

INDUSTRY OVERVIEW

The information and statistics set out in this section have been extracted from the research report compiled by Ipsos and other publicly available sources. Our Directors believe that the sources of statistical and graphical information contained in this section are appropriate sources for such information. No independent verification has been carried out on such information and statistics by us, [●], their respective affiliates, directors and advisers or any other parties involved, and none of them makes any representation as to the accuracy or completeness of such information. Reasonable care has been exercised by our Directors and Ipsos in the exercise of extracting and repeating such information. Our Directors have no reason to believe that such facts, statistics and data presented in this section is false or misleading or that any fact has been omitted that would render such facts, statistics and data false or misleading. Our Directors confirm that after taking reasonable care there is no adverse change in the market information since the date of the Ipsos Research Report.

SOURCES OF THE INDUSTRY INFORMATION

We commissioned Ipsos, an Independent Third Party, to conduct an industry analysis of and produce the Ipsos Research Report on, amongst other things, credit guarantee services and financial consultancy services in the PRC and in particular, Guangdong Province and Foshan City, for inclusion in this document at an aggregate fixed fee of approximately HK\$288,000. Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos SA acquired Synovate Ltd. in October 2011. After the combination, Ipsos becomes the third largest research company in the world which employs approximately 16,000 personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value chain analyses, competitor tracking and corporate intelligence. The payment of such amount was not contingent on our successful [●] or on any of the results provided by the Ipsos Research Report. The Ipsos Research Report was published in October 2013.

To the best of our Directors’ information and belief, the information contained in the Ipsos Research Report is derived by means of data and intelligence gathering methodology which includes data from desk research, information collected from the Company, primary research conducted by Ipsos such as interviews with key stakeholders and industry experts in China, including associations and experts, government officials, financial guarantee service providers, and small loans and financial service providers to SMEs. Ipsos, on behalf of itself, its subsidiaries and units, confirms that the data and intelligence gathering methodology has guaranteed a full circle/multi-level information sourcing process, where information gathered will be able to be cross-referenced to ensure accuracy. Intelligence gathered has been analyzed, assessed and validated using Ipsos’s in-house analysis models and techniques.

The below assumptions and publications were considered in preparation of the market sizing and forecast models:

1. The global economy is assumed to grow stably over the forecast period.
2. It is assumed there is no external shock such as natural disasters or the wide outbreak of diseases to affect the demand and supply of credit guarantee services, small loan services and financial consultancy services in China.
3. The 12th Five-Year Plan — (中華人民共和國國民經濟和社會發展第十二個五年(2011 — 2015年)規劃綱要)

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4. The 12th Five-Year Plan for Financial Development of Guangdong Province — (廣東省金融改革發展“十二五”規劃)
5. The 12th Five-Year Plan for SME Development — (“十二五”中小企業成長規劃)

Based on the above assumptions and publications and to the best of our Directors and the [●] information and belief, our Directors and the [●] are satisfied that the projection and data relating to future periods as disclosed herein below are not misleading.

OVERVIEW OF ECONOMY IN THE PRC, GUANGDONG PROVINCE AND FOSHAN CITY

The rapid growth of the PRC’s economy presents significant potential for the guarantee industry in the PRC. According to the Ipsos Research Report, China has experienced remarkable period of rapid growth over the past decade, and became the world’s second largest economy in 2010. The GDP per capita of Guangdong Province grew at a CAGR of about 10.2% from 2007 to reach about RMB54,095 in 2012, making the province the biggest GDP contributor to overall China in 2013. GDP per capita of Guangdong Province ranked the 7th among 31 provinces and municipalities of China in the same year, and the GDP per capita of Foshan City grew at a CAGR of about 9.4% from 2007 to 2012. Ever since 2000, Foshan City has ranked the 3rd in terms of GDP amongst all cities in the Pearl River Delta region, after Guangzhou and Shenzhen. The GDP per capita of Guangdong Province and Foshan City are expected to grow at a CAGR of around 10.0% and 10.7% respectively from 2013 to 2016. The manufacturing sector is expected to lead GDP growth, particularly in Foshan City as it is known for the manufacturing of households electrics, furniture, information technology, ceramics, metals and pharmaceuticals industries.

ANALYSIS OF CREDIT GUARANTEE SERVICE INDUSTRY

Clients of financial guarantee service providers

Financial guarantee service providers basically follow “Guiding Opinions on Establishing SME’s Credit Guarantee System” 《關於建立中小企業信用擔保體系試點的指導意見》 and “Opinions on Accelerating the Provincial Establishment of SME’s Credit Guarantee System” 《關於加快建立全省中小企業信用擔保體系的意見》 (collectively, the “**Opinions**”) to serve their target enterprises in China. According to the Opinions, financial guarantee service providers should target at SMEs and those that are labour-intensive. The financial guarantee service providers, particularly those funded by the PRC government, should provide credit guarantee service or re-guarantee service to enterprises in agricultural industry, new established enterprises, enterprises with technological achievements, etc..

Up to now, SME financing is still the key market of credit guarantee service industry. The number of SMEs in China grew at about 46.61% from around 36.9 million in 2007 to around 54.1 million in 2012, providing substantial market potential to the growth of credit guarantee service industry in China. The number of registered financial guarantee service providers grew greatly at about 130.4% from 3,729 units in 2007 to 8,590 units in 2012. At the end of 2012, credit guarantee liability balance reached about RMB1,459.6 billion which was up by about 14.5% from 2011. The financial guarantee service providers served a total of about 170,000 SMEs in 2011.

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Importance of credit guarantee service to China economy and SMEs’ development

Credit guarantee service industry has played a crucial role in driving the economic growth in China by supplying SMEs to have enough funds needed for expansion and development. As of the end of 2012, SMEs accounted for an estimated 60% of the total GDP of China, and approximately 80% of the jobs created in China. The credit guarantee service industry in China has started since 1992. The industry emerged in China because the development of SMEs was disturbed by the poor credit and lack of funds. Since SMEs usually do not possess sufficient fixed assets such as land, they found difficulties in accessing to bank loans. Financial guarantee service providers were established as intermediary to help SMEs get easier access to bank loans to facilitate their expansion and development. The financial guarantee service providers charge prospective borrowers a fee and in return, they act as guarantor to the bank and consented to pay for the losses in the event of a default. Financial guarantee service providers were further introduced by the PRC government in 1999 to facilitate SMEs to access bank loans through credit guarantee system. The industry entered the stage of rapid development since the implementation of the “Law on Promotion of Small and Medium-sized Enterprises” 《中華人民共和國中小企業促進法》 in 2003 to increase credit support and improve the financing environment for SMEs.

Scope of business and numbers of the financial guarantee service providers

The scope of business of the financial guarantee service providers is regulated by regulatory authority. In general, the services offered by financial guarantee service providers in China include guarantee loan, guarantee of acceptance of bills, trade financial guarantee, project financial guarantee, guarantee letter of credit, and other financial guarantee businesses. Besides, the financial guarantee service providers may concurrently provide the services such as litigation guarantee, tender guarantee, advance payment guarantee, project performance guarantee, guarantee of payment of the remaining price of a project, and other guarantees of performance of agreements, financing consulting and other intermediary services related to the guarantee business, investment with its own capital, and other businesses provided by the regulatory agency.

The credit guarantee service industry in China is composed of state-owned, private-owned, and foreign invested enterprises. There were about 8,590 financial guarantee service providers in China in 2012. Among them, approximately 77.8% were private-run and foreign invested, while about 22.2% were state-owned.

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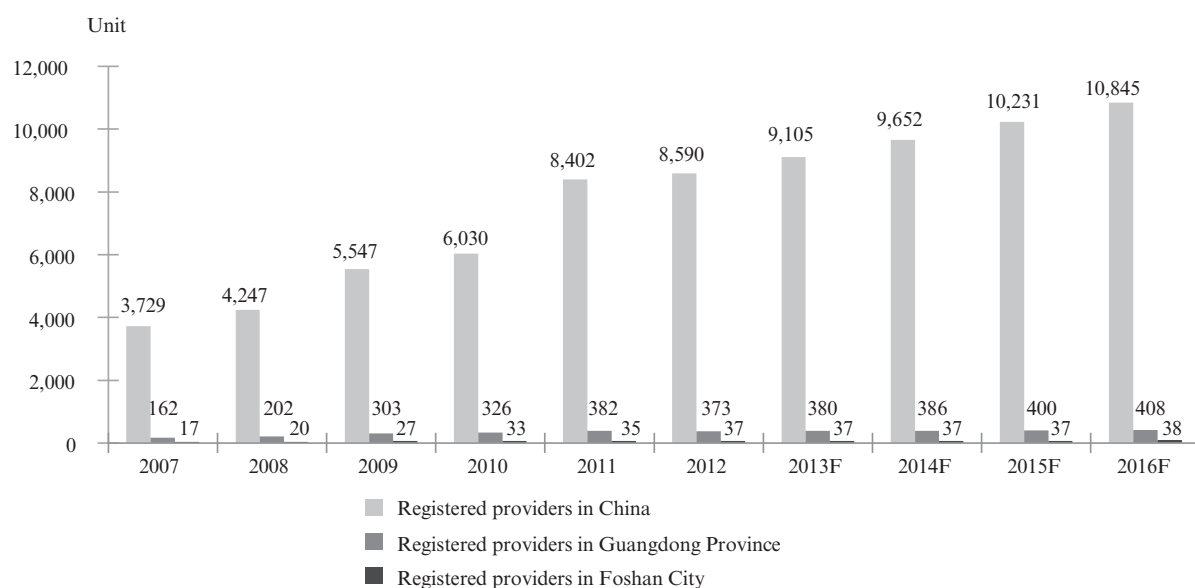
In 2012, the number of registered guarantee service providers in Guangdong Province and Foshan City accounted for about 4.3% and 0.4% of the total number of service providers in China respectively.

The Number of Government Registered Financial Guarantee Service Providers in China, Guangdong Province, and Foshan City from 2007 to 2016

CAGR of the total number of government registered financial guarantee service providers in China from 2007 to 2016 = 12.6%

CAGR of the total number of government registered financial guarantee service providers in Guangdong Province from 2007 to 2016 = 10.8%

CAGR of the total number of government registered financial guarantee service providers in Foshan City from 2007 to 2016 = 9.4%



Source: SME Bureau; China Banking Regulatory Commission; the finance affair office of Guangdong government; Ipsos analysis

Note: Data for the years 2013 to 2016 is forecast only

In 2012, certain banks in the PRC tightened their cooperation requirements with guarantee companies, including raising the cash deposit requirements or limiting their cooperating parties to state-owned guarantee companies, and a number of guarantee companies subsequently experienced financial distress or collapsed. Our Directors consider that the guarantee industry in the PRC is closely associated with the development of the SMEs, which are the major customers of guarantee companies in the PRC, and SMEs in the PRC had been affected by the general economic conditions resulting from the tightened monetary policies of the PRC government. As such, the changes in the PRC economic conditions had been a major contributing factor in the financial distress of guarantee companies in the PRC. Further, in the opinion of our Directors, the financial distress of such companies could also be attributed to, among others, (i) their non-compliant business practices; and (ii) the relatively smaller number of banks in cooperation with them, which would adversely limit their scale of business operation and future business expansion. With the implementation of the Interim Measures and the Implementing Rules in 2010, the number of financial guarantee companies decreased substantially due to the licencing requirements for the granting of the Operating Licence for Financial Guarantee Institutions (融資性擔保機構經營許可證). Our Directors consider that for guarantee companies with

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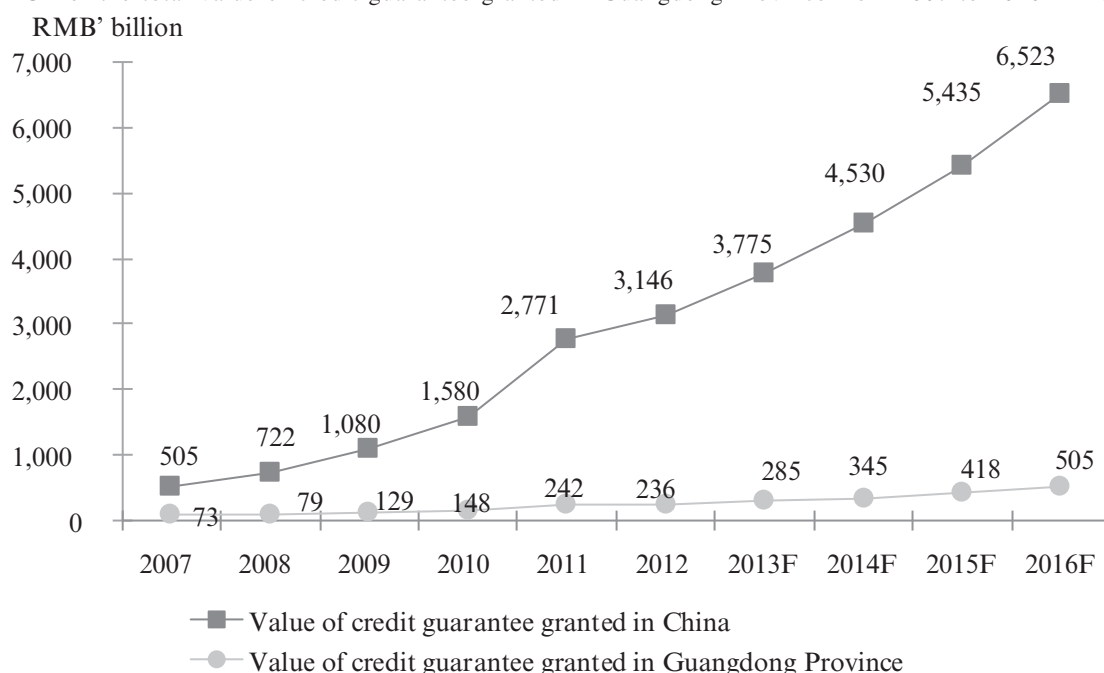
relatively fewer cooperating banks, their sources of customers would be materially and adversely affected as the banks tightened their cooperation conditions. Further to our Directors’ view above, the [●] consider that (i) the economic environment had been worsening during the recent years and a considerable number of SMEs had collapsed because of, among others, the economic recession in some exporting western countries and overall adverse domestic economic environment in the PRC, which in turn had adversely affected certain financial guarantee companies in the PRC, including the Guangdong Province; and (ii) following the implementation of the Interim Measures Implementing Rules, certain unsound or unqualified financial guarantee companies have collapsed or have voluntarily quitted the industry.

Credit guarantee granted in China

The chart below illustrates the total value of credit guarantee granted in China and Guangdong Province from 2007 to 2012, and the estimated value of credit guarantee granted from 2013 to 2016:

Total value of credit guarantee granted in China and Guangdong Province from 2007 to 2016

CAGR of the total value of credit guarantee granted in China from 2007 to 2016 = 32.9%
 CAGR of the total value of credit guarantee granted in Guangdong Province from 2007 to 2016 = 24.0%



Source: SME Bureau; China Banking Regulatory Commission; Ipsos interviews and analysis

Note: Data for the years 2013 to 2016 is forecast only

The total value of credit guarantee granted in Guangdong Province grew at a CAGR of about 26.4% from about RMB73 billion to RMB236 billion from 2007 to 2012. Total value of credit guarantee granted in Guangdong Province accounted for about 7.5% of the total amount granted in China in 2012. Change in the value of credit guarantee granted in China and Guangdong Province is expected to be growing at about 20.0% and 20.8% in 2013 respectively, compared to a growth of about 13.5% and a drop of about 2.5% in 2012 respectively. Due to the unfavourable market factors in 2012 such as weakened export demand affecting the business environment of the SMEs and the tight liquidity

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issue arise from the incidents in 2012 where certain major financial guarantee companies in Guangdong Province became financially distressed as a result of their non-compliant activities (“**Guangdong Guarantee Incidents**”), the value of credit guarantee granted in China and Guangdong Province still face pressure for growth with default rate expected to grow slightly in the year ahead. Sustained by strong demand from SMEs, it is expected that the total value of credit guarantee granted in China and Guangdong Province will grow at CAGR of about 20.0% and 21.0% respectively from 2013 to 2016. The industry is still at its infancy thus have significant room of development.

Future trends and developments

China

1. **Consolidation of industry and market concentration** — More cautious measures undertaken by banks to assess their guarantors will drive out unqualified service providers and lead to market consolidation of the credit guarantee service industry. Since the Guangdong Guarantee Incidents which induced liquidity crisis, many banks have tightened measures for credit guarantee and raised the deposit ratio requirement against financial guarantee service providers with unsatisfactory operation results, which increased the barriers of funding by financial guarantee service providers to sustain the cooperation mode with banks. With banks re-assessing their guarantors, the credit guarantee service industry will face elimination of unqualified service providers, and the demand from SMEs for credit guarantee services will be satisfied by more competitive financial guarantee service providers.
2. **Enhanced cooperation with banks** — The credit guarantee industry in China is actively promoting credit guarantee cooperation with banks through strengthening communication with banks to establish trust, and maintaining stability in cooperation.
3. **Increasing capability of financial guarantee service providers** — Financial guarantee service providers in Guangdong Province are increasing their capital investment. According to the Guangdong Financial Office, by March 2011, about 21 financial guarantee service providers have increased their capital at average value of above RMB100 million on top of the minimum capital requirements.
4. **More stringent requirements on loan assessment** — In face of liquidity tightening in the industry, financial guarantee service providers are also adopting more stringent assessment on customers. To reduce risk, they are adopting more stringent requirements to assess their customers’ loan application, as well as planning to diversify their business and avoid limiting businesses to a few banks.
5. **Product innovation and channel development** — Product innovation can raise the opportunities for financing by SMEs. Innovation is a driving force for the development of the credit guarantee service industry and an important means for financial guarantee service providers to maintain their competitiveness, increase ways of financing and leverage their risk. The industry is offering new breakthrough of guaranteed products, for example, credit guarantee services for intellectual property rights, unsecured loans as well as internet coverage. The industry also offers more financing methods such as guaranteed trust, bond issue, fund and finance leasing.

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Guangdong Province

Recognition for credit guarantee services in Guangdong Province is increasing with huge demand especially in small and micro-enterprises. In the coming years, the provincial government will strive to guide and promote the development of financial guarantee service providers in Guangdong Province through the following initiatives: encourage new establishments of financial guarantee service providers to increase service coverage in 21 major cities; fight for tax exemption to strengthen support for the development of the industry; accelerate the establishment of a cooperation platform between banks and financial guarantee service providers; increase training and development to enhance the quality of managements in the industry; increase the degree of regulation and raise barriers of entry for new entrants.

Foshan City

The nation’s tightening monetary policies led to tightened cash flow in SMEs which raises demand substantially for credit guarantee services in Foshan City. With foreseeable increase in demand, the amount of registered capital is expected to surge along with increase in the number of financial guarantee service providers in Foshan City. Further, it is expected there will be increasing promotion for product innovation in the market. There will be an increase in new products such as credit guarantee for intellectual property right and SMEs collective notes. Industry restructure led to increased differentiation amongst financial guarantee service providers in Foshan City.

Key Market Drivers to Credit Guarantee Service Industry in China

SMEs loan will be a key driver to credit guarantee service industry in Guangdong Province and Foshan City in the future as the sector expands and need for financing increases.

The penetration of credit guarantee service industry in China lags behind other developed countries in Asia such that only about 0.4% of the total number of SMEs in China used credit guarantee services to obtain bank loans in 2012. The financial guarantee liability balance only accounted for about 2.3% of the total balance of bank loans in 2012. This was relatively lower than the penetration rate in developed countries such as Japan, Korean and Taiwan where their share of credit guarantee loans by SMEs reached about 11.7%, 19.8% and 10.6% respectively in 2004.

The credit guarantee service industry in Guangdong Province is still at its developing stage. Currently, among all SMEs loans in Guangdong Province, loans granted by credit guarantee services through bank cooperation only accounted for about 10-20% of the total loans, whereas about 80% to 90% of SMEs borrow directly through banks. It is expected that the share will gradually increase along with the rapid development of SMEs and the overall credit guarantee service industry. Guangdong Province as the largest contributor to the nation’s GDP will continue to drive economic activities and growth in private enterprises including SMEs; hence, raising the demand for credit guarantee services.

In Foshan City, the value of SMEs loans amounted to about RMB323.3 billion by the end of 2012, which accounted for about 79.0% of the total corporate loans granted (exclusive of personal loans). The amount of outstanding SME loans in Foshan City grew about RMB46.2 billion from the beginning of the year, which was up about 16.7%. With huge potential demonstrated in SMEs, the market is expected to grow with increasing number of establishments and diversifying product portfolios.

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Further, as a result of tightened money supply, SMEs faced increasing difficulty in financing. The proportion of secured loans have been decreasing in Foshan City, indicating an increase in the proportion of unsecured loan and credit guarantee as customers choose alternative means of borrowing, which is favorable to the development of credit guarantee service industry in Foshan City.

Government support of the industry

To support the growth of SMEs and to improve financing environment for SMEs, the PRC government has been implementing supportive and/or incentive measures to promote the credit guarantee services industry, examples of which include the following:

Financial subsidies — Various types of subsidies are provided by the PRC government for the financial guarantee service providers. For example, in 2012, the Administrative Measures on Credit Guarantee Funds for SMEs (中小企業信用擔保資金管理辦法) was published by the Ministry of Finance and the Ministry of Industry and Information Technology. Qualified financial guarantee service providers providing services to SMEs are entitled to different basis of subsidies at amount up to 1%, 2% or 3% of the annual average outstanding value of credit guarantee.

Tax concession policy — Tax concessions are also implemented by the PRC government to support the development of financial guarantee service providers in China. Among them, the Notice on Exemption of Business Tax for Institutions Providing Credit Guarantees for Small and Medium-sized Enterprises (關於中小企業信用擔保機構免徵營業稅有關問題的通知) announced jointly by the Ministry of Industry and Information Technology and State Administration of Taxation in 2009 provides supports for credit guarantee institutions providing loan guarantees and financing services for SMEs, whereby the revenues received by qualified credit guarantee institutions from credit guarantees or securities to SMEs will be exempted from business taxes for a period of three years. Further, the Notice for Credit Guarantee Institutions for SMEs on Deducting Certain Provisions Before Enterprise Income Tax (關於中小企業信用擔保機構有關準備金企業所得稅稅前扣除政策的通知) promulgated in 2012 stipulates that the guarantee compensation reserve provided by qualified credit guarantee institutions for SMEs, as per the proportion of not more than 1% of the guarantee liability balance at the end of the current year, is allowed to be deducted before business income tax.

Policy in support of product innovation — To better facilitate the credit guarantee institutions in assisting SMEs to obtain financing, the PRC government have introduced supportive policy to support and promote financing product innovation, for example, the Circular on the Issues Concerning the Promulgation and Implementation of the Pilot Measures of Shenzhen [●] for Business of SME Private Placement Bonds (深圳證券交易所中小企業私募債券業務試點辦法) and the Circular on the Issues Concerning the Promulgation and Implementation of the Pilot Measures of Shanghai [●] for Business of SME Private Placement Bonds (上海證券交易所中小企業私募債券業務試點辦法) introduces credit guarantee services to the capital markets by encouraging the bond issuing companies to engage the services of credit guarantee institutions. The Guiding Opinions on Financial Support for Adjusting, Transitioning and Upgrading of the Economic Structure (關於金融支持經濟結構調整和轉型升級的指導意見) issued in July 2013, among others, encourages financial institutions to provide SMEs with integrated financial services in response to the different financial needs of SMEs in different development stages.

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Competition in Guangdong Province and Foshan City

Financial guarantee service providers in Guangdong Province are building their reputation to raise their position in the market. The top seven financial guarantee service providers accounted for about 28.7% of the total market revenue in 2012. There was about 373 and 37 registered financial guarantee service providers in Guangdong Province and Foshan City respectively in 2012.

Instead of direct competition, financial guarantee service providers are striving to raise their reputation and strengthening relationship with banks to secure their source of funding. Financial guarantee service providers with strong brand reputation will gain greater creditworthiness while enjoying benefit from expected robust growth of the market economy and improved operational efficiencies. Financial guarantee service providers tend to invest a lot into strengthening relationship with banks.

According to the Ipsos Research Report, the top ten and top five financial guarantee service providers in Guangdong Province and Foshan City in 2012 are set out below:

Top ten financial guarantee service providers in Guangdong Province

Rank	Name of company	Location(s) of branch(es) or service outlet(s)	Market share (by revenue) (%)
1	Shenzhen Small & Medium Enterprises Credit Financial Guarantee Group Co., Ltd. 深圳市中小企業信用融資擔保集團有限公司	Shenzhen, Hangzhou	8.1
2	Guangdong Join-Share Financial Guarantee Investment Co., Ltd. 廣東中盈盛達融資擔保投資股份有限公司	Foshan City, Guangzhou, Dongguan, Zhaoqin, Shunde	5.1
3	Guangdong Yinda Guarantee Investment Group Co. Ltd. 廣東銀達融資擔保投資集團有限公司	Guangzhou, Zhongshan, Jiangsu, Zhuhai, Foshan City, Huizhou, Jiangmen, Dongguan, Shenzhen	4.9
4	Credit Orienwise Group Ltd. 中國中科智擔保集團股份有限公司	Shenzhen, Beijing, Shanghai, Xiamen, Changsha, Guangzhou, Shijiazha	3.9
5	Shenzhen Huarong Investment Guarantee Co., Ltd. 深圳市華融投資擔保有限公司	Shenzhen, Beijing, Tianjin, Zhejiang, Dongguan	3.8
6	Guangdong Zhaoda Financial Guarantee Co., Ltd. 廣東兆達融資擔保有限公司	[Huizhou]	1.6
7	Guangdong Success Finance Guarantee Co., Ltd. 廣東集成融資擔保有限公司	Foshan City	1.3
8	Guangzhou Financial Guarantee Center Co., Ltd. 廣州市融資擔保中心有限責任公司	[Guangzhou]	0.8
9	Zhuhai SME Financial Guarantee Co., Ltd. 珠海中小企業融資擔保有限公司	[Zhuhai]	0.7
10	Guangzhou GET Financial Guarantee Co., Ltd. 廣州凱得融資擔保有限公司	Guangzhou	0.6

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Top five players in the financial guarantee service industry in Foshan City

Rank	Name of company	Location(s) of branch(es) or service outlet(s)	Market share (by revenue) (%)
1	Guangdong Join-Share Financial Guarantee Investment Co., Ltd 廣東中盈盛達融資擔保投資股份有限公司	Foshan City, Guangzhou, Dongguan, Zhaoqin, Shunde	54.1
2	Guangdong Success Finance Guarantee Co., Ltd. 廣東集成融資擔保有限公司	Foshan City	13.7
3	Guangdong Yingteng Financial Guarantee Co., Ltd. 廣東盈騰融資擔保有限公司	Foshan City, Guangzhou	5.3
4	Guangdong Zhanhong Financial Guarantee Co., Ltd. 廣東展鴻融資擔保有限公司	Foshan City	4.1
5	Guangdong Zhumin Guarantee Co., Ltd. 廣東助民融資擔保有限公司	Foshan City	3.8

According to the Ipsos Research Report, Success Guarantee ranked the third and the largest privately-controlled financial guarantee service providers in Guangdong Province and Foshan City respectively in terms of revenue in 2012.

Information relating to the leading privately-controlled financial guarantee service providers in Guangdong Province in 2012 by revenue is set out below:

Rank	Name of company	Market share (by revenue) (%)
1	Credit Orientwise Group Ltd. 中國中科智擔保集團股份有限公司	3.9%
2	Shenzhen Huarong Investment Guarantee Co., Ltd. 深圳市華融投資擔保有限公司	3.8%
3	Guangdong Success Finance Guarantee Co., Ltd. 廣東集成融資擔保有限公司	1.3%

Information relating to the leading privately-controlled financial guarantee service providers in Foshan City in 2012 by revenue is set out below:

Rank	Name of company	Market share (by revenue) (%)
1	Guangdong Success Finance Guarantee Co., Ltd. 廣東集成融資擔保有限公司	13.7%
2	Guangdong Yingteng Financial Guarantee Co., Ltd. 廣東盈騰融資擔保有限公司	5.3%
3	Guangdong Zhanhong Financial Guarantee Co., Ltd. 廣東展鴻融資擔保有限公司	4.1%

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Competitive landscape of credit guarantee service industry in Guangdong Province

1. Factors affecting the ranking

The following factors may affect the key players’ performance and ranking:

Capital — Under the Interim Measures, the balance of financial guarantee liability of financial guarantee service providers should not exceed 10 times of its net assets.

Risk control system — Hence, proper risk control system and measures can help a service provider sustain its cash flow even during bad times of economic turbulence and unstable business operation condition of SMEs and outstand its competitors in face of competitions.

Cooperation with banks — Line of credit from banks is the key resources to financial guarantee service providers. Financial guarantee service provider with the most relationship ties with banks will have a best chance of securing its business and gain share in the market.

2. Opportunities in China

Stricter licensing requirement enacted will phase out unqualified financial guarantee service providers and provide opportunities to those qualified in the market. In Foshan City, the local monetary authority evaluated all 127 financial guarantee service providers and only granted licence of operation to about 33 service providers in 2011. With unqualified service providers being phased out in the industry, market consolidation of the remaining players will promote healthy development of the industry.

Increase in demand for credit guarantee service by SMEs in Guangdong Province will give rise to opportunities in the credit guarantee service industry in the area.

Moreover, government encouragement to support SMEs financing will drive new opportunities for the credit guarantee service industry. The Guangdong government has laid out plans to develop the financial industry in its 12th Five-Year Plan, which includes that, by 2015, the number of financial guarantee service providers in Guangdong Province will be raised to about 400. It will regulate the development of financial guarantee service providers through establishing a regulatory system, develop supportive policy, foster growth of large financial guarantee service providers to strengthen the provincial development of the industry in re-guarantee services, and encourage service providers to cooperate with banks to enhance their credit guarantee capability.

3. Factors hindering the growth of the industry

Economy slowdown, unstable cooperation relationship with banks, unstable operation of SMEs, credit risk and the lack of a fair risk compensation and sharing system will threaten the future growth of financial guarantee service providers in Guangdong Province.

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Entry barriers

Entry barrier is high for new entrants into the credit guarantee service industry in Guangdong Province owing to the following factors:

- High risk associated with the industry raises barriers of new entrants with no reputation and credit. Banks take cautious approach in accessing the cooperation with financial guarantee service providers on their risk control system. New entrants with no established risk control system will face liquidity pressure or high default rate and loss rate.
- The development of credit guarantee service industry highly relies on the close relationship with banks. A small financial guarantee service provider typically needs to have 3 to 5 years of experience to attract banks and obtain loans.
- High registered capital posts entry barriers for new entrants with low credit inventory. Under the Implementing Rules, the minimum registered capital of a newly established financial security company in areas such as Foshan City in Guangzhou Province shall be no less than RMB100 million.
- The regulatory department adopt prudent measures in granting licenses to financial guarantee service providers. By the end of 2012, about 373 financial guarantee service providers have obtained licenses for business operation in Guangdong Province. According to the Reform and Development Plan in the 12th Five-Year Plan, the number of licensed service providers will reach 400 units, with an additional 18 units planned to be added during the years 2012 to 2015.

ANALYSIS OF FINANCIAL CONSULTANCY SERVICE INDUSTRY

Overall market

Financial consultancy service providers in China mainly include professional investment consultancy and financial advisory companies, investment banks, commercial banks, insurance companies, trust investment companies and other financial institutions. Banks are the key service providers for financial consultancy services in China. Financial consultancy services include mainly SME enterprise management services, financial advisory services, investment consulting services, project financing services and tax planning service etc.. Banks usually provide a range of financial consultancy and advisory services to individuals and SMEs, which includes financing consulting, enterprise informatics system, investment consulting, enterprise fund account management, fund account management, etc.. Micro-credit companies (“MCC”) and financial guarantee service providers also provide financial accounting and industrial information to SMEs apart from financing, with the aim to form strategic partnership with SMEs.

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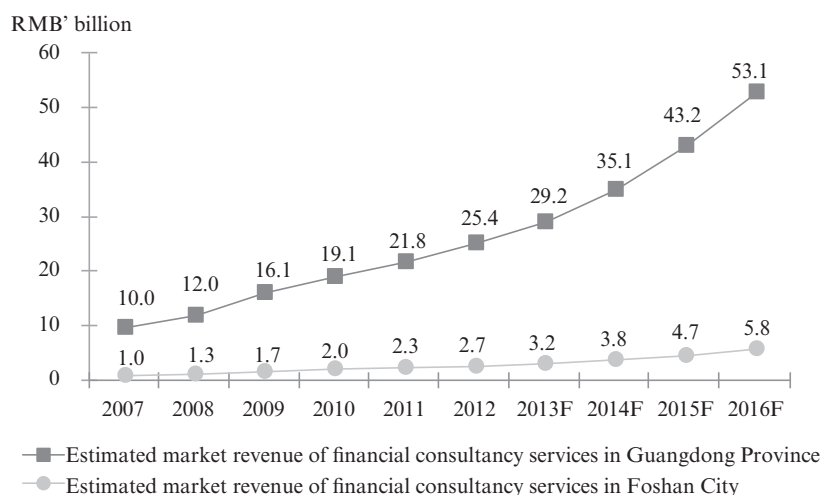
Market size of the financial consultancy service industry in Guangdong Province and Foshan City

The chart below illustrates the estimated market revenue of financial consultancy services in Guangdong Province and Foshan City from 2007 to 2016:

Estimated market revenue of financial consultancy services in Guangdong Province and Foshan City from 2007 to 2016

CAGR of the estimated market revenue of financial consultancy services in Guangdong Province from 2007 to 2016 = 20.4%

CAGR of the estimated market revenue of financial consultancy services in Foshan City from 2007 to 2016 = 21.6%



Note: Data for the years 2013 to 2016 is forecast only

The estimated market revenue of financial consultation services in Guangdong Province grew from about RMB10.0 billion in 2007 to about RMB25.4 billion in 2012, at a CAGR of about 20.5%, while that in Foshan City increased from about RMB1.0 billion to RMB2.7 billion, at a CAGR of about 22.0%. Financial consultancy industry is an intermediary industry which does not require huge investment while being able to generate economic benefit. The industry is strongly encouraged by the government with broad prospect for future development. It is expected the estimated market revenue of financial consultancy services in Guangdong Province and Foshan City to grow at CAGR of about 22.1% and 21.9% respectively from 2013 to 2016.

In 2012, there were over 5,000 and 500 financial consultancy service providers in Guangdong Province and Foshan City respectively.

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Market demand

Due to the small scale of operation of SMEs, SMEs are often lack of professional personnel experience in finance and lack of resources in financial services, and therefore SMEs are likely to demand consultancy services provided by financial advisory service provider. Rapid development of SMEs, value-added services and economy downturn have increased the demand of financial consultancy services in China in the past few years. The booming economy and government encouragement have stimulated the development of SMEs and opened up new channels for SMEs’ financing in China. The “12th Five-Year Plan for SME Development” 《“十二五”中小企業成長規劃》 with objective to stimulate continuous development of the SMEs will encourage financial consultancy service providers to develop new channels for SMEs financing in the coming years. Economy downturn has also raised demand for financial consultancy services among individuals and SMEs. After the global financial crisis, there was an increase in the demand for financial consultancy services from SMEs to help SMEs manage their financial needs and optimize their resources.

Importance to China economy

Financial consultancy services targets mainly small and micro-enterprises in China by assisting them to resolve their financing difficulty and provide financial solutions to help them evolve in the fast growing market. SMEs play an important role in the China’s economy. SMEs are regarded as less creditworthy than large or stated-owned enterprises. This has limited their access to finance from banks and also limited their access to financial intermediaries that can provide business support and information services. Due to increased difficulties of financing, financial consultancy services seek to offer alternative solutions for SMEs by re-evaluating their business performance and offering tailor-solution that is unique to the case of each enterprise. As the importance of SMEs escalates, financial intermediaries are encouraged to increase support to help these enterprises grow in China which is expected to drive the growth of financial consultancy services for serving the increasing financial needs of SMEs.

Relationships among banks, MCCs and financial guarantee service providers

Banks, MCCs and financial guarantee service providers are all working parties to support the development of SMEs in Guangdong Province. Loans to SMEs in Guangdong Province reached about RMB2.14 trillion in 2012, accounted for about 47.2% of the total loan value in Guangdong Province in 2012.

The total loan value granted by MCCs in Guangdong Province was about RMB28.4 billion in 2012, which accounted for about 1.3% of the total loan value to SMEs. The guarantee amount for the credit guarantee service industry in Guangdong Province was about RMB144.5 billion, while the outstanding balance of financial guarantee amount was about RMB96.0 billion in 2012, which accounted for about 4.5% of the total loan value to SMEs in 2012. Bank loans accounted for about 90% of the total loan value for SMEs in Guangdong Province in 2012.

While MCCs and banks lend their own fund to lenders, financial guarantee service providers guarantee the reputation of the companies to qualify for bank loan. Due to the different nature of services, financial guarantee service providers do not engage in direct competition with MCCs nor banks. Financial guarantee service providers possess the advantages of offering lower threshold, more

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efficient and faster alternatives to lenders who cannot obtain loans directly from banks, while accepting various forms of collaterals as counter-guarantee measures, such as real estate, vehicles, trademark and equity collaterals. On the other hand, supply of funds by MCCs are constrained by the limited source of capital from private investment, hence, their supply of relatively smaller loans is unable to catch up with the fast growing demand in the market.

Competitive landscape of financial consultancy service industry in Guangdong Province and Foshan City

Banks are the main type of service providers for financial consultancy services, which is estimated to account for about 44% of the total revenue of financial consultancy services in China in 2012, whilst MCCs and financial guarantee service providers are estimated to account for about 2% and 3% of the total revenue of financial consultancy services in China in 2012 respectively. Other service providers include trustee companies, securities companies and accounting/audit firms.

In terms of operating environment, banks have competitive advantages in the financial consultancy service industry. They are able to leverage on their professional knowledge, industry experience, strong manpower and financial resources, and extensive network to provide customers various types of financial consultancy services, including standardised, year-round and personalised services. Banks have cost advantage from economies of scale as well as brand advantage, as backed by government’s credibility. However, financial guarantee service providers have a broad base of customers who are SMEs, they are able to solve SMEs’ financing and investment issues at a lower threshold than the banks. Thus, they play a complementary role in the financial consultancy services offered by banks.

As financial guarantee service providers mainly target at SMEs, the number of which is fast growing in China and which have huge demand for financial consultancy services. Hence, financial guarantee service providers’ provision of services to SMEs are highly sustainable, which allows them to possess greater competitiveness and stronger growth potential than the same type of services offered by MCCs, who mainly focus on serving micro-enterprises and individuals, particularly enterprises with single loan value of about RMB10,000.

Future trends and development

According to the Ipsos Research Report, it is expected that banks, MCCs and financial guarantee service providers will increase their products provided to SMEs by covering financial consultancy services.

Increase range of services by banks customers — Due to the growing importance of SMEs, commercial banks are also motivated to increase their service knowledge and ability to provide tailored solutions to help SMEs grow.

“One-stop” financial services — MCCs and financial guarantee service providers will extend their services to provide a “one-stop” financial consultancy solution for SMEs.

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Policies and regulations affecting financial consultancy service in China

Government policies to sustain the development of SMEs will drive the development of financial consultancy services in China in the future. The PRC government planned to stimulate the development of SMEs in “12th Five-Year Plan for SME Development”《“十二五”中小企業成長規劃》. The number of registered SMEs is targeted to grow at an annual rate of about 8% in the 12th five-year period. The government also planned to improve the service structure serving SMEs, such as banks and non-bank lending service providers, to increase service efficiency. As a whole, government support for the development of SMEs and its servicing structure will drive the demand of financial consultancy services.