PRC LAWS AND REGULATIONS

REGULATIONS ON FOREIGN INVESTMENTS

According to *the Catalogue for the Guidance of Foreign Investment Industries* (《外商投資產業指導目錄》) (the "**Foreign Investment Catalogue**") promulgated by the Ministry of Commerce of the PRC (the "**MOFCOM**") and the *National Development and Reform Commission* (the "**NDRC**") on 24 December 2011 and became effective on 30 January 2012, foreign investments in credit guarantee are permitted activities.

REGULATIONS ON CREDIT GUARANTEE INDUSTRY

Regulatory Bodies

Prior to March 2003, the State Economic and Trade Commission (國家經濟貿易委員會) (the "**SETC**") was primarily responsible for establishing a national credit guarantee system with the objective of facilitating the development of small and medium-sized enterprises (the "**SMEs**"). On 14 June 1999, the SETC issued *the Guidelines Concerning Establishment of Pilot Small and Medium-Sized Enterprises Credit Guarantee System* (《關於建立中小企業信用擔保體系試點的指導意見》 (the "**SETC Guidelines**").

From March 2003 to July 2008, as part of the organisational reform of the State Council, since the SETC ceased to exist, NDRC assumed responsibility of the administration of credit guarantee companies or the "CGCs", pursuant to *Provisions of the State Council on Main Responsibilities, Internal Institutions and Personnel of the NDRC* (《國家發展和改革委員會主要職責內設機構和人員編制規定》) promulgated on 25 April 2003.

From July 2008 to February 2009, the responsibility of the administration of the CGCs was transferred from the NDRC to Ministry of Industry and Information pursuant to *Provisions on Main Responsibilities, Internal Institutions and Personnel of Ministry of Industry and Information* (《工業和信息化部主要職責內設機構和人員編制規定》) promulgated on 11 July 2008.

Since February 2009, pursuant to *a notice on Further Specifying the Supervisory Responsibilities for Financial Guarantee Business* issued by the General Office of the State Council (《國務院辦公廳關於進一步明確融資性擔保業務監管職責的通知》), the regulatory body of the CGCs was then transferred from Ministry of Industry and Information to State Council Financial Guarantee Committee (國務院融資性擔保業務監管部際聯席會議), which is took lead by the China Banking Regulatory Commission (the "**CBRC**"), and participated in by the NDRC, Ministry of Industry and Information, Ministry of Finance, People's Bank of China (the "**PBOC**"), State Administration for Industry and Commerce of the PRC (the "**SAIC**") and Legal Affairs Office of the State Council, etc..

Status as Non-Financial Institutions

According to the SETC Guidelines, the CGCs are not financing institutions and shall not conduct any financing business. Furthermore, in the SAIC's official response on 8 July 1999 to inquiries made by certain provincial industry and commerce administration authorities, SAIC confirmed that the CGCs were not regulated as financing institutions.

Establishment of the CGCs

Prior to 29 January 2009, pursuant to the issuance of Decision of the State Council on Amending the Decision of the State Council on Establishing Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to Be Retained (《國務院關於修改〈國務院對確需保留的行政審批項目設定行政許可的決定〉的決定》), the establishment of a CGC required approval from or registration with relevant regulatory bodies above mentioned or local government. Since 29 January 2009, the establishment of a CGC should be approved by the authority appointed by provincial government (the "**CGC Administration**").

Pursuant to the Interim Measures, which was jointly promulgated by seven ministries of the PRC including the CBRC, NDRC, MOFCOM, etc. on 8 March 2010, CGCs shall obtain the Operating License for Financial Guarantee Institutions (融資性擔保機構經營許可證). Furthermore, the CGCs are also required to obtain approvals from CGC Administration with respect to certain matters, including changes in company name, organisation form, registered capital, registered address, business scope, directors, supervisors, senior management, shareholder holding equity more than 5%, division or merger, and, amendment of articles of association. Moreover, subject to the relevant provisions of the state, the amount of fees that may be collected by CGCs for the provision of guarantee services may be determined with reference to the level of risk involved in the transaction and through negotiations between the financial guarantee provider and person for whom the guarantee is provided. The regulatory threshold for the outstanding guarantee balances undertaken by a CGC is ten times the company's net assets.

Under the Notice of China Banking Regulatory Commission on Issuing the Material Risk Incidents Reporting System of Financial Guarantee Agencies (中國銀監會關於印發《融資性擔保機構重大風險事件報告制度》的通知) which became effective on 6 September 2010, financial guarantee companies shall make a simple report to CGC Administration in time after the occurrence of material risk incidents and make a detailed report of material risk incidents within 24 hours.

Under the Notice of China Banking Regulatory Commission on Issuing the Guidelines for Administration of Financial Guarantee Agencies Operating Licence (中國銀監會關於印發《融資性擔保機構經營許可證管理指引》的通知) which became effective on 6 September 2010, the term of financial guarantee agencies operating licence is 5 years, and if the financial guarantee company need to renew the financial guarantee agencies operating licence, it has to submit renewal application to CGC Administration 90 days in advance.

Under the Interim Measures of Qualification Management on Financial Guarantee Companies directors, supervisors, and senior management personnel (《融資性擔保公司董事、監事、高級管理人員任職資格管理暫行辦法》) which became effective on 27 September 2010, the qualification of directors, supervisors, and senior management personnel of financial guarantee companies shall be approved by CGC Administration.

Under the Notice of China Banking Regulatory Commission on Issuing the Guidelines for Information Disclosure of Financial Guarantee Companies (中國銀監會關於印發《融資性擔保公司信息披露指引》的通知) which became effective on 25 November 2010, financial guarantee companies shall disclose annual report, temporary report on material incidents and other information required by the laws, regulations, rules and normative documents to creditors and other interest related parties.

Under the Notice of China Banking Regulatory Commission on Issuing the Guidelines for Internal Control of Financial Guarantee Companies (中國銀監會關於印發《融資性擔保公司內部控制指引》的通知) which became effective on 25 November 2010, financial guarantee companies shall set and perfect internal control system.

Under *the Notice of China Banking Regulatory Commission on Issuing the Guidelines for the Corporate Governance of Financial Guarantee Companies* (中國銀監會關於印發《融資性擔保公司公司治理指引》的通知) which became effective on 25 November 2010, financial guarantee companies shall perfect internal management structure, set up the board of shareholders, board of directors, board of supervisors, senior management, reasonable internal incentive mechanism and effective restraint mechanism.

Pursuant to the Implementing Rules, which was promulgated by the People's Government of Guangdong Province on 27 September 2010 and became effective on 1 November 2010, an application for the establishment of a CGC or a new branch of a CGC in Guangdong province must be submitted to the Financial Work Office of People's Government of Guangdong Province (the "**Guangdong Financial Office**") and thereafter must undergo examination, approval and finally get an operating license from Guangdong Financial Office before applying to the relevant Administration of Industry and Commerce for registration. The CGCs established in areas such as Foshan in Guangdong Province must have a minimum of RMB100 million registered capital, all of which are paid in currency by investors. In the absence of other related laws or regulations, foreign investment in the financial guarantee business should obey the Implementing Rules of Guangdong Province on the Administration of Financial Guarantee Companies.

Guarantee in General

The Guarantee Law of the PRC (中華人民共和國擔保法) (the "**Guarantee Law**"), became effective on 1 October 1995, and its judicial interpretation issued by the Supreme People's Court on 8 December 2000 are the principal general laws governing the guarantee business. According to the Guarantee Law and its judicial interpretation, the guarantor has a right of recourse against the primary obligor or to demand other sureties (if any) to discharge the portion of obligation which they should respectively assume. The Guarantee Law and its judicial interpretation also provide that a creditor or a mortgagee, who is not paid at the maturity of the obligation by the debtor or mortgagor, may enforce its right against the collateral through an agreement with the debtor or mortgagor. If the parties fail to reach an agreement, the creditor or the mortgagee may file a lawsuit in court to enforce its right.

The Property Law of the PRC (中華人民共和國物權法) (the "**Property Law**") was promulgated by the National People's Congress on 16 March 2007 and came into effect on 1 October 2007. The Property Law defines "property" as including immovable property and moveable property. "Property rights" are defined as the rights enjoyed by the property right holder to directly control, to the exclusion of others, specific property. Property rights are comprised of ownership, usufructuary right and real right for security. The Property Law stipulates that legal title to an item of property confers on the title holder the right to possess, use, derive benefit and advantage from, and to dispose of the item of property. The title holder may, in accordance with the relevant law, create a security interest over the item of property in favor of a creditor. Likewise, when engaging in finance or business transactions, to the extent required to protect their rights as creditors, creditors may in accordance with the Property Law and other relevant laws create security interest over a debtor's or relevant third party's property as

security for performance of the debtor's obligations. Where such a security interest has been created and the debtor does not fulfill its obligations or otherwise defaults under the terms of the agreement with the creditor, then unless otherwise specified by relevant laws or agreements (if any), the creditor will enjoy priority of repayment to the extent secured by the relevant property interest.

Security interests that may be created pursuant to the Property Law include mortgages over property (in respect of which the title holder does not pass possession to the creditor) and pledges over moveable property (in respect of which the title holder surrenders possession to the creditor). Mortgage agreements and pledge agreements should be in writing and must ordinarily include the following information: the type and amount of the secured debt; the period of time in which the debtor must repay the debt; and the name, volume, quality and condition of the mortgaged or pledged property, the scope of security. Pledge agreements should also specify the time at which pledged property is handed over by the Pledgor; and mortgage agreements should specify the location of the mortgaged property as well as the legal title holder or the permitted user of the mortgaged property.

The Enterprise Bankruptcy Law of the PRC (中華人民共和國企業破產法) (the "**Bankruptcy Law**") was promulgated by National People's Congress on 27 August 2006 and came into effect on 1 June 2007. The Bankruptcy Law sets out procedures for enterprise bankruptcy, and seeks to provide a fair resolution for the settlement of debts, safeguard the legitimate rights and interest of creditors and debtors, and maintain market order. The Bankruptcy Law provides that an enterprise will be liquidated if the enterprise fails to settle its debts as and when they fall due and if the enterprise's assets are, or are demonstrably, insufficient to clear such debts.

Bankruptcy proceedings are governed by the People's Court in the jurisdiction in which the relevant debtor is domiciled. Debtors facing bankruptcy may file an application with the Court for reorganization, compromise or bankruptcy. During a period of reorganization, a debtor may continue to manage and operate its assets under the supervision of a bankruptcy administrator. Secured creditors are not permitted to enforce their security during reorganization unless there is a possibility of damage to or serious depreciation of the secured asset, in which case application for enforcement of the security may be made by the secured creditor to the Court. Secured creditors may enforce their security over a particular secured asset immediately upon the Court's acceptance of a debtor's application for compromise.

Creditors may file an application with the Court for the reorganization or bankruptcy of a debtor. Where an application for bankruptcy is accepted by the Court, a bankruptcy administrator will be appointed to the debtor and debtors of the debtor or asset holders of the debtor must settle all debts with or deliver all relevant assets to the administrator. Bankruptcy proceedings have binding effect over the assets of the relevant debtor beyond the territory of the PRC. Where a debtor is declared bankrupt, the debtor's assets are deemed insolvent assets. Creditors must declare their creditor's rights within a period, determined by the Court, of 30 days to 3 months from the date the Court accepts the application for bankruptcy. If a creditor fails to declare its creditor's rights during the period determined by the Court and has still not made such declaration prior to the distribution of the debtor's insolvent assets, the creditor forfeits its right to share in the distribution of the insolvent assets.

The Bankruptcy Law stipulates that secured creditors enjoy priority of repayment over non-secured creditors in respect of the asset(s) over which security was provided. However, in the case that a secured creditor forfeits its priority of repayment over a particular secured asset, or if the proceeds from the disposition of the secured asset are insufficient to discharge the secured debt, the secured creditor's priority to repayment in respect of any outstanding corresponding debt and his right to repayment in respect of such outstanding debt will rank pari passu with other non-secured creditors. After the debts of secured creditors, the costs associated with the bankruptcy proceedings and all relevant community liabilities have been repaid, insolvent assets are liquidated and applied to the repayment of debts in the following order: wages and subsidies for social security payments in respect of the debtor's employees, employees' other social security premiums and the debtor's outstanding tax payment, and finally non-secured creditors.

Regulations governing construction project guarantee business

On 6 August 2004, the Ministry of Construction issued Several Regulations on Implementation of Construction Contract Guarantee in Real Estate Development Projects (Trial) (《關於在房地產開發項目中推行工程建設合同擔保的若干規定(試行)》) (the "**Trial Regulations**") to regulate performance guarantee business for any construction contract for a real estate development project with an amount exceeding RMB10 million. Other than performance guarantee for the aforementioned construction contracts for real estate development, guarantee or other services offered to real estate and construction related enterprises are however not subject to the Trial Regulations. On 7 December 2006, the Ministry of Construction further promulgated Opinions on Further Carrying out Construction Guarantee System in Construction Projects (《關於在建設工程項目中進一步推行工程擔保制度的意見》) (the "**Opinions on Construction Guarantee System**"). On 25 September 2012, the Foshan Municipal People's Government further promulgated Administration Measures of Projects Construction Guarantee of Foshan City (Trial) (《佛山市工程建設擔保管理辦法(試行)》) (the "**Administration Measures of Foshan**").

Pursuant to the Trial Regulations, the Opinions on Construction Guarantee System and the Administration Measures of Foshan, the guarantor in Foshan for a construction contract shall be a licensed banking institution, a specialised guarantee company or other permitted company registered in the PRC. In the case of a specialised guarantee company, its aggregated outstanding guarantee amount shall not exceed ten times its net assets, and its outstanding guarantee amount for any individual transaction shall not exceed 30% of its net assets. The specialised guarantee company is required to enter into a cooperation agreement with a local bank and be granted a certain guarantee amount by the bank, or to satisfy the relevant conditions prescribed by the China Banking Regulatory Commission. The specialised guarantee company is also required to obtain qualification certification from guarantee administrative institution and handle a filing procedure with the local construction administration department and other regulatory body and institution.

Measures for Administration on Credit Guarantee Funds for Small and Medium Enterprise

On 25 May 2012, Ministry of Finance and Ministry of Industry and Information Technology promulgated *the Measures for Administration on Credit Guarantee Funds for Small and Medium Enterprise* (中小企業信用擔保資金管理辦法) (the "**Measures for SME Credit Guarantee Funds**") which defines the Credit Guarantee Funds for Small and Medium-sized Enterprises (the "**guarantee**

funds") as funds arranged by the central financial budget to support credit guarantee institutions for SMEs (the "**guarantee institutions**") and re-guarantee institutions for SMEs (the "**re-guarantee institutions**") in improving their business capacity, expanding guarantee businesses for SMEs, and enhancing financing environment of SMEs, especially micro and small-sized enterprises.

The Measures for SME Credit Guarantee Funds further stipulates that Guarantee funds may support projects in the following ways:

- Business subsidies. Guarantee institutions and re-guarantee institutions shall be encouraged to provide guarantee (re-guarantee) services for SMEs, especially micro and small-sized enterprises. For guarantee services provided by guarantee institutions that meet the conditions specified in these Measures for medium, small and micro-sized enterprises, no more than 1%, 2% and 3% of the average annual balance of guarantee amount shall be granted as subsidies. For re-guarantee services provided by re-guarantee institutions that meet the conditions specified in these Measures for, medium and small or micro-sized enterprises, no more than 0.5% and 1% of the average annual balance of guarantee amount shall be granted as subsidies.

- Subsidies for guarantee fees. Guarantee institutions shall be encouraged to provide low-rate guarantee services for small and medium-sized enterprises. For subsidies granted for guarantee services provided by guarantee institutions for small and medium-sized enterprises with rates of less than 50% of current benchmark interest rates of bank loans, the proportion of subsidies shall not exceed the difference between 50% of current benchmark interest rates of bank loans and actual guarantee rates, and low-rate guarantees for micro and small-sized enterprises shall be subsidized preferentially.

- Capital investment. Guarantee institutions shall be encouraged to expand capital scale, raise credit level and improve business capacity. Under special circumstances, no more than 30% of newly-increased capital contribution support shall be granted for guarantee institutions and re-guarantee institutions that meet the conditions specified in these Measures.

- Others. Other ways of support used to encourage and guide guarantee institutions and re-guarantee institutions to provide credit guarantee (re-guarantee) services for SMEs.

Guarantee institutions that meet the conditions specified below may simultaneously apply for subsidies not limited to one of the above-mentioned ways of support, but the guarantee fund subsidy acquired by a single guarantee institution in the current year shall not exceed RMB 20 million excluding capital investment.

The conditions are as follows:

(1) The institution shall be established and operated in accordance with relevant national laws and regulations with independent corporate capacity and have obtained the business license for financial guarantee institutions.

(2) The institution shall have engaged in guarantee business for two years or more and have no bad credit records.

(3) The institution's guarantee business shall conform to relevant State laws, regulations, provisions on business administration and industrial policies, and the newly-increased guarantee business turnover from small and medium-sized enterprises in the current year shall be 70% of the newly-increased total guarantee business turnover or more, or the newly-increased guarantee business turnover from small and medium-sized enterprises shall be RMB 1 billion or more.

(4) The liability balance of guarantee provided by the institution for a single enterprise shall not exceed 10% of its net assets, and the liability balance of guarantee provided by the institution for a single enterprise to issue bonds shall not exceed 30% of its net assets.

(5) The newly-increased guarantee business turnover of the guarantee institution in the eastern region in the current year shall reach 3.5 times average net assets [namely (net assets at the beginning of the year + net assets at the end of the year)/2, the same below] or more, and the institution's compensation rate shall be less than 2%; the newly-increased business guarantee turnover of the guarantee institution in the central region in the current year shall reach 3 times average net assets or more, and the institution's compensation rate shall be less than 2%; the newly-increased guarantee business turnover of the guarantee institution in the western region in the current year shall reach 2.5 times average net assets or more, and the institution's compensation rate shall be less than 2%.

(6) The institution's average annual guarantee rate shall not exceed 50% of the current benchmark interest rate of bank loans.

(7) The institution shall have a sound internal management system, carry out operation in a standardized manner, withdraw reserves in accordance with relevant provisions, and duly report the corporate financial and accounting report and relevant information to the financial department.

(8) The institution has not been subject to punishments imposed by the financial departments and other regulatory departments at or above the county level for financial violations and other violations of laws and regulations in the latest three years.

(9) Other necessary conditions.

Opinions on Strengthening Development of Credit Guarantee System for Small and Medium Enterprises

In order to facilitate the development and improve the regulatory environment of credit guarantee institutions for SMEs, the General Office of State Council forwarded *the Opinions on Strengthening Development of Credit Guarantee System for Small and Medium Enterprises* (關於加强中小企業信用擔保體系建設的意見) (the "**Opinions on Strengthening Development**") which came into effect on 23 November 2006. Under the Opinions on Strengthening Development, investors of credit guarantee institutions for SMEs (the "**guarantee institutions**") are encouraged to increase their capital injections in the guarantee institutions; and for guarantee institutions mainly engaging in providing loan guarantee for SMEs, the guarantee fees could be in line with the operating risks and costs. The basic rate of guarantee fee is 50% of the current bank loan interest rate, but the actual rate may be

subject to adjustment ranging from 30% to 50% above or below the basic rate. Upon the approval of supervision authority, other rates may be agreed upon through negotiations between the contracting parties. The Opinions on Strengthening Development further encourage the banks and registration authorities for mortgage and pledge to better cooperate with guarantee institutions.

Guiding Opinions on Establishing SME's Credit Guarantee System

According to *the 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), which was promulgated by National Economic and Trade Commission (the ex-MOFCOM) on 14 June 1999 and simultaneously came into force, SME's Credit Guarantee System is made up of three levels, namely the municipal, provincial and state level, and covers the business of guarantee and re-guarantee, among others, the guarantee business is operated on municipal basis, and the re-guarantee on provincial basis.

Notice on Relevant Issues Concerning the Exemption of Business Tax on Credit Guarantee Agencies for Small and Medium-Sized Enterprises

Pursuant to *the Notice on Relevant Issues Concerning the Exemption of Business Tax on Credit Guarantee Agencies for Small and Medium-Sized Enterprises* (關於中小企業信用擔保機構免徵營業税有關問題的通知) promulgated by the Ministry of Industry and Information and State Administration of Taxation on 19 March 2009 and came into force on the same day, and the Notice on Relevant Issues Concerning the Name List of Exemption of Business Tax on Credit Guarantee Agencies for Small and Medium-Sized Enterprises (關於公佈免徵營業税中小企業信用擔保機構名單有關問題的通知) promulgated by the Ministry of Industry and Information and State of Administration of Taxation (the "SAT") on 16 February 2011 and came into force on the same day (collectively as the "**Notice of the Exemption of Business Tax**"), the following requisite conditions must be met if Credit Guarantee Agencies for SMEs could apply for Business Tax exemption:

- The agency shall be a duly registered enterprise legal person mainly engaged in providing guarantee services for SMEs upon the approval by competent departments authorized by the government (administration department of SMEs), the paid-up capital shall exceed RMB20 million;

- The agency shall not carry out guarantee services mainly for profit-making purpose and the charge rate of guarantee services business shall not exceed 50% of the current bank loan interest;

- The agency shall have a sound internal management system, the capacity of providing guarantee to SMEs, remarkable business achievements and sound mechanisms for the pre-assessment, supervision during the loan term, follow-up recovery and disposal of guaranteed projects;

- The agency shall have a sustainable development history for more than 2 years, and the capital is mainly used in guarantee business;

- The accumulative secured loans for SMEs shall account for more than 80% of the total of its accumulative guaranteed amount for 2 years. The accumulative secured loans for single guarantee under RMB8 million shall account for more than 50% of the total of its accumulative guaranteed amount;

- The balance of the guarantee to a single guaranteed enterprise shall not be more than 10% of the net asset of the agency itself;

- The annual increased guarantee amount shall be more than 3 times of net asset of the agency itself and the agency shall be jointly and severally liable for the repayment to the extent of less than 2% of the guarantee funds; and,

- The agency shall accept the supervision by the administration departments of SMEs of the local people's government, report information on guarantee business and submit financial and accounting statements to the administration department of SMEs of the local people's government in accordance with relevant requirements.

The term of exemption of business tax shall be three (3) years, commencing on the date when guarantee agencies complete the formalities for tax exemption with competent taxation authorities. Guarantee agencies that still satisfy the above conditions after the expiration of the three-year term of business tax deduction and exemption policy may continue applying for tax deduction and exemption.

The Notice of the Exemption of Business Tax also stipulates the application procedures. Upon the voluntary application by guarantee agencies, and the examination, verification and recommendation by provincial-level administration departments of SMEs and provincial-level local taxation departments, the Ministry of Industry and Information and the SAT shall examine, approve and issue a list of enterprises enjoying tax exemption. Guarantee agencies on the list shall file applications with competent taxation authorities with relevant documents to go through tax exemption formalities, and local taxation authorities shall review and approve such applications based on the list issued by the Ministry of Industry and Information and the SAT. Upon the completion of tax exemption formalities, guarantee agencies may enjoy the policy of business tax exemption.

Notice of the Ministry of Finance and the State Administration of Taxation on the Polices for Enterprise Income Tax Pre-tax Deduction of Reserves of Credit Guarantee Institutions for Small and Medium-sized Enterprises

On 11 April 2012, Ministry of Finance and State Administration of Taxation issued *the Notice of the Ministry of Finance and the State Administration of Taxation on the Polices for Enterprise Income Tax Pre-tax Deduction of Reserves of Credit Guarantee Institutions for Small and Medium-sized Enterprises* (財政部、國家税務總局關於中小企業信用擔保機構有關準備金企業所得税税前扣除政策的通知) (the "**Pre-tax Deduction Notice**") which was retrospectively effective since 1 January 2011 and cease to be effective on 31 December 2015. For the purpose of this Pre-tax Deduction Notice, a qualified SME credit guarantee institution could enjoy these following pre-tax deduction policies:

- The guarantee compensation reserve provided by qualified SME credit guarantee institutions 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 enterprise income tax, and meanwhile the guarantee compensation reserve balance provided in previous year shall be converted into income of current period.

- The undue liability reserve provided by qualified SME credit guarantee institutions as per the proportion of not more than 50% of the premiums of the current year is allowed to be deducted before enterprise income tax, and meanwhile the balance of undue liability reserve provided in previous year shall be converted into income of current period.

- compensatory loss actually incurred to the SME credit guarantee institutions shall, if complying with the provisions of relevant tax laws and regulations on pre-tax deduction for asset loss, be offset by the guarantee compensation reserve deducted before tax, and any insufficiency (if any) shall be deducted prior to the enterprise income tax.

Notice of the General Office of the State Council on Forwarding the Opinions on Promoting the Standardized Development of the Financial Guarantee Industry

On 21 June 2011, the General Office of the State Council forwarded *the Opinions on Promoting the Standardized Development of the Financial Guarantee Industry* (關於促進融資性擔保行業規範發展的意見) (the "**Opinion**") promulgated by the CBRC, NDRC and other relevant departments which came into force on the same day. Pursuant to the Opinion, larger financial guarantee institutions with stronger capacities are encouraged to set up branches or carry out business in counties and western regions, whereas financial guarantee institutions in counties shall strengthen the financial guarantee services for SMEs and enterprises that are in rural areas, run by farmers or engaging in the agriculture industry. In addition, private capital and foreign capital are encouraged to invest in the financial guarantee industry pursuant to the laws, so as to consolidate the industry's capital strength, facilitate market competition, and meet the diversified financial guarantee needs at various levels and from various fields.

General Rules on Credit

The General Rules on Credit (貸款通則) (the "**General Rules**") promulgated by the PBOC on 28 June 1996 and came into effect on 1 August 1996. The General Rules define a "loan provider" as a PRC owned financial institution established in the PRC that engages in the provision of interest bearing loans. One type of loan defined in and regulated in accordance with the General Rules is an entrusted loan. Entrusted loans are an arrangement whereby the capital for a loan is supplied by a government department, an enterprise or a natural person (the "**capital provider**") and entrusted to a financial institution as the loan provider. Entrusted loans are made by the loan provider to a specified borrower for a particular purpose and in an amount, for a term and at an interest rate determined by the capital provider. The term "specified borrower" (確定的貸款對象) describes the party specified by the capital provider as the person who will receive the amount of an entrusted loan (the "**loan recipient**"). The General Rules do not contain any restriction or prohibition on the provision of entrusted loans to specified borrowers who are related parties to the capital provider. While the loan provider exercises supervision over and receives repayment from the loan recipient, the loan provider does not assume any risk of default in repayment by the loan recipient. In accordance with the General Rules and the relevant judicial interpretation from the Supreme People's Court of the PRC, in an entrusted loan arrangement, the relationship between the loan provider and the capital provider is that of trustee and trustor; and the relationship between the loan provider and the loan recipient is that of lender and borrower. No creditor/debtor relationship exists between the capital provider and the loan recipient. The General Rules require that loan providers must be authorized by and have been granted a Financial Institution License (金融機構法人許可證) or a Financial Institution Operation License (金融機構營業

許可證) from the PBOC; and must have registered with the State Administration for Industry and Commerce (工商行政管理部門). The General Rules further stipulate that enterprises which are not authorized and registered as loan providers must not breach the laws of the PRC by engaging in intercompany loan transactions or the provision of loans through unauthorized means. An intercompany loan is a loan provided directly from one company to another where the loan provider is not authorized and registered as loan provider. The General Rules provide that the PBOC may impose sanctions on an intercompany loan provider and enforce a penalty of up to 5 times of the income received from the provision of the loan.

REGULATIONS ON TAX

PRC Enterprise Income Tax

Prior to 1 January 2008, the foreign-invested enterprises shall pay enterprise income tax ("**EIT**") pursuant to *the Foreign-Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC* (《中華人民共和國外商投資企業和外國企業所得稅法》) promulgated by the National People's Congress Standing Committee in 1991 (the "**Prior EIT Laws**") and related implementation regulations. Pursuant to the Prior EIT Law, except for the preferential tax rates, a foreign-invested enterprise was subject to EIT at a statutory rate of 33%. In addition, certain foreign-invested enterprises were exempted from EIT for two years starting from the first profit-making year and followed by a 50% reduction of the EIT in the next three consecutive years.

On 16 March 2007, the National People's Congress passed the *Enterprise Income Tax Law of the PRC* (the "**PRC EIT Law**") (《中華人民共和國企業所得稅法》), with effect from 1 January 2008. On 6 December 2007, the State Council enacted the *Implementation Rules for the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法實施條例》) which also became effective as of 1 January 2008. The PRC EIT Law and its implementation rules adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the original tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, according to *the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy* (《國務院關於實施企業所得稅過渡優惠政策的通知》) issued on 26 December 2007 and effective on 1 January 2008, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the PRC EIT Law. Enterprises that were subject to an enterprise income tax rate lower than 25% before the effectiveness of the PRC EIT Law may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after the effective date of the PRC EIT Law. Enterprises that were granted preferential EIT treatments before the effectiveness of the PRC EIT Law may continue to enjoy the preferential EIT treatments until their expiration.

Under the PRC EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises." Pursuant to the PRC EIT Law and its implementation rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25% EIT rate for their global income. According to the implementation rules of the PRC EIT Law, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. In our

circumstance, substantially our management is currently based in China and is expected to remain in China in the future. It is not clear whether we would be deemed as "resident enterprises" or not. In addition, although the PRC EIT Law provides that dividend income between "qualified resident enterprises" is exempted income, and the implementing rules refer to "qualified resident enterprises" as enterprises with "direct equity interest," it is not clear whether dividends we receive from our subsidiary are eligible for such exemption if we are deemed to be a PRC "resident enterprise." If we are considered a PRC "resident enterprise" and thus [required to withhold income tax for any dividends we pay to our non-PRC resident enterprise investors, the amount of dividends we can pay to our Shareholders could be materially reduced.] In addition, any gain realized on the transfer of ordinary shares by our non-PRC resident investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Furthermore, the PRC EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within China but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. The implementation rules of the PRC EIT Law provide that after 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. The income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC Shareholders reside.

Regulations on Tax Collection for Share Transfer by Non-PRC Resident Enterprises

Pursuant to *the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises* (《國家税務總局關於加强非居民企業股權轉讓所得企業所得税管理的通知》) (the "**Circular 698**"), issued by the SAT on 10 December 2009 with retroactive effect from 1 January 2008, except for the purchase and sale of equity through a public securities market, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. If the tax authority, upon examining the nature of the Indirect Transfer, deems that the Indirect Transfer has no reasonable commercial purpose other than to avoid PRC tax, the tax authority may disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the Indirect Transfer.

PRC Business Tax

Pursuant to *the PRC Provisional Regulations on Business Tax* (中華人民共和國營業税暫行條例), (the "**Business Tax Regulations**"), promulgated by the State Council on 13 December 1993 and last amended on 10 November 2008 and its implementation rules which were last revised on 28 October 2011, business tax is imposed on income derived from the furnishing of specified services and transferring of immovable property or intangible property at rates ranging from 3% to 20%, depending on the activities.

PRC Value Added Tax

Pursuant to *the Interim Regulation on the Value Added Tax of the PRC* (《中華人民共和國增值税暫行條例》) promulgated by the State Council on 13 December 1993 and were last amended on 10 November 2008, and its implementation rules, any entity or individual engaged in the sale of goods, the provision of specified services or the importation of goods in China is generally required to pay value added tax ("**VAT**") on the added value derived during the process of manufacture, sale or service provided. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

Pursuant to the Circular on Printing and Issuing the Pilot Proposals for the Transformation from Business Tax to Value Added Tax (《關於印發<營業税改征增值税試點方案>的通知》) ("**Pilot Proposals**") issued by the Ministry of Finance and SAT on 16 November 2011, the transformation from business tax to VAT will take effect on 1 January 2012 in pilot business of pilot areas. Pursuant to the Pilot Proposals, two levels of low VAT rates of 11% and 6% are added in the current VAT rates which are 17% and 13% respectively. The tax rate for business such as the transportation business and the construction business is 11% and the tax rate for certain other modern service business is 6%.

LABOUR AND SOCIAL INSURANCE

Employment Contract Law

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) was promulgated on 29 June 2007 and became effective on 1 January 2008. This law governs the establishment of employment relationships between employers and employees, the conclusion, performance and termination of employment contracts and the amendment to employment contracts. To establish an employment relationship, a written employment contract must be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract shall be signed within one month after the date on which the employer first engages the employee.

According to *the Employment Law of the PRC* (《中華人民共和國勞動法》) promulgated on 5 July 1994 and effective on 1 January 1995, enterprises and institutions shall establish and perfect their system of work place safety and sanitation, strictly abide by state rules and standards on work place safety, educate labourers in labour safety and sanitation in the PRC. Labour safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide labourers with a safe work place and sanitation conditions which are in compliance with state stipulations and the relevant articles of labour protection.

Laws and Regulations on Social Insurances

As required under *Regulation of Insurance for Labor Injury* (《工傷保險條例》) which was amended on 8 December 2010 and took effect from 1 January 2011, *Provisional Insurance Measures for Maternity of Employees* (《企業職工生育保險試行辦法》) which were promulgated on 14 December 1994 and took effect from 1 January 1995, *Regulation of Unemployment Insurance* (《失業保險條例》) which were promulgated on and took effect from 22 January 1999, *the Interim Regulations on the Collection and Payment of Social Insurance Premiums* (《社會保險費徵繳暫行條例》) which was

promulgated on and took effect from 22 January 1999 and *the Interim Provisions on Registration of Social Insurance* (《社會保險登記管理暫行辦法》) which was promulgated on and took effect from 19 March 1999, enterprises are required to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance. An enterprise that fails to make social insurance contributions in accordance with the relevant regulations may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline. If the enterprise fails to rectify the noncompliance by the stipulated deadline set out by the government authorities, it can be assessed a late fee by the relevant authority in the amount of 0.2% of the amount overdue per day from the original due date.

In addition, on 28 October 2010, National People's Congress Standing Committee promulgated *the PRC Social Insurance Law* (《中華人民共和國社會保險法》), which became effective on 1 July 2011, to clarify the contents of the social insurance system in the PRC. According to the PRC Social Insurance Law, employees within the PRC must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay the social insurance premiums for such employees. According to this law, employees who come from rural area shall participate in social insurance and foreigners working in the PRC may also participate in social insurance. An employer that fails to make social insurance contributions may be ordered to pay the required contributions within a stipulated deadline and be subject to a late fee of 0.05% of the amount overdue per day from the original due date by the relevant authority. If the employer still fails to rectify the failure to make social insurance contributions within such stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue.

Laws and Regulations on Housing Provident Fund

According to *Regulations on Management of Housing Provident Fund* (《住房公積金管理條例》), which became effective on 3 April 1999 and amended on 24 March 2002, enterprises in the PRC must undertake registration at the competent managing center of housing fund and then, upon the examination by such managing center of housing fund, undergo the procedures of opening the account of housing fund for their employees at the relevant banks. Enterprises are also obliged to pay and deposit housing fund in full amount in a timely manner. An enterprise that fails to make housing fund contributions may be ordered to rectify the non-compliance and pay the required contributions within a stipulated deadline; otherwise, an application may be made to a local court for compulsory enforcement.

REGULATION ON FOREIGN EXCHANGE CONTROL AND DIVIDEND DISTRIBUTION

Regulation on Foreign Exchange Control

Foreign exchange regulations in the PRC are primarily governed by the following regulations:

- *PRC Foreign Exchange Administration Rules* (《中華人民共和國外匯管理條例》), (the "**Exchange Rules**"), promulgated by the State Council on 29 January 1996, which was amended on 14 January 1997 and on 5 August 2008 respectively; and

- *Administration Rules of the Settlement, Sale and Payment of Foreign Exchange* (《結匯、售匯及付匯管理規定》), (the "**Administration Rules**"), promulgated by the People's Bank of China on 20 June 1996.

Under the Exchange Rules, RMB is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. As for capital account items, such as direct investments, loans, security investments and the repatriation of investment returns, however, the conversion of foreign currency is still subject to the approval of, or registration with, the State Administration of Foreign Exchange, or the "SAFE", or its competent local branches; while for the foreign currency payments for current account items, the SAFE approval is not necessary for the conversion of RMB except as otherwise explicitly provided by laws and regulations. Under the Administration Rules, enterprises may only buy, sell or remit foreign currencies at banks that are authorized to conduct foreign exchange business after the enterprise provides valid commercial documents and relevant supporting documents and, in the case of certain capital account transactions, after obtaining approval from SAFE or its competent local branches. Capital investments by enterprises outside of the PRC are also subject to limitations, which include approvals by MOFCOM, SAFE and NDRC, or their respective competent local branches. On 21 July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a band against a basket of certain foreign currencies.

On 29 August 2008, the SAFE issued *the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises* (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》), or SAFE Circular 142. Pursuant to SAFE Circular 142, the RMB capital obtained from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope as approved by the applicable administrative authority and unless it is otherwise provided by law, such RMB capital cannot be used for domestic equity investment. Documents certifying the purposes of the settlement of foreign currency capital into RMB, including a business contract, must also be submitted for the settlement of the foreign currency. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested company. The use of such Renminbi capital may not be altered without SAFE's approval, and such Renminbi capital may not be used to repay Renminbi loans if such loans have not been used. Violations of the SAFE Circular 142 could result in severe monetary fines or penalties.

Regulation on Dividend Distribution

The principal laws and regulations governing distribution of dividends of foreign holding companies include the "*Company Law of the PRC*"(《中華人民共和國公司法》) promulgated by the National People's Congress Standing Committee in 1993 and amended in 1999, 2004 and 2005, the "F*oreign Investment Enterprise Law of the PRC*"(《中華人民共和國外資企業法》)promulgated by the National People's Congress Standing Committee in 1986 and amended in 2000, and the "*Administrative Rules under the Foreign Investment Enterprise Law*"(《外資企業法實施細則》)promulgated by the State Council in 1990 and amended in 2001.

Under these laws and regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly-foreign-owned enterprises in China, like our PRC subsidiary, are required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

REGULATION ON FOREIGN EXCHANGE REGISTRATION OF OFFSHORE INVESTMENT BY PRC RESIDENTS

On 21 October 2005, the SAFE issued the *Circular of the SAFE on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investments Undertaken by Domestic Residents through Overseas Special Purpose Vehicles* (the "**SAFE Circular No. 75**") (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which went into effect on 1 November 2005. The SAFE Circular No.75 and the subsequent related implementation rules provide that if the PRC individual residents establish or acquire direct or indirect interest of the offshore special purpose vehicle or the offshore SPVs, for the purpose of financing these offshore SPVs with assets of, or equity interests in, an enterprise in the PRC, or inject assets or equity interests of the PRC entities into the offshore SPVs, they must register with local SAFE branches with respect to their investments in the offshore SPVs. The SAFE Circular No.75 also requires the PRC individual residents to file changes to their registration if their offshore SPVs undergo material events such as capital increase or decrease, share transfer or exchange, merger or division, long-term equity or debt investments, and provision of guarantee to a foreign party. The SAFE subsequently issued relevant guidance to its local branches with respect to the operational process for the SAFE registration under the SAFE Circular No.75, which standardized more specific and stringent supervision on the registration relating to the SAFE Circular No.75 and imposed obligations on the onshore subsidiaries of the offshore SPVs to coordinate with and supervise the PRC individual residents holding direct or indirect interest in the offshore SPVs to complete the SAFE registration process. Under the relevant SAFE rules, failure to comply with the registration procedures set forth in the SAFE Circular No.75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore companies of the offshore SPVs, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from such offshore entity, and may also subject relevant PRC residents and onshore company to penalties under the PRC foreign exchange administration regulations.

M&A REGULATIONS AND OVERSEAS [●]

On 8 August 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, China Securities Regulatory Commission or the "CSRC" and the SAFE, jointly issued *the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《關於外國投資者併購境內企業的規定》) (the "**M&A Rule**"), which became effective on 8 September 2006 and was amended on 22 June 2009. This M&A Rule, among other things, includes provisions that purport to require that a SPV formed for purposes of overseas [●] of equity interests in PRC companies and controlled directly or indirectly by PRC domestic companies or individuals obtain the approval of the CSRC prior to the [●] and trading of such SPV's securities on an overseas [●].