as at 31 May 2013.

Further, we may not have physical control over those collaterals under the counter-guarantee(s) given in our favour which are kept at our customers’ premises. Even if our Group makes regular and spontaneous visits to inspect such collaterals for risk control and on-going monitoring purposes, we may not take possession of such collaterals since it is necessary for our customers to make use of such collaterals to generate income to repay their loan (as is the case, for example, with raw materials, equipment or inventory). If such collaterals are stolen, destroyed or damaged by any reasons other than the faults of our customers and our customers do not maintain adequate insurance over such collaterals, the value of such collaterals would be adversely affected and we may not recover the liabilities we have taken up under the guarantees given by us (in case our customer defaults its

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obligations) in full or at all. There may also be a risk that the actual value of such collaterals will be reduced through our customer’s failure to provide necessary upkeep or maintenance. Although we are entitled to require our customers or their owners to provide additional counter-guarantee(s), and depending on the types of additional counter-guarantee(s), there is no assurance that we can always obtain suitable additional counter-guarantee(s) or we may fail to realise or liquidate the full value of such additional counter-guarantee(s) securing the loans in a timely manner.

There can be no assurance that our Group can be fully secured by, or realise in a timely manner, the collaterals under the relevant counter-guarantees. Our Group’s guarantee service business is therefore subject to liquidity risk and if our customers default and the amount recovered from the counter-guarantee(s) provided to us is not sufficient to cover our liabilities under the guarantee(s) given by us, or if the actual amount to be paid by our Group under the guarantees given by us shall exceed the amount of provision for impairment loss made by us, our financial condition, liquidity and results of operations would be adversely affected.

Our current risk management system may not adequately protect us against credit risk, liquidity risk, financial market risk or other risks

Our risk management capabilities are limited by the information, resources or tools available to us. For example, our assessment of the risks associated with a particular customer may not be based on complete, accurate or reliable information, there may be risks which are not identified by us and we may fail to estimate and/or quantify the risk appetite of our Group under the relevant economic condition in the PRC. We may not be able to accurately estimate the repayment ability of our customers or the guarantors under the counter-guarantees or the market value and the liquidity of collaterals provided to us under the counter-guarantees. A sudden change in the economic condition of the PRC or the happening of any financial crisis may also make the results of our initial risk assessment redundant or the counter-guarantees obtained by us inadequate. As such, we may not be able to devise an adequate plan to manage and/or transfer the risks associated with the guarantee services we provide. The service fee charged on our customers or the value of the counter-guarantees provided to us may not be sufficient to cover our risk exposure. Furthermore, many aspects of our risk management system involve detailed quantitative and qualitative analyses by our staff and therefore such system is also subject to human error. Our risk management capabilities are further limited by our internal resources. For example, we may not have sufficient specialised risk management staff or our current risk management staff may not have sufficient expertise in evaluating all probable risks that our Group may come across from time to time. If our risk management system is not adequate in protecting us against credit and liquidity risks, our business, financial condition and results of operations may be materially and adversely affected.

Our Group may not be able to obtain adequate financial resources to provide cash deposits as guarantees to finance providers and to maintain an adequate level of net assets to provide financial guarantees of a larger scale, which may impact our operations and expansion

In respect of the provision of financial guarantee services, banks and/or other financial institutions typically would require us to maintain a cash deposit with them to guarantee our obligations under the guarantees to be given by us in respect of the loans granted by the banks and/or other financial

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institutions to our customers. Our ability to provide such deposits to banks and/or other financial institutions will depend on the availability of adequate financial resources. Up to the Latest Practicable Date, we have financed our operations through internal resources and we have been able to fulfill the requirements of banks to provide cash deposits with them.

As at 31 December 2010, 2011 and 2012 and 31 May 2013, our Group’s cash and bank deposits amounted to approximately RMB[133.1] million, RMB[166.6] million, RMB[163.2] million and RMB[114.6] million (including respective customer pledged deposits of approximately RMB40.7 million, RMB12.6 million and RMB[3.7] million as at 31 December 2011 and 2012 and 31 May 2013) respectively. As at 31 December 2010, 2011 and 2012 and 31 May 2013, our Group has placed approximately RMB[154.2] million, RMB[191.0] million, RMB[186.1] million and RMB[205.9] million respectively as pledged deposits with banks and/or other financial institutions pursuant to our cooperation agreements with them for the purpose of guaranteeing our obligations under the guarantees given by us in respect of our customers’ loans. If our Group is unable to maintain an adequate level of cash and bank deposits holding or obtain adequate financial resources to provide cash deposits as guarantees to banks, our cooperation with banks and/or other financial institutions will be adversely affected and which, in turn, will adversely affect our Group’s operation and liquidity.

Further, the size of guarantee which we may provide depends on the amount of our net assets. The Interim Measures stipulate that the outstanding financial guarantee amount provided by a financial guarantee company for a single customer shall not exceed 10% of its net assets and the total outstanding financial guarantee amount provided by such company shall not exceed 10 times of its net assets. Our cooperation agreements with our cooperating banks also impose such maximum outstanding financial guarantee amount with reference to the amount of our net assets. As at 31 December 2010, 2011 and 2012 and 31 May 2013, Success Guarantee’s net assets amounted to approximately RMB250.8 million, RMB340.1 million, RMB346.6 million and RMB[366.3] million respectively. The net asset amounts as at 31 December 2010, 2011 and 2012 were extracted from the statutory audited financial statements of Success Guarantee while the amount as at 31 May 2013 was extracted from the unaudited PRC management accounts, which were prepared in accordance with relevant PRC accounting standards, relevant laws and regulations in the PRC. If Success Guarantee is not able to maintain an adequate level of net assets, the scale of financial guarantee business that we may provide will be limited and our Group’s operation will be adversely affected.

Failure to maintain our reputation and brand name could materially and adversely affect our business

We believe that the reputation and brand name that we have built up over the years play a significant role in enabling us to obtain business from referrals as well as to attract new customers. During the Track Record Period, a large portion of our new guarantee services provided by us during the year/period were referred to us by our past or existing customers or by banks or other financial institutions. We believe the building up and enhancement of our reputation and brand name depend largely on, among others, our creditability among finance providers and other players in the financial services industry which has been developed over the years of our business operations and our ability to provide diversified services to meet the requirements of our customers and their counter-parties and our Group’s participation in cooperative programmes with local governments in the PRC. In particular, under certain cooperative programmes such as the Eagle Scheme and the Flying Dragon Scheme, the relevant government body would, in cooperation with selected banks and financial guarantee

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companies, provide assistance to SMEs in obtaining financing for their business development and subsidise the participating financial guarantee companies which provide guarantee services to the SME scheme participants. We believe such cooperative programmes also enhance our reputation among SMEs in the PRC. If we fail to maintain our reputation or our customers or their counter-parties no longer perceive our services to be of high quality or if they should no longer perceive us as a guarantee company with high creditability for whatever reason, our reputation and brand name could be adversely affected and which, in turn, could affect our ability to maintain existing or capture future business opportunities. There is also no assurance that our past or existing customers or banks or financial institutions with whom we have business relationships with will continue to work with us or to refer new or potential customers to us. In the event our existing or past customers or banks or financial institutions with whom we have business relationships cease to work with us or stops referring new or potential customers to us or substantially reduce their referrals to us, our Group’s business, financial condition and results of operations would be adversely affected.

Our Group is reliant on cooperation with various finance providers for the operation of our business

During the Track Record Period, we had business relationship with 20 financial institutions to facilitate the financing of SMEs and as at 31 May 2013, our Group had effective cooperation agreements for business cooperation with [15] financial institutions (which include [12] banks). We generally provide financial guarantee services to our customers based on such cooperation agreements, which may stipulate different terms governing the guarantees to be given by our Group, such as imposing a maximum as to the outstanding guarantee amount for our financial guarantee services to customers, the financial obligations to a single customer or the guarantee amount per transaction. In the event that the terms of any of these cooperation agreements are varied to reduce the maximum outstanding guarantee amount for our financial guarantee services to customers or reduce the maximum obligations of us to a single customer or include more stringent requirements, or that our cooperation with any of our cooperating financial institutions terminates, the business and results of operations of our Group may be adversely affected. Further, in 2012, certain major financial guarantee companies in Guangdong Province were reported to have misappropriated the deposits pledged by their customers and/or other funds from them for investment purposes and provided bridging loans for companies in breach of the Interim Measures. It was reported that such companies became financially distressed as a result of the loss on such investments and the failure to recover the bridging loans due to the tightened credit policy of banks in the PRC. Following such incidents, some of the finance providers in the PRC may not be willing to cooperate with privately controlled guarantee companies as compared with government-funded or government-controlled guarantee companies, or they may be more selective or cautious in cooperating with privately-controlled guarantee companies. Further details of the implications of such incidents on our Group’s business operations are set out in the section headed “Industry overview — Analysis of credit guarantee service industry — Future trends and developments” in this document. Should the finance providers cease to cooperate with us or reduce their business cooperation with us, our Group’s business and results of operations would be adversely affected.

Our Group’s financial performance may fluctuate from period to period and the fluctuations may make it difficult to predict our future performance

Our Group’s financial performance fluctuates with our business volume. For our guarantee and financial consultancy service, the level of revenue that we can achieve is subject to fluctuations and is dependent on, among others, the business and performance of our customers and the overall economic condition of the PRC. Accordingly, our Group is susceptible to revenue volatility between financial periods.

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As we derive substantially all of our revenue from guarantee fees and financial consultancy fees, our Group’s financial performance is affected by the market conditions of the vastly diverse industries in which our customers operate and the overall economic conditions of the PRC, which are external factors beyond our Group’s control. In the event that our Group is not able to continually and consistently secure new guarantee or financial consultancy contracts from customers, our future financial performance will be adversely affected.

There is no assurance that the demand for financial guarantee services will continue to grow; and as our financial and non-financial guarantee services and financial consultancy services are provided to SMEs in the PRC, mainly in Foshan City, our performance is heavily dependent on the performance of SMEs, particularly those in Foshan City

The rapid growth of the economy of the PRC in recent years has triggered a surge in the number of new SMEs and the escalation of their respective businesses in general. Despite the growth of SMEs and the growing demand for funding from these SMEs in recent years, there can be no assurance that the demand for financial guarantee services from SMEs will continue to grow. Any adverse development in national or local economic condition may affect the businesses or funding demands of SMEs which, in turn, may reduce the demand or depress the amount of fees our Group charges for our services and would have a material adverse effect on our Group’s results of operations and financial condition.

Our Group’s financial and non-financial guarantee services and financial consultancy services are provided to SMEs and their shareholders for the benefit of SMEs in the PRC, mainly in Foshan City, the Guangdong Province and our customer portfolio is concentrated in Foshan City. For each of the three years ended 31 December 2012 and the five months ended 31 May 2013, the total revenue generated from customers established in Foshan City amounted to approximately RMB33.0 million, RMB50.0 million, RMB53.3 million and RMB[19.9] million, representing approximately [94]%, [93.4]%, [93.3]% and [90.1]% of our total revenue respectively. Hence, our business and prospects are particularly dependent on the performance of SMEs in Foshan City which operate in a multitude of different industries. If the economy of the Guangdong Province, in particular Foshan City, significantly deteriorates, performance of SMEs there will be adversely affected which, in turn, could have an adverse effect on our business. If there is any downturn in the industries of any of our Group’s customers or potential customers in the PRC generally or in Foshan City, our Group’s business, financial condition and results of operations could also be adversely affected.

Our Group currently operates our business mainly in Foshan City. There is no assurance that our Group will continue to be successful in sourcing or developing new customers or successful in expanding our business to other places in the Guangdong Province

For each of the three years ended 31 December 2012 and the five months ended 31 May 2013, our Group had [276], [324], [305] and [247] customers respectively. For each of the three years ended 31 December 2012 and the five months ended 31 May 2013, revenue from our five largest customers accounted for approximately [13.8]%, [11.6]%, [14.2]% and [14.0]% respectively, of our Group’s total revenue, while the largest customer accounted for approximately [6.1]%, [4.3]%, [4.4]% and [6.8]%

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respectively of our total revenue for the same year/period. However, there can be no assurance that the number of our customers will continue to grow in the future. If we are not able to retain our existing customers or unable to attract new customers, the business, financial condition and results of operations of our Group may be materially and adversely affected.

As at the Latest Practicable Date, our business is concentrated geographically in Foshan City. It is our intention to expand our businesses to other places in the Guangdong Province such as Guangzhou, Dongguan and Zhongshan, but there is no assurance that we can successfully expand our business in such places or that we will be able to attain the same level of success in such future endeavours. If we are not able to implement our expansion plans effectively, our competitiveness may be adversely affected.

We may be not be able to keep up with changes in the market needs in our industry and may not be able to expand our guarantee business

A significant factor of our competitiveness in the markets of guarantee services is our ability to develop our services so that we are able to continuously tailor our services to meet the needs of our customers and their counter-parties. Due to the changes in the global economy, the national economy in the PRC or the local economy in Guangdong Province, the changes in the business environment of the SMEs in the PRC and the development of different financial products, there may be changes in the market needs for guarantee services in terms of, among others, the type of services and the scale of guarantee. We cannot assure that we will be able to obtain sufficient financial and human resources to develop our business in view of such changes. The scale and expertise of our management team may not be able to meet such market needs and we may not be able to attract suitable personnel for the development of our business. In addition, our risk management system may not keep up with changes in the business requirements of our cooperating institutions and customers. Further, there is no assurance that our new services will be well accepted by the market, or such services can be developed and put into the market in a timely manner or at all. In the event that we are not able to develop new services that meet the needs of our customers or their counter-parties or that our competitors have developed new service offerings that are more acceptable by the market than ours, our business, financial condition and results of operations may be materially and adversely affected.

Our Group’s continued success is dependent on our core management team

Our performance and success is, to a significant extent, attributable to contributions of our core management team, all of them have extensive experience in the financial service fields, and each of them has relevant expertise and experience in the key functions of our business operations in which they oversee, namely risk management, legal, compliance and internal control and sales and marketing. In particular, Mr. Li Bin, our executive Director and the chief executive officer of our Group, has over 12 years of experience in the banking industry, with over [seven] years of experience in the guarantee industry in the PRC further to his banking experience. Ms. Dai Jing, the senior vice general manager of Success Guarantee, has over 12 years of experience in the banking industry, with over [six] years of experience in the guarantee business further to her banking experience. The effectiveness of our risk management system is also dependent on the expertise and experience of members of our risk control department, which, as at the Latest Practicable Date, comprised our risk control director, who has more than 18 years of experience in the banking industry, with over four years in the guarantee industry as part of the management team further to his banking experience; and

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four risk control managers, three of whom have approximately one to five year(s) of experience in the financial industry, and one being a PRC certified public valuer with over 15 years of valuation experience in the PRC. The head of our independent compliance department, which was established in September 2013, has more than 10 years of experience in the banking industry.

Competition for senior management and key personnel in our industry is intense and the pool of qualified candidates is limited. There is no assurance that we can retain the services of our Directors and members of our core management team or attract and retain high-quality personnel in the future. If any of these persons departs from us, and we are not able to hire a suitable replacement on a timely basis, our business, operations and financial condition may be materially and adversely affected.

Our Group may be unable to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties

Our Group may be exposed to fraud or other misconduct committed by our employees, customers or other third parties that could subject our Group to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. [Our Directors confirmed that as at the Latest Practicable Date, no such fraud or other misconduct has been committed by our employees, customers or third parties that had an adverse effect on our Group’s business reputation, financial condition and results of operations nor were any sanctions being imposed by governmental authorities.] There is no assurance that our Group will be able to identify non-compliance and/or suspicious transactions in a timely manner or at all. Further, it is not always possible to detect and prevent fraud and other misconduct, and the precautions taken by our Group to prevent and detect such activities may not be effective. As such, there is always a risk that fraud and other misconduct may occur and that negative publicity, government sanctions and/or financial losses may result when any such event should happen which, in turn, may have an adverse effect on the business reputation, financial condition and results of operations of our Group.

Our financial consultancy services commenced in 2011 and we may not be able to grow our financial consultancy services successfully

We commenced the provision of financial consultancy services in 2011 and have since then experienced rapid growth. Due to the limited operating history of our financial consultancy services, there may not be an adequate basis for evaluating our future operating results and prospects for this aspect of our business based on the short historical financial performance. Moreover, we cannot assure you that we are able to continue to develop such business successfully. The rate of its future growth may not continue at the same level as the growth we have experienced in the past. Should the past results of our financial consultancy services may not be indicative of its results in the future, investors may have difficulties evaluating the prospects and future performance of this aspect of our business.

We will be exposed to various risks as we expand our range of services

Our principal business is the provision of guarantee and financial consultancy services. We will continue to expand our range of services to our customers with the aim to become an integrated financial service provider and to assist SMEs in their fund raising, for example, we will continue to

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design different service offerings such as guarantee services for trust products, bills and insurance products to cater for the requirements of our customers and their counter-parties. Our expansion of our range of services may expose us to new and potentially increasingly challenging risks, including, among others:

- we may have insufficient experience or expertise in certain new services, which may, among other things, lead to inadequate assessment of all risks associated with our services;
- we may need to hire additional qualified and experienced personnel but be unable to do so;
- our existing personnel may need to leave their current roles in order to undergo further training and gain any relevant requisite qualifications;
- we may face a new competitive landscape and we may need to cultivate business relationships with different business partners such as trust companies and other financial institutions which we may not have a past working relationship with; and
- we may be unable to obtain or maintain regulatory approval for our new services.

If we are unable to achieve the intended commercial results with respect to our new services, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our Group does not have insurance to cover potential losses and claims arising from certain events

Although we may require our customers to take out insurances for assets pledged to us under the counter-guarantees and to name us as the beneficiary of such insurance policy, our Group does not take out any insurance in respect of the assets pledged to us under the counter-guarantees provided to us. In cases where we do not require such insurance arrangement from our customers and our customers are unable to repay their loans, our Group may suffer losses arising from any damage to properties which are not covered by insurance; and the value of the relevant collateral may decrease; and if the value of the collaterals shall not be sufficient to cover our exposure under the relevant guarantee given by us and we are required to make payment to the counter-party of the guarantee given by us, it would have an adverse effect on our business and financial condition.

We have not maintained any insurance against business interruption or against the office premises which we lease. Any payment our Group makes to cover any uninsured losses, damages or liabilities could have a material adverse effect on our business, results of operations and financial condition. In addition, if our Group does not have sufficient funds to cover any uninsured losses, damages or liabilities or to replace any asset that has been destroyed, our Group’s business, results of operations and financial condition could be adversely affected.

Our Group is subject to legal and business risks if our permits are not renewed upon expiry or more stringent conditions are being imposed on financial guarantee companies

In accordance with the Interim Measures, guarantee companies in the PRC are required to obtain a permit in order to attain the status of a financial guarantee company. The Interim Measures do not set forth detailed requirements on the part of the guarantee company that will be taken into account by the relevant authorities in deciding whether to renew the qualification certificates. In order to facilitate implementation of the Interim Measures in the Guangdong Province, the local governments of the Guangdong Province promulgated the Implementing Rules on 27 September 2010, which

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became effective on 1 November 2010. The Implementing Rules set out the detailed rules regarding the establishment, operation, business scope, risk control and other matters of local financial guarantee companies. As the Interim Measures have only been in force for about [three] years and the Guangdong Province has its own implementation rules governing the guarantee companies, it is uncertain as to whether there will be any additional or variation of the requirements that may be determined by the relevant authorities on the permits from time to time in the future. If, for any reason, the relevant authorities vary the relevant implementation rules or Interim Measures and our Group’s permits are not renewed upon their expiry or more stringent requirements are being imposed on financial guarantee companies, our Group’s business operations and financial performance would be adversely affected.

Our Group may be involved in legal proceedings arising from our operations

Our Group may become involved in disputes with customers, finance providers and/or other parties. These disputes may lead to legal proceedings, and may cause our Group to suffer costs and delays to our operations; and they may also adversely affect our reputation which in turn could lead to a slowdown in our new business opportunities. During the Track Record Period, no member of our Group was involved in any material litigation or arbitration. However, there can be no assurance that our Group will not be a party to any litigation or arbitration in the future. If such proceedings are commenced by or against our Group, the performance, business, reputation and profitability of our Group may be adversely affected.

Certain advances made by our Group during the Track Record Period were not in compliance with the PRC laws and regulations

During the Track Record Period, Success Guarantee made certain advances to certain independent third parties and related parties from time to time during the Track Record Period which did not comply with the General Rules on Credit (貸款通則) and the Interim Measures (“Advances”). Pursuant to the General Rules on Credit, the maximum potential penalty for a corporate entity providing loans to another corporate entity shall be five times of the interests received from the corporate borrower and the inter-company loan may be declared invalid. Under the Interim Measures, financial guarantee companies are prohibited from engaging in the financing business. As advised by our PRC Legal Advisers, the Advances may be declared invalid but, as all Advances provided by our Group were not interest-bearing, Success Guarantee will not be subject to the monetary penalty set out above. As advised by our PRC Legal Advisers, there were no specific penalty provisions on financial guarantee companies engaged in the financing activities under the Interim Measures. As at 31 December 2010, 2011 and 2012 and 31 May 2013, the outstanding balance of the Advances to related party amounted to approximately RMB[43.4] million, RMB[3.9] million, [nil] and [nil] respectively. During each of the three years ended 31 December 2012 and the five months ended 31 May 2013, our Group granted [85], [37], [20] and [nil] Advances to a total of [28], [nil], [nil] and [nil] independent third parties and [3], [1], [1], and [nil] related parties respectively. During each of the three years ended 31 December 2012 and the five months ended 31 May 2013, the total amount of Advances provided by us was approximately RMB[849.0] million, RMB[429.0] million, RMB[426.2] million and [nil] respectively. Details of the non-compliance are set out under the section headed “Business — Non-compliance — Advances” in this document.

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We ceased to provide such Advances from July 2012 and all such non-interest bearing Advances had been settled in August 2012. However we cannot assure you that the relevant regulatory authorities will not impose penalties and/or sue us retrospectively for the previous Advances. Any penalties and/or fines imposed on us could adversely affect our business, financial conditions and results of operations.

We entered into certain guarantee transactions during the Track Record Period which were not in compliance with the PRC laws and regulations

During the Track Record Period, Success Guarantee entered into two financial guarantee transactions in September 2011 and one financial guarantee transaction in June 2012 with related companies of certain holders of 5% or more equity interest in Success Guarantee, which did not comply with Article 36 of the Implementing Rules (“**Related Guarantees**”). Pursuant to Article 36 of the Implementing Rules, a financial guarantee company is prohibited to provide financial guarantee for a holder of 5% or more equity interest in such company or for a related company of such equity holder. As advised by our PRC Legal Advisers, the PRC laws and regulations do not specifically provide for the maximum potential penalty for such Related Guarantees. The amount guaranteed by us in relation to each of the Related Guarantees was RMB18 million. The aggregate revenue recognised from such financial guarantees during each of the two years ended 31 December 2012 amounted to approximately RMB296,000 and RMB729,000, representing approximately 0.6% and 1.3% of our total revenue for the relevant year respectively. Details of the non-compliance are set out under the section headed “Business — Non-compliance — Related Guarantees” in this document.

Our guarantee obligations under each of the Related Guarantees were released in or before August 2012. However we cannot assure you that the relevant regulatory authorities will not impose penalties and/or sue us retrospectively for the previous Related Guarantees. Any penalties and/or fines imposed on us could adversely affect our business, financial conditions and results of operations.

Certain customers’ pledged deposits received by our Group during the Track Record Period were not in compliance with the PRC laws and regulations

During the Track Record Period, our Group did not fully comply with Article 33 of the Implementing Rules and the Notice on Guarantee Deposits. As advised by our PRC Legal Advisers, the outstanding customers’ pledged deposits provided to us as at 31 March 2011, and those received afterwards, in respect of which no tripartite custody agreement has been entered into or which were not kept in a segregated bank account would be considered in breach of the Implementing Rules and the Notice on Guarantee Deposits.

Our PRC Legal Advisers advised that both the Implementing Rules and the Notice on Guarantee Deposits do not specify or provide for potential penalties for the above non-compliance. As at 31 December 2011 and 2012 and 31 May 2013, the total balance of customers’ pledged deposits received by our Group, in respect of which no tripartite custody agreement has been entered into or which were not kept in a segregated bank account amounted to approximately RMB[40.7] million, RMB[11.0] million and RMB[2.1] million respectively. As at 31 December 2011 and 2012 and 31 May 2013, (i) the corresponding guarantee amounts for such deposits were approximately RMB[408.3] million,

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RMB84.9 million and RMB21.0 million respectively; and (ii) the corresponding guarantee fees for such deposits were approximately RMB21.3 million, RMB4.4 million and RMB1.3 million respectively. Details of the non-compliance are set out under the section headed “Business — Non-compliance — Customers’ pledged deposits” in this document.

Since late August 2012, our Group ceased to accept any non-compliant customers’ pledged deposits in respect of our guarantee transactions to avoid further non-compliance, and all the outstanding balance of customers’ pledged deposits which are not kept in a segregated custodian bank account and for which no tripartite custody agreement has been entered into has been fully released in [July] 2013. However, we cannot assure you that we will not be subject to penalties under the Implementing Rules or the Notice on Guarantee Deposits. Any penalties and/or fines imposed on us could adversely affect our business, financial conditions and results of operations.

The future development and implementation of anti-money laundering laws in China may increase our obligations to supervise and report transactions with our customers, thereby increasing our costs and exposing us to the risk of criminal or administrative sanction

PRC laws and regulations relating to anti-money laundering have undergone considerable development over recent years. Any new requirement under anti-money laundering laws to supervise and report transactions with our customers would increase our costs, and may expose us to potential criminal or administrative sanction in the case we fail to establish and implement adequate procedures in accordance with law.

We intend to pursue merger and acquisition opportunities and any failure to successfully integrate newly acquired or merged businesses into our business could impose negative impact on our future performance, results of operation and financial condition

It is part of our business strategy to pursue opportunities of merger and acquisition of small-to-medium-sized financial service provider in order to further expand our business and service offerings. It is our intention to seek acquisition targets that have the potential to complement our existing sales network or our business model or to broaden our service offerings. Any failure to successfully acquire or merge with such targets or any failure to successfully integrate newly acquired or merged businesses into our business could have a negative impact on our future performance, results of operation and financial condition. As at the Latest Practicable Date, we had not identified any specific merger and acquisition target.

Our Group is subject to certain foreign exchange risks

Our Group receives all of our revenue in Renminbi, which is currently not a freely convertible currency. A portion of our revenue must be converted into other currencies in order to meet our foreign currency obligations from time to time. For example, our Group is required to obtain foreign currency (i.e. Hong Kong dollars) to make payments of declared cash dividends, if any, on our Shares after the [●].

The value of Renminbi against Hong Kong dollars and other currencies fluctuates and is affected by, among other things, changes in the PRC and international political and economic conditions. The value of declared cash dividends may be affected by fluctuations in exchange rates.

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We recorded negative operating cash flow in 2011 and 2013 and there can be no assurance that we will record positive operating cash flow in the future

We experienced negative cash flow from our operating activities of approximately RMB102.3 million for the year ended 31 December 2011, primarily due to (i) the increase in pledged bank deposits; (ii) the decrease in customer pledged deposits received; and (iii) the PRC income tax paid during the relevant year. For the five months ended 31 May 2013, we also experienced negative cash flow from our operating activities of approximately RMB3.9 million primarily due to (i) the adjustments for non-cash/non-operating in nature items; (ii) increase in pledged bank deposits; (iii) decrease in deferred income; and (iv) the PRC income tax paid during the relevant period. There is no guarantee that we will generate sufficient cash flow from our operations in the future. If we are unable to finance our operations continuously by funds generated by our operating activities, our operations and financial position could be materially and adversely affected. Details of the changes in cash flow from our operating activities are set out in the section headed “Financial information — Net cash generated from/(used in) operating activities” of this document.

We cannot assure you that we will declare dividends in the future

We cannot assure you in the future, our Company will pay dividends. As a part of the continuing evaluation of our Group’s dividend policy, our management considered that for the purpose of business development, the undistributed retained earnings of Success Guarantee amounted to approximately RMB63.0 million as at 31 May 2013 will not be distributed in the foreseeable future.

Pursuant to the Interim Measures, financial guarantee companies shall establish unearned premium reserve equal to 50% of guarantee premium recognised during the year and indemnification reserve of no less than 1% of the outstanding guarantee balances at the end of the year undertaken by the subsidiaries in the PRC. As such, where the unearned premium reserve falls under 50% of our guarantee premium recognised during the year, we will need to appropriate certain of our revenue to such reserve up to the required level. Our Group started to accrue the required amounts set by relevant government authorities less the provision of financial guarantee losses as regulatory reserve in 2011. As at 31 December 2011 and 2012 and 31 May 2013, the balance of regulatory reserve amounted to approximately RMB31.6 million, RMB42.9 million and RMB48.2 million respectively. Such regulatory reserve may not be available for distribution to our Shareholders.

Potential investors should be aware that the declaration, payment and amount of any future dividends are subject to the discretion of our Directors, and will depend upon, among other things, our results of operations, cash flows and financial conditions, operating and capital requirements and other relevant factors prevailing at the time.

Risk relating to the financial results of our Group for the year ending 31 December 2013 due to the non-recurring expenses

Further, pursuant to the Pre-[●] Share Option Scheme adopted on 18 October 2013, share options to subscribe for [●] Shares will be granted under the Pre-[●] Share Option Scheme prior to the [●]. The fair value of the share options granted under the Pre-[●] Share Option Scheme will be charged to the consolidated statements of profit or loss and other comprehensive income of our Group over the vesting period by reference to the fair value at the date on which such share options were granted.

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Accordingly, our Board wishes to inform our Shareholders and potential investors that our Group’s financial results for the year ending 31 December 2013 and other relevant financial years over the vesting period of such share options will be affected by the issuance of the share options under the Pre-[●] Share Option Scheme.

RISKS RELATING TO THE GUARANTEE INDUSTRY IN THE PRC

The PRC guarantee market, the PRC financial industry and related laws and regulations may undergo changes and our business and operation may be affected

Since 1995, and with the aim of facilitating the growth of the guarantee industry in the PRC, a number of regulatory measures have been introduced by the PRC government to deal with different aspects of the industry. Such measures include the introduction of the Measures for SME Credit Guarantee Funds and the Interim Measures. These measures are ‘interim’ or ‘trial’ measures and may be subject to further modifications. As an example, any modifications made to the Interim Measures may affect our subsidiary’s ability to obtain the requisite licences to maintain its classification as a financial guarantee company. In such event, the business and results of operations of our Group may be adversely affected.

Further, the PRC laws and regulations impose certain requirements in relation to the operation of the guarantee business. For example the Interim Measures stipulates that the outstanding financial guarantee amount provided by the financial guarantee company for a single customer shall not exceed 10% of its net assets and the total outstanding financial guarantee amount provided by such company shall not exceed 10 times of its net assets. If the applicable PRC laws and regulations are amended to reduce such maximum outstanding financial guarantee amounts or include more stringent requirements as to, among others, the guarantee fee rates that may be charged by a guarantee company, the type of investments it may make with its own capital, the minimum qualifications for its management or the type of services it may provide, the development of our business may be hindered and our business, results of operations and future prospects may be adversely affected.

In April 2013, the China Banking Regulatory Commission imposed certain requirements in relation to, among others, the financial instruments issued by banks in the PRC and their cooperating institutions in the issue of such financial instruments; and expressed that there will be increased regulatory measures regarding financial instruments in the PRC. If the applicable PRC laws and regulations are amended to impose further restrictions on the cooperating guarantee companies or banks in the PRC or if we provide guarantee services in relation to financial instruments in the PRC in the future, our source of customers and the variety of our services may be limited and our business and results of operation may be adversely affected.

Our business, financial condition, results of operations and future prospects may be materially and adversely affected by changes in government policies

The PRC government has been implementing measures, such as the Law on the Promotion of Small and Medium Enterprises (中華人民共和國中小企業促進法) effective from 2003, to support the growth of SMEs and to improve financing environment for SMEs. Amongst them, the Measures for Administration on Credit Guarantee Funds for Small and Medium Enterprises (中小企業信用擔保資金管理辦法) (“**Measures for SME Credit Guarantee Funds**”) was promulgated on 30 April 2010 and

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amended on 25 May 2012 by the Ministry of Finance and the Ministry of Information and Industry of the PRC to encourage guarantee companies to maintain stable funds for granting guarantees to their SME customers. Pursuant to the Measures for SME Credit Guarantee Funds, our Group has been offered financial support and subsidies from the PRC Government. Under the Measures for SME Credit Guarantee Funds, the PRC government may: (i) provide financial support to guarantee companies by injecting no more than 30% of the capital newly increased by the guarantee companies; (ii) subsidise the difference between their actual guarantee fee rate and 50% of the benchmark bank loan rate if the guarantee fee charged by the guarantee company to its SME customers is lower than 50% of the benchmark bank loan rate for the same period; and (iii) grant to medium-sized companies, small-sized companies and micro companies (as defined under 中小企業劃型標準規定 (the Regulations on the Standards for the Classification of Small and Medium-sized Enterprises)) a subsidy of no more than 1%, 2% and 3% of their annual balance of guarantee amounts respectively, subject to certain requirements under the Measures for SME Credit Guarantee Funds. During the Track Record Period, our Group received such subsidies from various government funds including, among others, 中小外貿企業融資擔保專項資金 (Small and Medium-sized Foreign Trade Enterprises Finances and Guarantees Fund) of the People’s Government of Guangdong Province and 國家中小企業發展專項資金 (the National Fund for the Development of Small and Medium-sized Enterprises) of the PRC government. For each of the three years ended 31 December 2012 and the five months ended 31 May 2013, such government grants of approximately RMB[4.1] million, RMB[8.2] million, RMB[10.6] million and RMB0.3 million respectively were granted to our Group. In addition, the PRC government granted Success Guarantee, our operating subsidiary, a full exemption of business tax for the period from 1 March 2010 to 28 February 2013, which was granted to selected financial guarantee companies providing services to SMEs. However, there can be no assurance that our Group will continue to receive such financial support or subsidies or tax exemptions or that the Measures for SME Credit Guarantee Funds or other government policies in support of the SMEs will be in force in the future. Further, if the PRC government does not extend its SME-supporting policies or implements measures to hinder the growth in industries in which our customers engaged, the demand for our guarantee services from our customers may be reduced and our business and results of operation may be adversely affected.

Demand for financial guarantee services may be materially and adversely affected if more SMEs are capable of obtaining loan financing directly

The financial guarantee industry emerged in the PRC primarily due to the difficulties of SMEs in obtaining financing for their operations. Banks may be stringent in accepting collaterals in approving the loan applications from SMEs and may not be willing to provide financing to SMEs as they may not have sufficient collateral and may be regarded by them as less creditworthy than large-scale enterprises; and in view of the amount of preparatory costs involved for the relatively small loan amount, banks may also not be willing to provide financing to SMEs from a cost-effectiveness perspective. As such, guarantee companies facilitate the granting of credit facilities from banks to our customers by way of providing guarantees in favour of such banks. During the Track Record Period, most of the customers for our guarantee services were SMEs and approximately [97.9]%, [75.9]%, [79.0]% and [84.8]% of our revenue were attributed to our financial guarantee services for each of the three years ended 31 December 2012 and the five months ended 31 May 2013, respectively. Further, SME financing is the key market of the financial guarantee industry in the PRC. According to the Ipsos Research Report, SMEs contributed approximately 77.3% of the total outstanding balance of financial

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guarantees granted by the financial guarantee industry in the PRC as at the end of 2011. If the scale of business operation and the asset level of our SME customers grow and their financial conditions improve, they may be able to obtain financing from lending institutions directly without third party guarantees from guarantee companies. The demand for our guarantee services may substantially decrease and our business and results of operation could be materially and adversely affected as a result.

If loan financing becomes more costly or otherwise less attractive to our customers or if there are any fluctuations in the financial markets in the PRC or changes in the global financial condition, our business will be affected

As customers of a financial guarantee company rely on bank financing to fund their operations, an increase in interest rates may significantly increase the cost of financing and adversely impact the appeal of loan financing to our customers or potential customers. The PRC government and/or commercial banks may also tighten the general credit policy in the PRC and increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make loan financing unavailable or unattractive to potential borrowers. If that happens, the demand for financial guarantee services could significantly reduce and our Group’s business would be adversely affected.

Enterprises and private loan markets in the PRC are also affected by fluctuations in the regional financial markets in the PRC, such as those happened in Wenzhou, Henan and Zhengzhou, the PRC, as well as changes in global credit policies. In particular, if the regional credit crisis spreads to our customers and/or their counterparties, our Group may be exposed to greater credit risk. The businesses of SMEs in the PRC may be adversely affected by such fluctuations. This may result in a reduction in the amount of funding to be provided by finance providers to the SMEs in the PRC and thus reduce their demand for our services. Further, finance providers may tighten their approval requirements for granting loans to our customers such that our Group may not be able to provide guarantee services to our customers. Our business and results of operation could therefore be adversely affected as a result.

There is a lack of comprehensive information on the financial market conditions in the PRC

There is currently no comprehensive information on the condition and statistical information of the financial markets in the PRC, such as the amount and nature of loan activities, the supply and demand for different guarantee services and small loans lending services and so on. Accordingly, our Group’s development and investment decisions may be adversely affected by the lack of such information. Our Group’s results of operations and financial condition could, in consequence, be adversely affected. Potential investors may also not be able to value our business with the lack of information which, in turn, could affect their investment decisions and adversely affect our Group’s ability to seek potential investors in the future.

Our Group faces competition from other existing guarantee companies as well as new entrants to the guarantee industry

The guarantee business in the PRC is still at an early stage of development. We believe that as the guarantee industry matures and consolidates, the competition between our Group and other existing guarantee companies as well as the new entrants to the guarantee industry may increase. Moreover,

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the competition in the guarantee industry in the PRC and in particular, in Guangdong Province, where our Group’s operations are focused, has increased with a number of new entities operating guarantee businesses. We compete with other guarantee service providers in terms of the pricing of services (i.e. guarantee fee rates), the type of guarantee services and the number and range of cooperating institutions. There may also be substitutes to our guarantee services for SMEs in obtaining financing in the future. In the event that our Group is, for any reason, unable to perform competitively in the guarantee industry in the locations in which we operate, our business, financial condition and results of operations may be adversely affected.

The growth of the guarantee industry and small loans lending industry in the PRC may not be sustainable or its growth rate may slow down

The guarantee industry and the small loans lending industry in the PRC have experienced rapid growth, consistent with the economic development of the PRC financial system.

Our Group expects the guarantee industry and the small loans lending industry in the PRC to expand as a result of continued growth in the PRC economy. The growth of the guarantee industry and the small loans lending industry may be affected by various factors such as the growth of the SMEs in the PRC as well as social, political, economic, legal and other factors, most of which are beyond the control of our Group. We cannot assure you that the growth and development of the guarantee industry and the small loans lending industry in the PRC will be sustainable. If the rate of growth of the guarantee industry and the small loans lending industry in the PRC slows down, our Group’s business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Political and economic policies of the PRC government could affect our business

Our results, financial condition and prospects are to a significant degree subject to the economic, political and legal developments of the PRC, as a majority of our revenue is derived from operations that take place in the PRC. The economic, political and social condition, as well as government policies, including taxation policies, of the PRC, could affect our business. The PRC economy differs from the economies of other countries in many respects. The PRC economy has historically been a planned economy and has been in a transitional stage to a more market-driven economy. Although the PRC government has implemented measures emphasising the use of market forces for economic reform in recent years, there can be no assurance that economic, political or legal systems of the PRC will not develop in a way that is detrimental to our business, results of operations and prospects.

The government control of currency conversion could affect our business operations

During the Track Record Period, all of our revenue was received in RMB. At present, RMB is not freely convertible to other currencies. Under the current foreign exchange regulations, RMB is convertible without approvals from the State Administration of Foreign Exchange only with regard to current account transactions, including trade and service related foreign exchange transactions and payment of dividends to foreign investors, while the foreign exchange transactions in respect of capital account items including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of foreign currency loans and the payment pursuant to foreign currency

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guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the State Administration of Foreign Exchange. There can be no assurance that the PRC government will not impose more stringent restrictions on the convertibility of RMB, especially relating to foreign exchange transactions.

Judgments obtained from non-PRC courts may be difficult to enforce in the PRC

Our assets are predominately situated in the PRC. Furthermore, most of our Directors and officers reside in the PRC and the assets of our Directors and officers may also be located in the PRC. As a result, it may be difficult to effect service of process in the PRC upon most of our Directors and officers, including with respect to matters arising under applicable securities laws. A judgment of a court of another jurisdiction may be reciprocally recognised or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of any other requirements. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and most other western countries. Therefore, it may be difficult for you to enforce against us or our Directors or officers in the PRC any judgments obtained from non-PRC courts.

On 14 July 2006, the Supreme People’s Court of the PRC and the Hong Kong government signed the “Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil or Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned” 《最高人民法院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, which came into effect on 1 August 2008, whenever a designated People’s Court of the Mainland or a designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to any written agreement between the parties on choice of forum for dispute resolution, the party concerned may apply to the relevant People’s Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, we are given to understand that the rights under the arrangement are limited and the interpretation of and cases decided under the arrangement have not been fully developed, therefore the outcome and effectiveness of any action brought under the arrangement are unclear.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on our business, operations and profitability

Although many laws and regulations have been promulgated and amended in the PRC since 1978, the PRC legal system is still not sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of the PRC laws and regulations may be influenced by momentary policy changes reflecting domestic political and social changes. In addition, it may also be difficult to enforce judgments and arbitration awards in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the Central People’s Government has gradually laid down implementation rules and has continued to refine and modify

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such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. There can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon our business, operations or profitability.

PRC regulations on loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiary

As an offshore holding company of our PRC subsidiary, we may make loans to our PRC subsidiary, or we may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiary to finance its activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also determine to finance our PRC subsidiary by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot assure you that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to finance our PRC subsidiary. If we fail to receive relevant registrations or approvals, our ability to use the proceeds and to capitalise our PRC operations would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects

The Rules on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定) (“**M&A Rules**”), which were promulgated in August 2006, became effective from 8 September 2006 and were amended on 22 June 2009, provide the rules with which foreign investors must comply if they are seeking to acquire shares in a non-foreign funded enterprise, whether through a purchase agreement with existing shareholders or through a direct subscription from a company, that would result in that company becoming a foreign-funded enterprise. The M&A Rules further require that the business scope of the resultant foreign-funded enterprise conform to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄). The M&A Rules also provide the takeover procedures for the acquisition of equity interests in domestic enterprises.

There are uncertainties as to how the M&A Rules will be interpreted or implemented. If we decide to acquire a PRC company in the future, there is no assurance that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Rules. This may restrict our ability to implement our expansion and acquisition strategy and could materially and adversely affect our future growth.

We are a holding company and rely on dividend payments from our subsidiary

We are a holding company and a significant part of our business was carried out through our operating subsidiary in the PRC. As a result, our ability to pay dividends depends on dividends and other distributions received from our operating subsidiary. If our subsidiary incurs debt or losses, it may impair its ability to pay dividends or other distributions to us, which could adversely affect our ability to pay dividends to our Shareholders.

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PRC law requires foreign invested enterprises, such as our subsidiary in the PRC, to set aside part of its net profit as statutory reserves. Our PRC subsidiaries are required to set aside each year at least 10% of its after-tax profits for such year, as reported in its PRC statutory financial statements, to the statutory surplus reserve of such PRC subsidiary. Such reserve may not be discontinued until the accumulated amount has reached 50% of the registered capital of the PRC subsidiary. These statutory reserves are not available for distribution to us, except in liquidation. The calculation of distributable profits is based on PRC Accounting Standards and Regulations, which differ in many aspects from HKFRSs. As a result, our subsidiary in the PRC may not be able to pay any dividend in a given year to us if it does not have distributable profits as determined under the PRC Accounting Standards and Regulations, even if it has profits for that year as determined under HKFRSs.

Limitations on the ability of our PRC operating subsidiary to remit its entire after-tax profits to us in the form of dividends or other distributions could adversely affect our ability to grow, make investments that could be beneficial to our business, pay dividends and otherwise fund and conduct our business. We cannot assure that our subsidiary will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to us to enable us to pay dividends to our Shareholders.

The PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (“**PRC EIT Law**”) and its implementation rules stipulate that if an entity is deemed to be a non-PRC resident enterprise without an establishment or place of business in the PRC, withholding tax at the rate of 10% will be applicable to any dividends paid to it by its PRC subsidiary, unless it is entitled to reduction or elimination of such tax, including by tax treaties.

In addition, restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividends or make distributions to us. These restrictions could reduce the amount of dividends or other distributions we receive from our subsidiaries, which in turn would restrict our ability to pay dividends to our Shareholders.

Dividends payable by us to our foreign investors may become subject to withholding tax under PRC tax laws

Under the PRC EIT Law and its implementation regulations issued by the State Council, to the extent such dividends for earnings derived since 1 January 2008 are sourced within China and we are considered a “resident enterprise” for PRC tax law purposes, then PRC income tax at the rate of 10% is applicable to dividends payable by us to investors that are “non-resident enterprises” so long as any such “non-resident enterprise” investor does not have an establishment or place of business in China or, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. A lower withholding tax rate may apply if such “non-resident enterprise” is incorporated in a jurisdiction that has entered into an income tax treaty or agreement with China that allows a lower withholding. Similarly, any gain

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realised on the transfer of the Shares by such “non-resident enterprise” investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China and we are considered a “resident enterprise” in China. If we are required under the new tax law to withhold PRC income tax on our dividends payable to our foreign shareholders who are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of our Shares, the value of your investment in our Shares may be materially adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Shares might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or regions.]