

## **BUSINESS**

### **BUSINESS OVERVIEW**

We are a leading guarantee service provider offering financial and non-financial guarantee services and financial consultancy services in Foshan City, the PRC. We aim to provide integrated financial services to enterprises, mainly SMEs, in China to assist them to improve their overall fund-raising capabilities and enable them to obtain funding for business development.

According to the Ipsos Research Report commissioned by our Company, Success Guarantee, our operating PRC subsidiary, in terms of revenue in 2012, ranked the third largest and the largest privately-controlled financial guarantee service providers in Guangdong Province and Foshan City respectively, and ranked the seventh and the second largest financial guarantee service providers among all financial guarantee service providers in Guangdong Province and Foshan City respectively. Success Guarantee was accredited as “Model Institution of SME Financing Services in Guangdong Province” (廣東省中小企業融資服務示範機構) by the Guangdong Province SME Bureau (廣東省中小企業局) in 2011.

In respect of financial guarantee services, our Group mainly facilitates SMEs’ financing exercises by acting as the guarantor for the SMEs to enable them to secure credit facilities from lending banks and other financial institutions. Further, we provide a variety of other guarantee services to suit the various requirements of lending banks or institutions and the needs of our customers, and we are fast in adapting ourselves in providing new type of guarantee services to meet the changing and emerging market demand for different kinds of guarantee services. In particular, we provided guarantee services through the following modes of cooperation:

- ***Cooperation with the Re-guarantee Company:*** we were selected as one of the first eight cooperating guarantee institutions by the Re-guarantee Company.
- ***The Foshan SME Bills:*** we provided guarantee services in the issue of the Foshan SME Bills, which was among the first batch of bills of such kind launched in the PRC.
- ***The Foshan SME Trust Fund:*** we cooperated with a trust company and provided guarantee services to SMEs receiving loans from the Foshan SME Trust Fund.
- ***Issue of private placement bonds:*** we cooperated with the Re-guarantee Company and provided guarantee services in an issue of private placement bonds by an SME (中小企業私募債).
- ***Cooperation with government trust funds:*** we were one of the enlisted financial guarantee companies in cooperative programmes organised by the local governments in the PRC for the purpose of assisting SMEs in obtaining financing, including the Eagle Scheme and the Flying Dragon Scheme.

During the Track Record Period, our Group had business relationships with 20 financial institutions, including a policy bank, state-owned commercial banks, joint-stock commercial banks, local commercial banks, rural banks, a provincial re-guarantee company and a trust company. The established cooperation with these banks and institutions, which have cooperated with us for [one] year to [eight] years, brought about new customers to us during the Track Record Period. [We believe our initiation and ability to design and offer different kinds of guarantee services to match the requirements of lenders and the needs of borrowers also enable us to attract new and recurring customers as well as to foster our business cooperation with lending banks and other institutions.]

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We believe our guarantee services enable our SME customers to obtain financing from banks more conveniently, easily and quickly. According to the Ipsos Research Report, in 2012 there were over 54 million SMEs in the PRC which represented approximately 99.6% of the total number of enterprises in the PRC. In Foshan City, the nation’s tightening monetary policies led to tightened cash flow in SMEs which raises demand for credit guarantee services substantially. According to the Ipsos Research Report, by the end of 2012, the value of SME loans in Foshan City amounted to approximately RMB323.3 billion, which accounted for approximately 79.0% of the total corporate loans granted (exclusive of personal loans) in Foshan City. As a result of the tightened money supply, SMEs faced increasing difficulty in financing and rising operating costs. Banks may be more stringent when accepting collaterals and may not be willing to provide financing to SMEs as they may not have sufficient collateral and may be regarded by them as less creditworthy than large-scale enterprises; and in view of the amount of preparatory costs involved for the relatively small loan amount, banks may also not be willing to provide financing to SMEs from a cost-effectiveness perspective.]

Hence, prospective SME borrowers may not be able to obtain financing from such banks without third party guarantee(s) or collaterals that are acceptable to them. With our established business relationships with banks and other institutions and our track record and reputation in the guarantee business industry in Foshan City, we believe our financial strength and credibility could in turn enhance our customers’ overall creditability and thus their ability to obtain financing from such banks, and enable our customers to obtain financing from banks more speedily, conveniently and efficiently.

Our Group also provides our customers with non-financial guarantees, including performance guarantees in relation to, among others, the performance of payment obligations, under the agreements entered into between our customers and their counter-parties; and litigation guarantees in which we provide guarantee to the court that we will compensate the litigating counter-party for the loss incurred as a result of the freezing of such counter-party’s property by the court as a result of our customers’ inappropriate application for property preservation against such counter-party. We receive guarantee fees from customers for our financial and non-financial guarantees.

In addition to the provision of guarantee services, we also enter into separate financial consultancy services agreements with our customers and they pay us consultancy fees in return for our services. We provide tailor-made financial consultancy services by proposing different financing methods or products to our customers and assisting them to apply for financing. We may introduce them to our guarantee services depending on individual circumstances and if the customer satisfies our requirements and risk assessment criteria.

Risk management is an integral part to the success of our Group’s business. Our risk management functions start from the determination of our Group’s overall risk management strategies, pre-transaction due diligence and assessment, in-transaction risk evaluation, product design, pricing determination and counter-guarantee requirement design to post-transaction ongoing monitoring. Our risk control department (風險控制部) is led by our risk control director (風控總監), with more than 18 years of experience in the banking industry, together with over 4 years of experience in the guarantee industry. Our business operation department will perform pre-transaction assessment, due diligence investigation and further assessment on potential customers in accordance with our internal guidelines, and our risk management committee will also conduct on-site due diligence. Results of due diligence and recommendations from the business operations department will be reported to and reviewed by our risk control department and our risk management committee prior to potential

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customers being accepted by us for further processing and assessment. Our risk management committee will review the guarantee applications and decide whether such application will be approved. Post-transaction monitoring requirements including frequency of assessment and information to be obtained from the customer will also be included in the resolution approving the guarantee application. In connection with the guarantees we provide, we require our customers to provide various kinds of counter-guarantees to us, further information of which is set out in the section headed “Business — Internal control and risk management — Customised proposals for counter-guarantee measures” in this document.

During the Track Record Period, most of our Group’s customers were SMEs which included, among others, manufacturers and construction enterprises. We source our customers through our sales and marketing efforts, through referrals from our cooperating banks and other institutions, and we also have recurring customers as well as referrals from our existing or past customers. Our participation in certain government cooperative programmes, including the Eagle Scheme and the Flying Dragon Scheme has also enabled us to broaden our clientele. We also believe our business relationships with banks and other financial institutions, recurring customers and referrals from our past or existing customers, and our participation in government cooperative programmes demonstrate our ability to cater our services to customers’ requirements and customers’ general satisfaction to our services which we believe, in turn, could generate further business opportunities for us.

Our Group’s revenue for the three years ended 31 December 2012 and the five months ended 31 May 2013 was approximately RMB35.1 million, RMB53.5 million, RMB57.1 million and RMB22.1 million respectively; and our Group’s profit attributable to equity shareholders of our Company during the same periods was approximately RMB25.8 million, RMB34.5 million, RMB47.7 million and RMB9.6 million respectively.

The following table sets out our Group’s revenue breakdown by category during the Track Record Period:

	<b>Year ended 31 December</b>			<b>Five months ended 31 May</b>	
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>	<b>2013</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	<i>(unaudited)</i>				
<b>Income from financial guarantees</b>	34,352	40,616	45,137	19,164	18,714
<b>Income from litigation guarantees</b>	298	1,528	405	130	259
<b>Income from performance guarantees</b>	461	378	602	228	267
<b>Income from financial consultancy services</b>	<u>—</u>	<u>11,006</u>	<u>10,994</u>	<u>2,548</u>	<u>2,831</u>
<b>Revenue</b>	<u><u>35,111</u></u>	<u><u>53,528</u></u>	<u><u>57,138</u></u>	<u><u>22,070</u></u>	<u><u>22,071</u></u>

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Apart from our guarantee services and financial consultancy services, we also provide small loans lending services through our investment in Success Credit, a limited liability company incorporated in the PRC held as to approximately 18.18% by Success Guarantee with a registered capital of RMB200 million and is principally engaged in [provision of small loans financing to SMEs and individuals]. Success Credit is treated as an associate of our Group under equity method of accounting.

### **COMPETITIVE STRENGTHS**

#### **Our Group has an experienced management team with diversified expertise and a strong workforce**

We consider the strength of our management team to be fundamental to our success. Mr. Zhang, one of our founders and our chairman and executive Director, possesses over 15 years of experience in the financial services field in the PRC. Mr. Zhang acted as a director in companies engaged in various financial fields, including futures, small loans lending, insurance brokerage, venture capital, guarantee and fund management. As at the Latest Practicable Date, he is a council member of the Guangdong General Chamber of Commerce (廣東省工商業聯合會(總商會)) and the vice president of Foshan General Chamber of Commerce (佛山市工商業聯合會(總商會)). He was also awarded as an Outstanding Corporate Manager in Guangdong Province (廣東企業優秀管理人才) by the Guangdong Enterprises Confederation (廣東省企業聯合會) and the Guangdong Entrepreneurs Association (廣東省企業家協會). Members of our management team are all experienced in the financial services field. Mr. Li Bin, our executive Director and the chief executive officer of our Group, has over 12 years of experience in the banking industry, with over seven years of experience in the guarantee industry further to his banking experience. Ms. Dai Jing, the senior vice general manager of Success Guarantee, has over 12 years of experience in the banking industry, with over and [six] years of experience in the guarantee industry in the PRC further to her banking experience. Further, Ms. Dai Jing is also a qualified lawyer in the PRC. Our vice general manager of Success Guarantee, Mr. Yuan Chen, also has more than [eight] years of experience in the sales and marketing aspects of the guarantee business. Mr. Zhong Zhiqiang, our risk control director who oversees our risk control and management functions, has over 18 years of experience in the banking industry, with over four years of experience in the guarantee industry further to his banking experience. All of our senior management team members have extensive experience in the financial services field, and each of them had relevant expertise and experience in the key functions of our business operations in which they oversee, namely risk management, legal, internal control and sales and marketing.

Our risk control department is led by our risk control director; as at the Latest Practicable Date, the other members of the department comprised four risk control managers, three of whom have approximately one to five year(s) of experience in the financial industry and one being a PRC certified public valuer with over 15 years of valuation experience in the PRC. All members of the department have received tertiary education, majoring in finance, economics, law or business management. Among our workforce of 47 employees as of 31 May 2013, over 95% of them have received tertiary education and among them, over 17% have got master degree or are educated overseas. The head of our independent compliance department, which was established in September 2013, has more than ten years of experience in the banking industry.

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We believe that the extensive experience of our management team and their industry knowledge and in-depth understanding of the market enable us to assess market trends, and requirements of lending banks and financial and other institutions on the one hand and the borrower customers on the other hand, as well as to evaluate and manage our risk profile and ensure compliance with legal and regulatory requirements. Our management team’s understanding of the industry and market trend and the diverse needs and requirements of lenders and borrowers also enable us to broaden our product offerings, design and tailor-made financial products which, in turn, would increase customers’ satisfaction and foster our business development. We believe that with our management team’s experience and expertise, they will also steer us through the evolving financial industry in the PRC and enable us to expand our business scope and capture more business opportunities; while our strong workforce could complement our management team and ensure smooth and effective implementation of our plans and strategies.

### **Our Group has an established management system**

In addition to an experienced management team with diversified expertise for our strategic planning and to oversee our operations, we have also implemented a set of internal guidelines and operation manuals which set out various guidelines, instructions and operational rules covering various aspects of our business operations including, business management, business operation procedures, human resources management, administration management and finance management. We believe a strong management system would improve our management efficiency, reduce human error and reliance on a particular personnel; and also enable to us to better manage and monitor different aspects of our operations.

To keep our staff aware of and facilitate compliance with our internal requirements, we offer on-job trainings and seminars to our staff from time to time in relation to legal and regulatory requirements relevant to our Group and reviews and updates on our Group’s internal guidelines and operations manuals.

To further improve our management system and strengthen our internal control and risk management, we have developed a computerised management system and engaged a professional internal control review company to provide professional consultation and training service to us. The computerised system has been implemented since January 2013. For the functionality of the computerised management system, please refer to the paragraph headed “Internal control and risk management” in this section.

We believe that the implementation of such computerised management system enables us to, among others, enhance, standardise and computerise many aspects of our management and internal control functions, including client management, guarantee approval process and post-transaction monitoring; and we could also build up our database of customer information through the use of this system. With the use of the computerised management system, our management could monitor our business operations more efficiently online; and we could also retrieve or update customer data and credit information more efficiently through the use of this system. We believe standardisation and computerisation of our management system could also provide a platform for our expansion.

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### **Our Group is recognised by, and has an established long-term cooperative relationship with, various banks, financial and other institutions**

During the Track Record Period, we had business relationships with 20 financial institutions to facilitate the financing of SMEs and as at 31 May 2013, our Group had effective cooperation agreements for business cooperation with [15] financial institutions (which include [12] banks), among which we have established long term cooperative relationships with reputable banks and other financial institutions ranging from one year to eight years, including, among others, a policy bank, state-owned commercial banks, joint-stock commercial banks, local commercial banks, rural banks, a provincial re-guarantee company and a trust company.

In 2009, Success Guarantee was also selected as one of the first eight cooperating guarantee institutions by the Re-guarantee Company. Other than banks and the Re-guarantee Company, we also have business cooperation with local credit companies as well as a trust company. Success Guarantee was also one of the enlisted financial guarantee companies in certain cooperative programmes organised by local governments in the PRC for the purpose of assisting SMEs in obtaining financing for their business development, including the Eagle Scheme and the Flying Dragon Scheme. For further information in relation to the cooperative programmes, please refer to the section headed “Business — Principal business activities” below.

Our Directors believe that our Group’s close working relationship with state-owned and local banks, other financial institutions such as a re-guarantee company and a trust company, and local government authorities not only broadens our customer base and increases our business opportunities through referrals from them, our stable and long term business relationship with such reputable banks and financial institutions, with their remarkable risk assessment capability and professionalism; and our being enlisted as approved guarantee companies in programmes organised by local governments, is also an acknowledgement of our quality service as well as our creditability and compatible risk management capability which, in turn, would give us a significant competitive advantage over our competitors. It also facilitates more cooperative opportunities with other reputable banks, financial institutions or government authorities in the future.

With our Group’s established relationships with banks, financial institutions and local government authorities, we believe that as banks and financial institutions increase their lending or provision of funding to SMEs, in order to satisfy stringent internal risk control requirements of the lending institutions, their demand on risk assessment, pricing and management capabilities, and on the services of guarantee companies will grow. The increasingly strict regulations combined with our flexible guarantee arrangements and different product offerings and competitive registered capital base enable us to extend our operations and to create more opportunities to partner with banks and financial institutions in SME lending.

### **Our ability to offer a variety of guarantee services to suit the needs of customers**

Our Group has provided a variety of guarantee services to suit the various needs of our customers, and we are fast in responding to market requirements to design and provide new types of guarantee services to cater for the changing and emerging market demand for different kinds of guarantee services. During the Track Record Period, we offered various kinds of financial guarantee services to our customers to cater for their general fund raising needs, as well as non-financial guarantee services,



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such as performance guarantees, to assist our customers to fulfill their contractual obligations to counterparties. Further, we provide guarantee services in relation to various financial products, including, among others, an issue of private placement bonds shortly after the promulgation of the Pilot Measures for the Issuance of Private Placement Bonds by SMEs (中小企業私募債券業務試點辦法) in May 2012 and an issue of bills jointly by certain SMEs of Foshan District, which was among the first batch of bills of such kind launched in the PRC. Further information in relation to our various guarantee services is set out in the section headed “Business — Principal business activities” of this document.

Through developing a wide variety of product offerings, we believe we are able to attract a broader portfolio of customers and demonstrate our competitiveness and our ability to adapt to the changing market and sustain continuous business development. We believe our ability to design and provide different services to suit our customers’ requirements could also increase customer satisfaction and help generate customer loyalty which, we believe, would further strengthen our business cooperation with banks, financial institutions and government authorities, and may also provide more business opportunities for us through recurring business from customers and referrals from them.

### **Competitive advantage brought about by our proven business track record, market share and registered capital and size of net asset value of our Company’s operating PRC subsidiary**

Our operating PRC subsidiary, Success Guarantee, commenced its provision of guarantee services to our customers in 2004. Our revenue grew from approximately RMB35.1 million for the year ended 31 December 2010 to approximately RMB57.1 million for the year ended 31 December 2012, representing a CAGR of over 27% over the Track Record Period. Throughout our business history, banks and financial institutions which have business relationship with us also grew from two as at 31 December [2004], the year we commenced our guarantee business, to [15] (which include [12] banks) as at 31 May 2013. In 2009, Success Guarantee was selected as one of the first eight cooperating guarantee institutions by the Re-guarantee Company. In 2011, Success Guarantee obtained “AA-” crediting rating from Shanghai Far East Credit Rating Co., Ltd. (上海遠東資信評估有限公司). Success Guarantee was also awarded as a Large Taxation Payer (納稅大戶) by the People’s Government of Chancheng District of Foshan City in 2012.

According to the Ipsos Research Report commissioned by our Company, Success Guarantee, our operating PRC subsidiary, in terms of revenue in 2012, ranked the third largest and the largest privately-controlled financial guarantee service providers in Guangdong Province and Foshan City respectively, and ranked the seventh and the second largest financial guarantee service providers among all financial guarantee service providers in Guangdong Province and Foshan City respectively.

We believe our proven business record, our established business cooperation with increasing number of lending banks and other financial institutions and our cooperation with local government authorities, coupled with recognition of our services shown from the various awards and accreditations obtained by us over the years, has established us as a prominent player in the financial services industry, with our focus in the provision of guarantee and financial consultancy services. Our established market position, we believe, would in turn attract more referrals from existing customers or business partners as well as new potential customers, and we would be in a better position to capture existing and growing business opportunities in the market.

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The financial guarantee industry in the PRC is under stringent legal and regulatory requirements. Under the Interim Measures, the minimum required registered capital of guarantee companies, in general, should not be less than RMB5 million. In order to improve the quality of the financial guarantee industry, the authorised local government of Guangdong Province has promulgated stricter requirement on the minimum registered capital of financial guarantee companies. Pursuant to the Implementing Rules promulgated on 27 September 2010, the minimum paid-up registered capital for a credit guarantee company established in Foshan City and other cities including Guangzhou, Shenzhen, Zhuhai, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing should be at least RMB100 million. Our operating subsidiary in the PRC, Success Guarantee, is able to meet the increasingly strict requirements on paid-up registered capital of financial guarantee companies in the PRC. As at the Latest Practicable Date, Success Guarantee had paid-up registered capital of RMB250 million.

Other than the requirement on the amount of registered capital, the Interim Measures also stipulate that the outstanding guarantee amount of a single customer provided by a financial guarantee company should not exceed 10% of such company’s net asset value, and that the aggregate balance of outstanding financial guarantee amount shall not exceed the Aggregate Cap Amount. Our cooperation agreements with banks would also impose certain thresholds on the outstanding guarantee amount of a single customer, aggregate outstanding guarantee amount based on the net asset value, registered capital or paid-up capital of Success Guarantee. As at 31 May 2013, the net assets of Success Guarantee was approximately RMB366.3 million, which was extracted from unaudited PRC management accounts prepared in accordance with relevant PRC accounting standards, relevant laws and regulations in the PRC.

The size of the net asset value and registered capital of a financial guarantee company would impact on the amount of business such a company could undertake at a particular time. Hence, we believe, with the size of the net asset value and registered capital of Success Guarantee, being among the tier of companies with a more sizable business operation, we would be able to undertake transactions of a larger size or to undertake more transactions, thereby increasing our competitive advantages when compared with peer companies of a comparative smaller size and our revenue could also be increased.

Our Board also believes that the stricter licensing requirements and the requirement on minimum amount of paid-up registered capital and outstanding guarantee amount might phase out or hinder the development of smaller size financial guarantee companies which, we believe, could provide our Group with a competitive advantage.

### **BUSINESS OBJECTIVES AND STRATEGIES**

Our Group is a financial service provider and we aim to provide integrated financial services to enterprises, mainly SMEs, in China in order to assist them to improve their overall fund-raising capabilities and enable them to obtain funding for business development. To achieve our business goal, we plan to build on our competitive strength to further strengthen our market position in the guarantee services industry and to expand our financial consultancy services, and through our investment in Success Credit, to expand our scope of business into the small loan lending market. The



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implementation of our plan to expand to small loan business will depend on various factors, such as the regulatory environment of the small loan business in future, change in the market environment for small loan lending, and the profitability of Success Credit. Therefore, up to the Latest Practicable Date, there is no specific development plan for our Group in this respect.

As part of our business strategy, it is also our plan to expand our business scope to cover other areas of financial services to be provided to SMEs in the PRC, with the ultimate aim to assist them to improve their overall fund-raising capabilities and enable them to obtain necessary funding for their business development, such as consultation or advisory services assisting them to source investors for their business, alternative fund raising through issuance of bonds and other types of financial instruments. We believe through our established position in the guarantee services industry and the experience and in-depth knowledge of our management team in the financial services industry, we would be able to achieve our business goal.

We plan to implement our business strategies through strengthening our financial capacity and scale of operation, broadening our product offerings, strengthening relationship with banks and other business partners; and pursuing possible merger and acquisition opportunities, and thereby expanding our market share in the guarantee and financial services industry as a whole.

### ***Financial capability and scale of operation***

Pursuant to the Implementing Rules, it is stipulated that the outstanding guarantee amount of a single customer provided by a financial guarantee company should not exceed 10% of such company’s net asset value (“**Individual Cap Amount**”), and that the aggregate balance of outstanding financial guarantee amount shall not exceed the Aggregate Cap Amount. Our cooperation agreements with banks and other lending institutions would also impose certain thresholds on the outstanding guarantee amount of a single customer and aggregate outstanding guarantee amount based on our net asset value, registered capital or paid-up capital. Accordingly, the scale of our financial guarantee business is limited by the size of our net asset value, registered capital or paid-up capital even if we are able to find more potential customers for our financial guarantee services.

We plan to strengthen our financial capability by increasing our net asset value, registered capital and/or paid-up capital and thereby expanding the scale of operation of our financial guarantee services, and we may do so by injecting funds into our operating subsidiary in the PRC by increasing the amount of its registered capital or by way of shareholders’ loan or other forms of contribution. We may also set up new companies or making investments in other companies by way of merger and acquisition as and when suitable opportunities arise.

With the enhanced financial capability, we could expand the scale of our financial guarantee business operations by increasing the amount of financial guarantee that we can provide to a single customer as well as increasing the aggregate amount of financial guarantees that we can provide at a point of time.

With the enhanced financial capability, the threshold on the outstanding amount of our financial guarantee to be provided to a single customer would be increased, thus we can provide financial guarantee services to quality customers which requires a larger amount of loan which, we believe, may also include quality SMEs with larger scale of business operations. We believe that with our increased

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financial capability, we could broaden our pool of potential customers into SMEs with relatively large scale of business operations, and such SMEs may also have longer business track record and we believe, in turn, may have a higher credit worthiness, a lesser risk of default and a stronger ability to resist risks than smaller SMEs or SMEs with short business track record. We also believe that we may receive higher returns from such SMEs.

The aggregate outstanding amount of our financial guarantees would also increase when our net asset value increases. We could thus also increase the total amount of financial guarantee services to be provided to our customers at a point of time, thereby expanding our scale of operations and increasing our income stream.

Commensurate with the increased net asset value and the corresponding enlarged Individual Cap Amount and Aggregate Cap Amount, we plan to, among others, strengthen financial guarantee and other services in Foshan City and further expand our business to other parts within the Pearl River Delta. Initially, we intend to expand our market presence in other cities in the Guangdong Province such as Guangzhou, Dongguan, Zhongshan and Jiangmen in the three years ending 31 December [2015] and we plan to set up one to two representative offices or branch offices in such areas each year to market and promote our business in those areas.

Set out below is a summary of the competitive landscape of the guarantee industry in Guangzhou, Dongguan, Zhongshan and Jiangmen:

- By the end of 2012, Guangzhou has nearly one million SMEs, with privately-controlled enterprises accounting for more than one-third of the aggregate economic volume of Guangzhou. By the end of 2012, Guangzhou had a total of 93 financial guarantee companies, with a total outstanding balance of guarantee amount of approximately RMB22.5 billion.
- In June 2012, Dongguan had a total of 47 financial guarantee companies, of which 44 were corporate entities and three were branches of corporations. In 2011, financial guarantee companies in Dongguan had a total guarantee amount of approximately RMB19.1 billion and provided financial guarantees of approximately RMB11.2 billion for around 1,600 medium, small and micro enterprises. By the end of 2011, it had a total outstanding balance of guarantee amount of approximately RMB18.4 billion.
- By the end of 2012, Zhongshan had a total of 156,987 individually owned enterprises and 58,276 private enterprises, of which approximately 95% were SMEs. Zhongshan had a total of eight guarantee companies. In September 2012, the eight guarantee companies provided loan guarantees for SMEs with an aggregate amount of approximately RMB1.3 billion.
- By the end of 2012, Jiangmen had a total of 29,600 privately-controlled enterprises and a total of 158,100 individually owned enterprises. In September 2012, Jiangmen had a total of six guarantee companies with total outstanding balance of guarantee amount of approximately RMB1.2 billion and provided guarantee services for a total of 577 customers.

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Our Group expects to use approximately RMB 10 million to expand our market presence in the Pearl River Delta from the Latest Practicable Date to 31 December [2015] through internal resources [and future operating profits] of our Group. As advised by our PRC Legal Advisers, (i) if we establish branch offices within Guangdong Province, we are not required to apply for additional operating licence for financial guarantee institutions, and will only be required to apply for approval from the financial bureau of the relevant cities of establishment in Guangdong Province and obtain approval from the Guangdong Financial Office; and (ii) there is no material difference between the laws and regulations applicable to establishing and operating a branch office and those applicable to operating our existing business. Our Directors will ensure we will comply with all regulatory requirements and obtain all required approval(s) and/or permit(s) prior to opening of any representative offices or branch offices.

Assuming there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates, we consider that our establishment of branch offices will be subject to risks that (i) we may not be able to recruit suitable personnel with the requisite qualifications and experience in a timely manner, and (ii) we may not be able to obtain approval from the Guangdong Financial Office in a timely manner.

### ***Product offerings and relationship with banks and other business partners***

Other than our in-house sales and marketing efforts, we also plan to actively seek more financial guarantee services opportunities from our business cooperation with banks and financial institutions and to seek business cooperation relationships with more banks and other financial institutions. With our established market position in the guarantee services industry and the in-depth knowledge of our management team in the financial services field, we also plan to expand our financial consultancy services to SMEs through our marketing and promotional efforts, continual and expanding business cooperation with banks and financial institutions and recurring business and referrals from existing and past customers.

### ***Possible merger and acquisition opportunities***

As part of our expansion strategy, we may also pursue merger and acquisition opportunities within the industry in order to further expand our business and service offerings and strengthen our position as a leading investment and financing services providers for SMEs with focus in the guarantee business in Foshan City, Guangdong Province.

Other than companies with the same business focus as our Group, our merger and acquisition targets could also be other investment and financing services providers for SMEs that have the potential to complement our existing business model or our sales network and enrich our portfolio of providing financial services to SMEs, which may include small loans service providers and financial leasing service providers.

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In selecting targets for merger and acquisition, preference will be given to potential targets which meet one or more of the following criteria:

- the major market of potential target shall fall within the existing and target market of our Group (such as Foshan, Guangzhou, Jiangmen, Zhongshan and Dongguan) and the potential target shall mainly be credit guarantee companies or small loan companies;
- the business scope of the target shall not exceed the scope of our Group as permitted by regulatory authorities or applicable laws and regulations of guarantee industry and small loan industry;
- the target should have obtained a valid licence to operate its business and there should not have been significant non-compliance with applicable laws and regulations during its period of operation;
- the target shall possess an established brand name and reputation in its local market;
- the target should attain a local market share of 10% or above;
- the management team of the target should possess considerable expertise and reputation within the local industry;
- the target should have relatively established cooperative relationship with financial institutions or possess exclusive channel of cooperation with financial institutions;
- the target has attained product innovation in its financial products; and
- the consideration and investment amount of acquiring such target shall not exceed the relevant cap amount as permitted under the laws and regulations applicable to financial guarantee service providers.

We believe that successful acquisitions will bring synergies to our Group and enhance our Company’s value to our Shareholders. We may also consider to establish joint ventures with potential business partners for developing our business in future. We plan to pursue such potential merger and acquisition opportunities.

As at the Latest Practicable Date, there was no specific target of acquisition or joint venture partner identified and no definitive agreement had been entered into. We will make an announcement in accordance with the applicable requirements of the [●] as and when necessary.

### **PRINCIPAL BUSINESS ACTIVITIES**

Our Group’s guarantee services are provided by Success Guarantee. In general, we provide two kinds of guarantee services and financial consultancy services.

#### **(A) Financial guarantee**

Our Group mainly provides financial guarantees to SMEs to assist them in obtaining loans from banks or other institutions. During the Track Record Period, to facilitate the financing of SMEs we had business relationship with 20 financial institutions, including, among others, a policy bank, state-owned commercial banks, joint-stock commercial banks, local commercial banks, rural banks, a provincial re-guarantee company and a trust company.

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As at 31 December 2010, 2011 and 2012, 31 May 2013 and the Latest Practicable Date, our Group had effective cooperation agreements for our guarantee services with [12], [16], [16], [15] and [14] financial institutions, which included [12], [14], [13], [12] and [10] banks, respectively. Our cooperation agreements with banks during the Track Record Period were mainly entered into with the city-level branches of our cooperating banks. During the Track Record Period, our cooperation with [one] lending bank was terminated after our cooperation agreement with such bank expired in 2011, as we considered the growth potential and the customer base of that rural bank was limited, and thus the termination of cooperation with such bank was in the interests of Success Guarantee. During the Track Record Period, our revenue attributable to our cooperation with such bank amounted to approximately RMB[0.2] million. Save as disclosed above, none of our cooperating financial institutions terminated the cooperation agreements with us during the Track Record Period. Regarding a joint-stock commercial bank with which our cooperation agreement expired in March 2013, our negotiation for a new cooperation agreement with such bank was in progress as at 31 May 2013 and the Latest Practicable Date. Regarding a state-owned commercial bank with which our cooperation agreement expired in May 2012, our negotiation for a new cooperation agreement with such bank was in progress as at 31 December 2012, 31 May 2013 and the Latest Practicable Date. Regarding a joint-stock commercial bank and a local commercial bank, with which our cooperation agreement expired in June 2013 and August 2013 respectively, our negotiation for new cooperation agreements with such banks were in progress as at the Latest Practicable Date. In addition to banks with which we had entered into cooperation agreements, after our cooperation agreement with another state-owned commercial bank expired in April 2012, we provided financial guarantees services in respect of loans granted by such bank, with terms subject to commercial negotiations between the relevant parties on a case-by-case basis. Apart from entering into cooperating agreements with lending banks, we cooperated with a credit enhancement company in the PRC (“**Credit Enhancement Company**”) by entering into counter-guarantee agreement with such company (which was the principal guarantor of the Foshan SME Bills), pursuant to which we provided counter-guarantees to the Credit Enhancement Company in respect of the payment obligations of the SME issuers of such bills.

Under our cooperation agreements with the lending institutions, our Group acts as an intermediary between the lending institution as a lender and our customer as a borrower. Our Group supports the SMEs by providing guarantee to the lending institutions in order to enable and facilitate such lending institutions to provide credit facilities to the SMEs. Customers for our corporate credit guarantee services must separately pass our Group’s credit approval process and the relevant lending institution’s credit approval process, which are conducted independently and in accordance with their respective internal policies and guidelines.

We mainly cooperate with lending banks. Below sets out a summary of the general terms of the cooperation agreements entered into by our Group and lending banks as at 31 May 2013:

### *General terms of cooperation agreements*

Scope of guarantee	principal amount, accrued interest, penalties, damages and expenses, subject to formal guarantee contract
Cash deposit	an amount equivalent to 10% to 15% of our total outstanding guarantee amount with the relevant bank

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Maximum outstanding guarantee amount with a cooperative lending institution	RMB50 million to RMB520 million
Maximum total outstanding guarantee amount provided by us	approximately RMB620 million to approximately RMB3,663 million (based on financial position of Success Guarantee as at 31 May 2013)
Maximum guarantee amount provided by us to a single customer	approximately RMB3 million to approximately RMB25 million (based on financial position of Success Guarantee as at 31 May 2013)
Term	Approximately one year (terms of cooperation agreement are reviewed upon expiry of the agreement)

As at 31 May 2013, our total outstanding guarantee amount of approximately RMB[1,539.1] million exceeded the maximum total outstanding guarantee amount imposed on us under our cooperation agreements with four of our cooperating banks. Pursuant to our cooperation agreements with three of the four cooperating banks, where the maximum total outstanding guarantee amount has been exceeded, the cooperating bank is entitled not to enter into new guarantee transactions with us. After 31 May 2013 and up to the Latest Practicable Date, we entered into a total of [four] guarantee transactions with [two] of these [three] cooperating banks. Pursuant to our cooperation agreement with the remaining one of the four cooperating banks, where the maximum total outstanding guarantee amount has been exceeded, the cooperating bank is entitled to terminate the relevant cooperation agreement. We had informed such cooperating bank of our total outstanding guarantee amount as at 31 May 2013, which exceeded the maximum limit imposed under the relevant cooperation agreement, and we have not received any notice of termination from such bank as at the Latest Practicable Date. After 31 May 2013 and up to the Latest Practicable Date, we entered into [one] guarantee transactions with such cooperating bank and our outstanding guarantee amount with such cooperating bank as at the Latest Practicable Date was approximately RMB[5.0] million. As advised by our PRC Legal Advisers, a financial guarantee company is not required to enter into a cooperation agreement with the lending bank before it can provide guarantees in respect of the loans granted by such bank.

Pursuant to the cooperation agreements, we are generally required to maintain cash deposits amounting to a certain stipulated percentage of our total guarantee amount with the relevant banks before we enter into guarantee contract with the relevant banks. Since January 2013 and up to the Latest Practicable Date, there had been no material change to the cash deposit requirements stipulated in the cooperation agreements between our cooperating banks and us and, notwithstanding the [four] cooperating banks with which our negotiations for new cooperation agreements were in progress as at the Latest Practicable Date, the number of our cooperating financial institutions generally remained stable. Nevertheless, our Directors consider that in the event that our cooperating banks substantially increase the cash deposit requirements under their cooperation agreements with us, our Group may need to maintain a higher cash level and the number of guarantee transactions that we may enter into (or the total guarantee amount thereof) may be limited as the amount of cash deposits required generally increases with our total outstanding guarantee amount with the relevant cooperating bank, and thus our business operation may be adversely affected. The duration of our cooperation

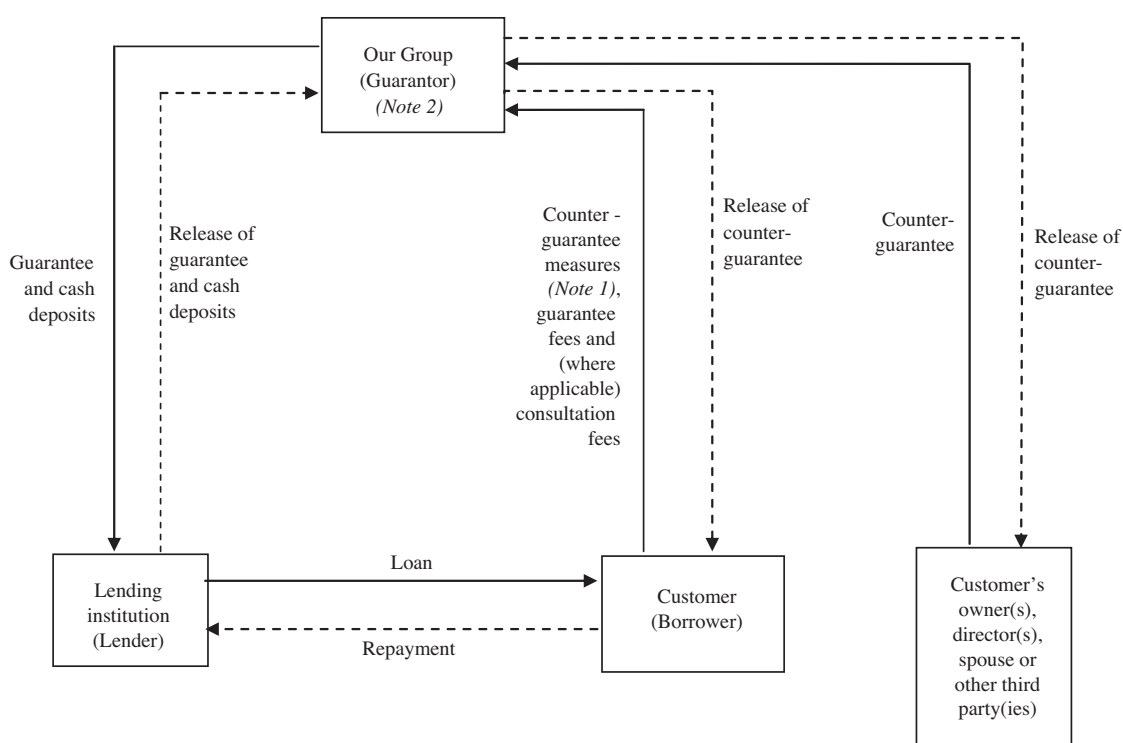


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agreements with the lending banks during the Track Record Period were generally about one year and upon expiry of the relevant cooperation agreements, their terms would be reviewed by the provincial office or other higher level office of the relevant lending bank, which would determine whether the agreement would be renewed by the bank.

The guarantee serves as an additional comfort to lending institutions by reducing their exposure to the default risk of SMEs. As such, finance providers are more willing to grant loans to borrowers with guarantee provided by financial guarantee companies, while borrowers will be able to obtain requisite funding within reasonable costs. Our Group believes that the provision of guarantee services by financial guarantee companies provides a win-win solution for all the parties involved.

The chart below summarises the work flow of a typical financial guarantee transaction:



*Notes:*

- Counter-guarantee measures means certain guarantees and/or collaterals provided by the customer and/or its owner(s), spouse or third party(ies) in favour of our Group to secure the guarantee offered by us to the lending institutions. Our counter-guarantee measures generally include (a) charges over fixed assets such as properties, vehicles and machineries; (b) charges over movable and intangible assets such as tenancy rights/sub-letting rights, accounts receivables, inventories and land use rights; and/or (c) guarantee(s) from the owners or directors of the customer and his/her spouse or other third party. In certain cases, customers will be required to provide cash deposits to us as one of the counter-guarantee measures, which will be deposited in a specific bank account and will not be utilised by us other than for the purpose of compensating us in the event that our customer defaults on the relevant loan. The cash deposits will be returned to the relevant customers when the guarantee and the counter-guarantee are released.
- In certain cases re-guarantee arrangement may be involved. For further information, please refer to the sub-paragraph headed “Re-guarantee in a guarantee transaction” below.

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Our Group provides financial guarantees for our customers mainly for assisting them to obtain working capital loans.

During the Track Record Period, Success Guarantee entered into a loan arrangement agreement with Foshan Dacheng Investment Co., Ltd. (佛山市大成投資有限公司) (“**Nominal Borrower**”), pursuant to which the Nominal Borrower agreed to act as the nominal borrower of loans granted by a policy bank to our customers (“**Users**”) and guaranteed by Success Guarantee. Pursuant to the cooperation agreement entered into between the policy bank and us, each of the loans under such arrangement shall be less than RMB5 million and the Nominal Borrower was designated as the nominal borrower of such loans on behalf of the Users, who are referred by us to the policy bank and are the actual users of such loans. Success Guarantee would provide financial guarantees to the policy bank for such loans and would charge the User for a guarantee fee. The Nominal Borrower, the User and the policy bank would enter into a loan agreement in respect of the relevant bank loan and Success Guarantee would enter into a guarantee contract with the policy bank. After the policy bank approves the drawdown request from the Nominal Borrower, the relevant funds under the loans granted by the policy bank under such arrangement would be advanced to a designated account of the Nominal Borrower, which would transfer such funds to the User. Before a date stipulated in the loan agreement, the User shall transfer the required repayment amount to the Nominal Borrower and such amount would be transferred to the policy bank by the Nominal Borrower. Where the Nominal Borrower or the User defaults on the loan repayment to the policy bank, the policy bank will be entitled to require us to indemnify it for the default amount. We will then be entitled to recover the amount we compensated from the Nominal Borrower or the User (depending on whom defaulted on the loan repayment under the relevant contract). During each of the three years ended 31 December 2012 and the five months ended 31 May 2013, the total new guarantee we provided under the cooperation arrangement set out above amounted to approximately RMB[38.5] million, RMB[132.5] million, RMB[92.5] million and [nil] respectively. During each of the three years ended 31 December 2012 and the [five months ended 31 May 2013], the revenue recognised from guarantee contracts under such cooperation arrangement set out above amounted to RMB[0.2] million, RMB[1.8] million, RMB[2.9] million and RMB[1.0] million representing approximately [0.5]%, [3.3]%, [5.2]% and [4.7]% of our total revenue during the same period, respectively.

The policy bank, which was a bank primarily engaged in financing, among others, large scale infrastructure projects, entered into the cooperation arrangement set out above with Success Guarantee in 2010 with an aim to develop its SME financing business in the Guangdong Province. As the policy bank does not have branch office in the Guangdong Province apart from its Guangzhou office, it was intended that Success Guarantee, as an established local guarantee company in Foshan City, shall refer local SME borrowers to the policy bank. It was also intended that with the arrangement set out above, rather than advancing the relevant funds of the loans to various Users, they can be advanced to a single Nominal Borrower for efficient management of loan advance and repayment process. Taking into account the resources and the reputation of the policy bank, Success Guarantee considered that it was in its interests to enter into such cooperation arrangement with the policy bank, so as to increase the number of its cooperating banks and thus broaden its client source. During the period from 23 January 2011 to 18 June 2012, the Nominal Borrower was a company of which the entire equity interest was held by Mr. Zhang, Mr. Pang and Mr. Xu (each of whom is one of our Directors and Controlling Shareholders) directly or through Foshan Finance (a company owned as to 51% by Mr. Zhang, 25% by Mr. Xu and 24% by Mr. Pang). On 18 June 2012, the entire equity interest of the Nominal Borrower

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was transferred to a shareholder of Success Credit and another third party. The Nominal Borrower is an Independent Third Party of the policy bank and the Users during the Track Record Period and, save for the business relationships described above, the Nominal Borrower has no relationship with such entities. As advised by our PRC Legal Advisers, the cooperation arrangements between the policy bank, Success Guarantee and the Nominal Borrower set out above are in compliance with all applicable laws and regulations in the PRC.

Apart from providing guarantee in respect of loans from lending banks, we also provided guarantee services in following arrangements:

- we cooperated with a trust company and provided guarantee services to SMEs receiving loans from the Foshan SME Trust Fund, details of which are set out in the section headed “Business — Principal business activities — Financial guarantee — Cooperation with the Foshan SME Trust Fund” below;
- we provided guarantee services in the issue of Foshan SME Bills, where we provided counter-guarantee for certain of the SME issuers to the principal guarantor, namely the Credit Enhancement Company, in respect of their payment obligations of under such bills; and
- we cooperated with the Re-guarantee Company and provided guarantee services in an issue of private placement bonds by an SME (中小企業私募債), where Success Guarantee and the Re-guarantee Company provided guarantee in respect of their respective proportion of the issuer’s payment obligations under such bonds.

During the Track Record Period, we also entered into a cooperation agreement with an asset management company (“**Asset Management Company**”) in relation to the provision of guarantee services to clients in a finance lease arrangement. In August 2013, we further entered into a cooperation agreement with a finance lease company in relation to the provision of guarantees in favour of such finance lease company in respect of the payment obligations of our customer (i.e. the lessee under the relevant finance lease). Pursuant to such cooperation agreement, up to the Latest Practicable Date, we entered into [one] guarantee transaction with a guarantee amount of RMB16 million at a guarantee fee rate of 4.5% of the guarantee amount.

A summary of our cooperation arrangements in relation to our financial guarantee services during the Track Record Period is set out below:

Name of cooperating institutions	Total guarantee amount (Note 1)				Revenue recognised (Note 2)				Mode of cooperation
	During the year ended 31 December			During the [five months ended 31 May]	During the year ended 31 December			During the [five months ended 31 May]	
	2010	2011	2012	2013	2010	2011	2012	2013	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Banks (Note 3)</b>									
Bank A (Note 4)	[247,500]	[190,800]	[198,600]	[133,000]	[4,392]	[5,867]	[4,108]	[2,620]	

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Name of cooperating institutions	Total guarantee amount (Note 1)				Revenue recognised (Note 2)				Mode of cooperation
	During the year ended			During the	During the year ended			During the	
	31 December			ended 31	31 December			ended 31	
	2010	2011	2012	2013	2010	2011	2012	2013	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Bank B (Note 5)	[241,841]	[275,300]	[171,500]	[5,360]	[11,104]	[14,120]	[11,694]	[3,185]	
Bank C (Note 6)	[192,500]	[96,000]	[4,000]	[—]	[6,934]	[6,030]	[3,444]	[906]	Financial guarantee
Bank D (Note 7)	[34,500]	[110,500]	[82,500]	[—]	[158]	[1,606]	[2,599]	[950]	in respect of bank
Bank E (Note 8)	[20,000]	[50,000]	[65,200]	[17,325]	[1,667]	[848]	[2,536]	[822]	loans
Others	[59,000]	[115,300]	[167,400]	[78,300]	[3,836]	[2,575]	[5,159]	[2,233]	
Trustee of Foshan SME Trust Fund	—	[136,790]	[310,500]	[14,850]	—	[1,087]	[4,514]	[2,897]	Financial guarantee in respect of Foshan Trust Loans (Note 9)
Credit Enhancement Company	—	[175,000]	—	[—]	—	[583]	[3,500]	[1,458]	Counter-guarantees in respect of payment obligations of the SME issuers of the Foshan SME Bills (Note 10)
Re-guarantee Company (as principal guarantor)	—	[20,000]	[130,000]	[115,000]	—	[373]	[1,362]	[793]	Financial guarantee in respect of the payment obligations of certain issuers of bills or private placement bonds or certain borrowers of bank loans (Note 11)
Re-guarantee Company (as re-guarantor)	[11,000]	—	[69,200]	[60,000]	[473]	[373]	[1,016]	[981]	Financial guarantee in respect of bank loans where re-guarantees were involved (Note 12)
Local governments	[273,000]	[331,000]	[208,000]	[92,300]	[5,788]	[7,154]	[5,205]	[1,869]	Financial guarantee in respect of bank loans where local governments were involved (Note 13)
Asset Management Company	—	—	—	[—]	—	—	—	[—]	Guarantee in relation to debts under finance leases (Note 14)
<b>Total</b>	<b>[1,079,341]</b>	<b>[1,500,690]</b>	<b>[1,406,900]</b>	<b>[516,135]</b>	<b>[34,352]</b>	<b>[40,616]</b>	<b>[45,137]</b>	<b>[18,714]</b>	

*Notes:*

- The total guarantee amount represents the aggregate amount for new financial guarantee contracts entered into by our Group in relation to the respective cooperative arrangements set out above during each of the three years ended 31 December 2012 and the five months ended 31 May 2013.

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2. The revenue represents the income recognised from financial guarantees of our Group in relation to the respective cooperative arrangements set out above (net of any re-guarantee fees incurred by us) recognised during each of the three years ended 31 December 2012 and the five months ended 31 May 2013.
3. Bank A, Bank B, Bank C, Bank D and Bank E represent our top five cooperating banks in terms of the aggregate amount of financial guarantees we provided in respect of the loans granted by our cooperating banks during the Track Record Period. Bank D represents the policy bank with which we entered into a cooperation agreement in relation to, among others, the cooperation arrangement between the Nominal Borrower, the policy bank and us as described above in this section.
4. Bank A was founded in 1987 with its headquarters in Shenzhen, the PRC. As at the end of 2012, it had 99 branches and 853 sub-branches and presence in more than 110 cities in the PRC. As at 31 December 2012, at least 30.5% of its shares were held by state-owned entities. It is currently listed on the [●] and the Shanghai [●] and its market capitalisation (by adding up its market capitalisation of both of its A-shares and H-shares) as at 31 May 2013 was about RMB287 billion.
5. Bank B’s history could be traced back to 1912. With its headquarters based in Beijing, the PRC, as at the end of 2012, Bank B provided financial services to its customers through its global network across the PRC, Hong Kong and 36 overseas countries. As at 31 December 2012, at least 67% of its shares were held by state-owned entities. It is currently listed on the [●] and the Shanghai [●] and its market capitalisation (by adding up its market capitalisation of both of its A-shares and H-shares) as at 31 May 2013 was about RMB824 billion.
6. Bank C was first founded in 1984 with its headquarters in Beijing, the PRC. As at the end of 2012, it had operations in 39 countries and regions and its total assets amounted to about RMB17,542 billion. As at 31 December 2012, at least 70% of its shares were held by state-owned entities. It is currently listed on the [●] and the Shanghai [●] and its market capitalisation (by adding up its market capitalisation of both of its A-shares and H-shares) as at 31 May 2013 was about RMB1,470 billion.
7. Headquartered in Beijing, the PRC, Bank D was dedicated to supporting the development of national infrastructure and national priority projects, promoting regional development and urbanisation by financing small business, education, healthcare, agricultural/rural investment and environment initiatives and facilitating the PRC’s cross-border investment and business cooperation. As at 31 December 2012, its registered capital amounted to around RMB306 billion and it is wholly owned by state-owned enterprises and the Ministry of Finance. As at the end of 2012, its total assets were about RMB7,520 billion.
8. Bank E has an operating history of nearly 60 years with its headquarters in Beijing, the PRC. As at the end of 2012, Bank E had a network of 14,121 branches and sub-branches in the PRC and overseas countries. As at 31 December 2012, at least 59% of its shares were held by state-owned entities. It is currently listed on the [●] and the Shanghai [●] and its market capitalisation (by adding up its market capitalisation of both of its A-shares and H-shares) as at 31 May 2013 was about RMB1,249 billion.
9. Details of our cooperation arrangements with the trustee of Foshan SME Trust Fund are set out in the paragraph headed “Cooperation with the Foshan SME Trust Fund” below in this section.
10. Details of Bank A, Bank B, Bank C, Bank D and Bank E set out in Notes 4 to 8 above were based on our research on publicly available information.

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11. No cooperation agreement was reached between the Credit Enhancement Company and us set out above during the Track Record Period. During the Track Record Period, the Credit Enhancement Company agreed to provide guarantees in respect of the payment obligations of the SME issuers of the Foshan SME Bills. Success Guarantee agreed to provide counter-guarantees for the payment obligations of three of such issuers in favour of the Credit Enhancement Company.
12. No cooperation agreement was reached between the Re-guarantee Company and us in relation to the cooperation arrangement set out above during the Track Record Period. Under such cooperation arrangement, the Re-guarantee Company provided guarantees in respect of the payment obligations of certain issuers of bills or private placement bonds or certain borrowers of bank loans. For each of such guarantee transactions, the Re-guarantee Company then entered into an agreement with Success Guarantee, pursuant to which Success Guarantee agreed to undertake a proportion of the Re-guarantee Company’s guarantee amount and the Re-guarantee Company agreed to transfer an agreed proportion of the guarantee fee it charged to Success Guarantee. Such cooperation arrangement with the Re-guarantee Company proceeded on an ad hoc basis during the Track Record Period.
13. The total guarantee amount and the revenue represent the aggregate guarantee amount of (but not the amount re-guaranteed by the Re-guarantee Company) and the revenue recognised from financial guarantees in respect of loans granted by our cooperating banks in which the re-guarantee from the Re-guarantee Company were involved during the Track Record Period. The revenue recognised comprises the guarantee fee charged by us on our customers for such financial guarantees for bank loans (net of any re-guarantee fees incurred by us). Details of our cooperation arrangements with the Re-guarantee Company (as re-guarantor) are set out in the paragraph headed “Re-guarantee (再擔保) in a guarantee transaction” below in this section of this document.
14. The total guarantee amount and the revenue represent the aggregate guarantee amount of and the revenue recognised from financial guarantees in respect of loans granted by our cooperating banks in which our guarantee-sharing arrangement with certain local governments in Foshan City were involved during the Track Record Period. The revenue recognised comprises the guarantee fee charged by us on our customers for such financial guarantees for bank loans. Details of our cooperation arrangements with the certain local governments in Foshan City are set out in the paragraph headed “Participation in government cooperative programmes for SME development” below in this section of this document. Among the revenue recognised during each of the two years ended 31 December 2011, approximately RMB[237,000] and RMB[99,000] was respectively derived from a guarantee transaction entered into by us in 2009 where both the local government of the Shunde District of Foshan City and the Re-guarantee Company (as re-guarantor) were involved. Hence, the guarantee amount of such transaction was not included in the total guarantee amount during the Track Record Period. Among the revenue recognised and guarantee amount provided by our Group during the five months ended 31 May 2013, revenue of approximately RMB56,000 and guarantee amount of RMB10 million were derived from a guarantee transaction entered into by us where both the local government of the Nanhai District of Foshan City and the Re-guarantee Company (as re-guarantor) were involved.
15. Pursuant to our cooperation agreement with the Asset Management Company, subject to our internal approval process, we agreed to enter into further agreement with the Asset Management Company and a cooperating finance lease company in respect of the finance leases provided by such company. Pursuant to such tri-partite agreement, upon default of the lessee under the finance lease, the Asset Management Company shall acquire the debt under the finance lease from the finance lease company and Success Guarantee shall acquire such debt within five business days after the receipt of notice from the Asset Management Company. As at the Latest Practicable Date, no agreement has been entered into by us pursuant to such cooperation agreement.

The financial guarantee fee received from our customers is proportionate to the guarantee amount agreed between us and our customers, which usually ranged from [0.5]% to [4]% (for guarantees with a term of no more than 12 months), from [4.5]% to [6]% (for guarantees with a term of 13 to 24 months) and from [5.5]% to [7.5]% (for guarantees with a term of 25 to 36 months) of the guarantee amount. The fee for financial guarantee charged by us is governed by the PRC authorities through the Interim Measures and the Opinions on Strengthening Development of Credit Guarantee System for Small and Medium Enterprises 《關於加強中小企業信用擔保體系建設的意見》 (“Opinions on SME



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**Guarantee System**”). The Interim Measures set out general guidelines and measures on, among other things, the licensing or permit requirements for financial guarantee companies and in accordance with the Opinions on SME Guarantee System, the benchmark rate for financial guarantee fees may be 50% of the bank’s interest rate for loans with the same duration and the actual rates for individual transactions may be 30% to 50% higher or lower than the benchmark rate, depending on the level of risks of the specific projects. The Opinions on SME Guarantee System does not have any provisions which govern the amount of financial consultancy fee which can be charged by the guarantee companies. Therefore, our PRC Legal Advisers are of the view that the financial consultancy fee charged by us in some cases in addition to the guarantee fee does not violate the Opinions on SME Guarantee System. For further information, please refer to the section headed “Regulatory overview” in this document.

[As at the Latest Practicable Date, our Group has not received any notice from the relevant government authorities regarding our Group’s non-compliance of charging of the guarantee fees.]

[As advised by our PRC Legal Advisers, our Group is obliged to charge our financial guarantee fees in accordance with the Interim Measures, the Implementing Rules and the Opinions on SME Guarantee System. Other than that, the determination of guarantee fees and financial consultancy fees charged by our Group are not subject to any laws or regulations. As confirmed by our Company, the guarantee fees received by our Group during the Track Record Period did not violate the above rules and regulations and the relevant guarantee fee rates were below the maximum limit imposed by the Opinions on SME Guarantee System.]

Our Group, our customers, the providers of counter-guarantees and the lending institutions will sign a series of contracts to govern the provision of guarantee services. Our Group will require our customers, their owners or directors, his/her spouse and/or other third party to provide counter-guarantees to secure the guarantees given by us.

As part of our risk management process, our Group’s business operation department and members of the risk management committee will perform pre-deal due diligence investigation on our potential customers, whereas the results will be assessed by our risk control department prior to a guarantee service project being accepted by us for further assessment and processing which will include additional assessment by our risk control department and the final approval process by our risk management committee. Our business operation department also conducts post-transaction monitoring to monitor the performance of our customers after the issue of guarantees. In accordance with certain cooperation agreements entered into between the lending institutions and our Group, each of the parties has the obligation to inform the other any abnormal conditions relating to the relevant borrower. For details of our Group’s internal control, please refer to the paragraph headed “Internal control and risk management” in this section of the document.

Our Group entered into [205], [212], [201] and [76] new financial guarantee contracts, with an aggregate amount of new financial guarantees of RMB[1,079 million], RMB[1,501 million], RMB[1,407 million] and RMB[516] million in each of the three years ended 31 December 2012 and [the five months ended 31 May 2013] respectively.

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### **Cooperation with the Foshan SME Trust Fund**

In 2011, we entered into a cooperation agreement with a trust company, which is the trustee of the Foshan SME Trust Fund, Foshan Finance and Success Credit in relation to the provision of financial guarantee services in respect of loans granted from the Foshan SME Trust Fund to SME borrowers (“**Foshan Trust Loans**”). For each of the Foshan Trust Loans, Success Credit agreed to provide the SME borrower with an additional loan of an amount no less than one-ninth of the loan amount granted from such trust fund. We perform due diligence on potential SME borrowers and provide guarantee services to such borrowers if they pass our normal approval process. We agreed to provide guarantee in respect of the repayment of the Foshan Trust Loan only (but not for the loan granted by Success Credit), pursuant to such cooperation agreement and during the Track Record Period, we charged guarantee fees at the rate of approximately 3% to 4% of the guarantee amount per annum in respect of such loans. For each of the two years ended 31 December 2012 and [the five months ended 31 May 2013], the total guarantee we provided in relation to the Foshan Trust Loans amounted to approximately RMB[136.8] million, RMB[310.5] million and RMB[14.9] million respectively, representing about [9.1]%, [22.1]% and [2.9]% of the aggregate amount of new financial guarantees provided by us during the same period.

### **Re-guarantee (再擔保) in a guarantee transaction**

In certain of our financial guarantee transactions involving a re-guarantee, in addition to a borrower, a lending institution and a principal guarantor, there will be a re-guarantor, who agrees to guarantee the whole or a portion of the guarantee obligation of the principal guarantor as provided in the contract entered into between the principal guarantor and the re-guarantor. During the Track Record Period, we acted as the principal guarantor and the Re-guarantee Company acted as the re-guarantor in certain cooperative arrangements between lending institutions, the Re-guarantee Company and us. Similar to a typical financial guarantee transaction, the principal guarantor will provide a guarantee in respect of the repayment of the loan provided by the lending institution to the borrower and the borrower will be required to pay a guarantee fee to us. Such transactions are independently approved by each of the lending institution, the principal guarantor and the re-guarantor, which would conduct their own investigations on the potential borrower. Pursuant to the cooperation agreement entered into between the Re-guarantee Company and us, we as the principal guarantor would (i) provide to the Re-guarantee Company information regarding the potential borrower and details of any counter-guarantees measures taken by us; and (ii) pledge a security deposit to the Re-guarantee Company amounting to 5% of the outstanding balance of the amount it re-guaranteed. We may require counter-guarantees from the borrowers or any third parties in respect of the loan, taking into account the factors we consider in our normal guarantee approval process. If the re-guarantor approves the transaction, it may enter into a re-guarantee agreement with us or issue a written confirmation to affirm that the repayment obligations guaranteed by us will be re-guaranteed by the re-guarantor in whole or in part. If such agreement or confirmation is entered into or issued, a re-guarantee fee will be payable by us to the re-guarantor. When the borrower is in default, we shall still be responsible for compensating the lending institution. Yet, where both the borrower and us are not able to compensate the lending institution in accordance with the respective agreements between such parties with the lending institution, the re-guarantor shall be required to compensate the lending institution for the whole amount or for the proportion as agreed under the relevant contract. We will be required to repay the re-guarantor for the compensation it made to the lending bank within a period stipulated under the

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relevant contract and an interest would be charged by the re-guarantor on the outstanding amount if the principal debtor fails to repay on time. The Re-guarantee Company is entitled to terminate the cooperation arrangement with us if our cumulative default rate or cumulative loss rate exceeds a particular level stipulated under our cooperation agreement.

In determining whether a re-guarantor is required, we will take into account the following factors:

- (i) whether the re-guarantee from the Re-guarantee Company is required under our cooperation arrangement with certain banks;
- (ii) whether we need to utilise the additional guarantee amount permitted under our cooperation agreement with the relevant lending institution as a result of the inclusion of the re-guarantor; and
- (iii) in cases where the borrower was referred to us by the Re-guarantee Company, whether the borrower satisfies our assessment criterion under our normal guarantee approval process.

During the Track Record Period, the re-guarantee fee was charged at the rate of 10%, 20% or 32% of the guarantee fees charged by us on the borrower, according to the relevant cooperation arrangement between the Re-guarantee Company, the cooperating bank and us. [The re-guarantee fee rate and the re-guarantee ratio in each case were stipulated in the cooperation agreements between, among others, the Re-guarantee Company and us, after commercial negotiations between such parties.] For each of the three years ended 31 December 2012 and the [five months ended 31 May 2013], the total amount of re-guarantee fees we incurred was approximately RMB[134,000], [nil], RMB[70,000] and RMB[174,000] respectively. For each of the three years ended 31 December 2012 and the [five months ended 31 May 2013], the aggregate value of re-guarantee provided by the Re-guarantee Company to our guarantees amounted to approximately RMB[11.0] million, [nil], RMB[69.2] million and RMB[60.0] million representing approximately [1.0]%, [nil], [4.9]% and [11.6]% of the total amount of financial guarantees provided by our Group during the respective periods.

### **Participation in government cooperative programmes for SME development**

Our Group has been selected as one of the cooperating guarantee companies in certain cooperative programmes organised by the local governments in the PRC for the purpose of assisting SMEs in obtaining financing for their business development, including the Eagle Scheme and the Flying Dragon Scheme (collectively, the “**Schemes**”), which has enabled us to broaden our clientele.

Under the Schemes, the SMEs in the relevant district were assessed by reference to, among others, their financial records, reputation and management system and as at the Latest Practicable Date, approximately [200] and [300] companies which were determined to be of a higher growth potential by the relevant local government body were selected as participants of the Eagle Scheme and the Flying Dragon Scheme respectively. The selected SME participants may, through their respective Schemes, apply for loans from the cooperating commercial banks, which shall be guaranteed by the cooperating guarantee companies.

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In relation to the grant of loans under each of the Schemes, the relevant local government body will enter into a cooperation agreement (“**Scheme Cooperation Agreement**”) with the cooperating guarantee company and the cooperating commercial bank selected by such local government body. Loans may be granted under the Schemes to the SME applicant only if approvals have been obtained from each of the relevant local government body, the cooperating guarantee company and the cooperating commercial bank, which will conduct their assessment on the SME applicant independently. After such approvals have been obtained, the SME applicant will enter into a loan contract with the cooperating bank and a guarantee contract with the cooperating guarantee company, under which the guarantee fee under the Eagle Scheme and the Flying Dragon Scheme will be required to be not more than 2.5% and 2% of the total guaranteed amount respectively. Pursuant to the Scheme Cooperation Agreement, the cooperating bank and the cooperating guarantee company will also enter into a guarantee contract and the relevant local government body and/or the cooperating guarantee company will provide a cash deposit to the cooperating bank. The guarantee obligation in respect of the loan of the SME borrower will be shared between the relevant local government body (as to 30%) and the cooperating guarantee company (as to 70%) in the following manner pursuant to the Scheme Cooperation Agreement. Where the SME borrower fails to perform its repayment obligations under the loan contract, the Scheme Cooperation Agreement stipulates that the cooperating guarantee company will first repay the cooperating bank for the total unpaid principal amount and accrued interests on the loan and it will be entitled to reclaim 30% of the total repaid amount from a fund set up by the relevant local government. If the cooperating guarantee company is unable to repay such amount, the cooperating bank has the right to recover such unpaid amount from the cash deposit provided to such bank. Pursuant to the Scheme Cooperation Agreement, the cooperating guarantee company is required to repay 30% of any amount subsequently recovered from the SME borrower to such government fund. During the Track Record Period, through acting as one of such cooperating guarantee companies under the Schemes, we established business relationships with cooperating banks and developed another source of customers.

Certain incentives are given by the relevant local government to the SME scheme participants and the cooperating guarantee companies to encourage the application and granting of loans under the Schemes. In particular, the relevant local government would subsidise SME borrowers for part of the interest on the loans granted to them under their respective Scheme and provide all or part of the cash deposits to the cooperation banks in respect of such loans. The cooperating guarantee companies would also be subsidised based on their average daily outstanding guarantee amount for the relevant year in respect of loans granted under the respective Scheme.

### **(B) Non-financial guarantee**

Our Group’s non-financial guarantee services mainly involve the provision of litigation guarantee, and performance guarantee in relation to, inter alia, the performance of payment obligations under the agreements entered into between our customers and their counter-parties.

- (1) Our Group entered into [20], [21], [15] and [24] non-financial guarantee contracts, with an aggregate amount of new non-financial guarantees of approximately RMB[43 million], RMB[228 million], RMB[76 million] and RMB[80] million for the each of three years ended 31 December 2012 and the five months ended 31 May 2013 respectively.

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- (2) Our PRC Legal Advisers advised that the non-financial guarantee fees charged by our Group is not subject to any regulations and there is no requirement on the determination of the rate of guarantee fees for such non-financial guarantee services provided by us.

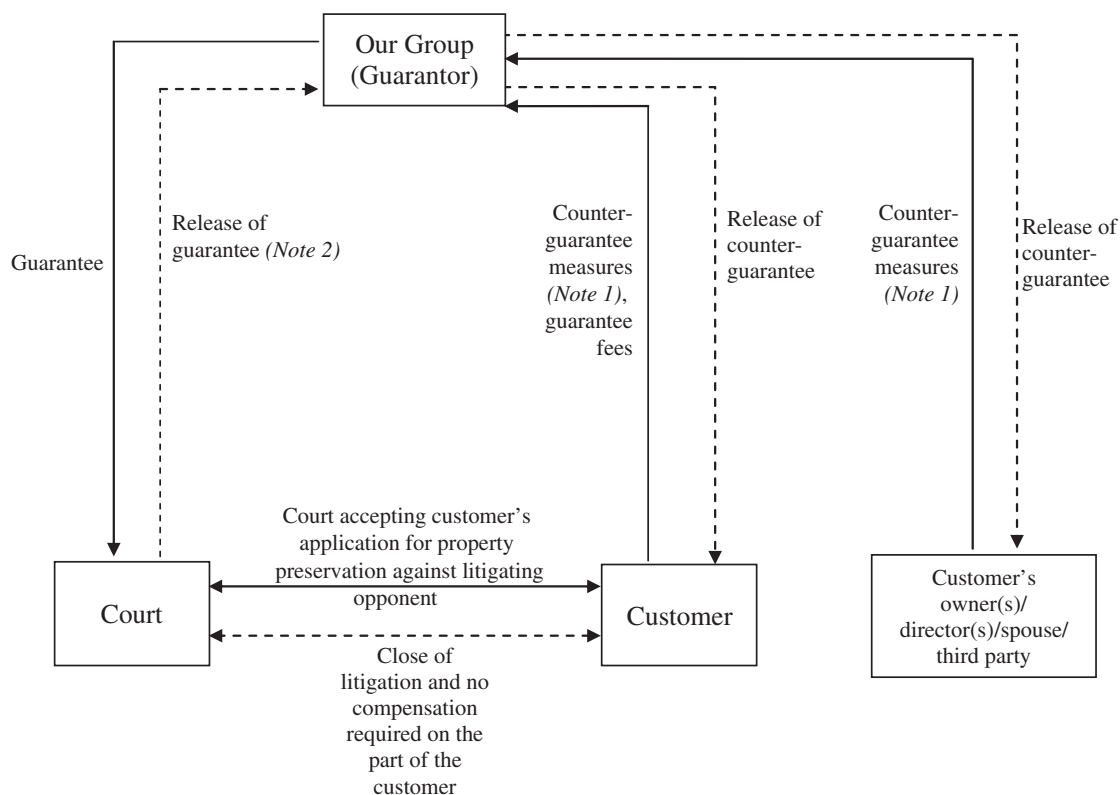
Similar to our Group’s financial guarantee business, our Group will also conduct pre-deal due diligence on the potential customer, the due diligence results will be assessed by our risk management committee prior to the non-financial guarantee being accepted by us for further assessment and processing. Our business operation department also conducts post-transaction monitoring to monitor the performance of our customers after the issue of guarantees. For details of our Group’s internal control, please refer to the paragraph headed “Internal control and risk management” in this section.

- (3) [During the Track Record Period and up to the Latest Practicable Date, our Group had not (i) recorded any bad debt generated from provision of non-financial guarantees for its customers or (ii) received any notice of default from the beneficiaries of non-financial guarantees.]

***Litigation guarantee***

During the Track Record Period, revenue from litigation guarantee accounted for approximately [39.3]%, [80.2]%, [40.2]% and [49.2]% of our revenue from non-financial guarantee service for each of the three years ended 31 December 2012 and the five months ended 31 May 2013 respectively.

The purpose of litigation guarantees is to provide guarantee to the court that we will compensate the litigating counter-party for the loss incurred as a result of the freezing of the counter-party’s property by the court as a result of our customers’ inappropriate application for property preservation against the counter-party. As advised by our PRC Legal Advisers, a guarantee from a financial guarantee company is not a prerequisite to the application for property preservation. The chart below shows the work flow of a typical transaction involving a litigation guarantee:



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*Notes:*

1. Counter-guarantee measures for litigation guarantees generally include guarantee(s) from the owners or directors of our customer, his/her spouse or other third party, but normally no assets will be charged as counter-guarantees for litigation guarantees.
2. Upon completion of the relevant litigation proceedings when the judgement made by the court is effective, the guarantee will in effect be released.

In the approval process for an application for litigation guarantee, our Group will take into account, among others, the cause of action, the circumstances of the case, the evidence in support of the applicant’s case and the strength of the applicant’s case. After an application for a litigation guarantee is approved by our Group, our Group will issue a guarantee letter to the court with which the customer applied for property preservation against its litigating counter-party, guaranteeing that we will compensate the loss suffered by the litigating counter-party as a result of the freezing of such counter-party’s properties as a result of our customers’ inappropriate application for property preservation. If the litigating counter-party suffers loss component as a result of the property preservation order inappropriately imposed against it, our Group will be under a primary obligation to indemnify such litigating counter-party an amount no more than the guaranteed amount, pursuant to the terms of the guarantee letter to the court. Our Group will enter into a contract with the customer pursuant to which the customer shall reimburse us for the amount we paid to the court on the customer’s behalf and pay to us an interest. In general, we also require the owner(s) or director(s) of our customer, his/her spouse or other third party to provide guarantee in favour of our Group as counter-guarantee. As for guarantee fees, we usually charge our fees, which would be a percentage of the amount we guarantee to the relevant court and agreed between us and our customer, based on, among others, our assessment of the risk involved and the amount of collaterals provided to us (if any). During the Track Record Period, the amount of guarantee fees charged by us for our litigation guarantee services usually ranged from [0.5]% to [1.5]% of the guarantee amount.

***Performance guarantee***

During the Track Record Period, we have provided performance guarantees in relation to (i) the payment obligations of our customer under a contract for the sale of goods between our customer and its suppliers; and (ii) the obligations of our customer under a contract for the acquisition of land (including its obligation to pay the acquisition price by installments and to establish an office building in accordance with the specification stipulated in the contract). [In the approval process for an application for performance guarantee, our Group will take into account, among others, the payment capability of the applicant such as its financial conditions, its management and the revenue generating ability from its business operation.] During the Track Record Period, revenue from performance guarantee accounted for approximately [60.7]%, [19.8]%, [59.8]% and [50.8]% of our revenue from non-financial guarantee service for each of the three years ended 31 December 2012 and the [five months ended 31 May 2013] respectively. During the Track Record Period, the amount of guarantee fees charged by us for our performance guarantee services usually ranged from [0.5]% to [3.5]% of the guarantee amount.



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### **(C) Financial consultancy services**

Our Group also provides tailor-made financial consultancy services to our customers by entering into consultancy services agreements with our customers. We may, at the customers’ requests, provide (a) consultancy services alone or (b) consultancy services together with our financial guarantee services. We principally propose different methods of financing to our customers for them according to their needs and circumstances and assisting them to apply for financing. We may introduce them to our guarantee services depending on individual circumstances and if they satisfy our requirements and risk assessment criteria. We may also recommend other financing methods or financial products to our customers. During the term of the financial consultancy services agreement and within the services scope prescribed in such agreement, our Group provides financial consultancy services by a variety of acts, such as [investigation, analysis, search of financing channels, designation of financing programme].

During the Track Record Period, most of our customers for financial consultancy services were SMEs. As SMEs in the PRC may, due to their size of operation, lack experienced staff in handling loan applications, and they also may not be familiar with compliance matters regarding relevant rules and regulations or lending institutions’ requirements, we believe that, with our established cooperation with lending banks and institutions and experience in the financial services field and hence our ability to understand the requirements of lending institutions, trends in the market as well as financial products offerings in the market, we would be able to provide all-round financial consultancy services to our customers that suit their needs and we believe financial consultancy services would also be a good opportunity for us to expand and diversify our business.

Our financial consultancy services aim to enable our customers to understand recent developments of financing regulations, policies, market practice and product offerings and to establish better communication with the lending institutions. With our expertise in the lending criteria and loan approval process of lending institutions, we believe we are well positioned to provide financial consultancy services to our customers, or to assist them in obtaining financing and in the loan application process.

As advised by our PRC Legal Advisers, provision of financial consultancy services is within the scope of business specified in the business licence of Success Guarantee.

During the year ended 31 December 2011, our Group entered into [50] financial consultancy service agreements, all of which were entered into on a standalone basis (“**Standalone Agreements**”). During the year ended 31 December 2012, our Group entered into [56] financial consultancy service agreements, among which [38] were entered into on a standalone basis and the remaining [18] were agreements (“**Bundled Agreements**”) for which we also entered into a corresponding guarantee agreement. For the five months ended 31 May 2013, our Group entered into [39] financial consultancy service agreements, among which [4] were Standalone Agreements and [35] were Bundled Agreements. For the Bundled Agreements, a standalone financial consultancy service agreement and a guarantee agreement were entered into between our Group and our customers respectively. We provided guarantee services in respect of the financing obtained by our customers under the Bundled Agreements. The financial consultancy fee and the guarantee fee were separately quoted and stated in the respective agreements. For the Bundled Agreements entered into by our Group during the year ended 31 December 2012 and the five months ended 31 May 2013, the average guarantee amount for

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the corresponding guarantee agreement was approximately RMB5.3 million and RMB4.1 million respectively. The relevant guarantee amounts ranged from approximately RMB2.0 million to RMB10.0 million for the year ended 31 December 2012, and from RMB1 million to RMB10 million for the five months ended 31 May 2013. For all Standalone Agreements and Bundled Agreements entered into during each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the average service term of the financial consultancy service agreements entered into by our Group was approximately 3 months, 2 months and 1 month respectively; and the financial consultancy services contemplated under such agreements were completed by the end of the respective financial year/period during which they were entered into.

For both the Standalone Agreements and the Bundled Agreements we charge consultancy fees in return for our service at a sum determined on a case-by-case basis with reference to, among others, the proposed loan amount, the nature, complexity and estimated amount of work required to be done in relation to the financial consultancy services involved, and such fees are subject to commercial negotiations between our Group and our customers. During the Track Record Period, the average consultancy fee we charged under the Standalone Agreements was approximately RMB249,000, ranging from approximately RMB10,000 to RMB2,200,000; and the average fee we charged under the Bundled Agreements was approximately RMB36,000, ranging from approximately RMB5,000 to approximately RMB200,000. The consultancy fee charged for the Bundled Agreements was ancillary to the related guarantee services we provide and ranged from approximately 0.2% to approximately 2.0% of the guarantee amount. The guarantee fee charged for our guarantee service in relation to the Bundled Agreements were determined based on the general fee rates charged for a standalone guarantee agreement, taking into account the relevant guarantee amount and the prevailing market fee rate for guarantee services. During the Track Record Period, the guarantee fees charged under the Bundled Agreements Period ranged from 1.5% to 3% of the guarantee amount for guarantees with a term of no more than 12 months, while we charged 4.5% of the guarantee amount for the guarantees with a term of 18 months and 6% for the guarantees with a term of 36 months. During the Track Record Period, for each of the Bundled Agreements, the aggregate amount of the consultancy fee and the respective guarantee fee charged ranged from approximately 2.0% to approximately 7.5% of the guarantee amount. For illustrative purpose only, such aggregate amount of consultancy fee and guarantee fee in respect of each Bundled Agreement we entered into during the Track Record Period was below the maximum rate stipulated under the Opinions on SME Guarantee System. As advised by our PRC Legal Advisers, the Opinions on SME Guarantee System does not contain any specific provision which governs the amount of financial consultancy fee and/or the aggregate fee described above that can be charged by a financial guarantee company. Having considered that (i) the charging of our Group’s consultancy fee rates is not restricted by any regulations, and (ii) during the Track Record Period, the consultancy fee charged by our Group in addition to the guarantee fees did not violate the Opinions, the [●] are of the view that the charging of fees under consultancy contracts is not for the purpose of circumventing the maximum guarantee fee requirements and the fee rate charged for guarantee services in the Bundled Agreements are reasonable. Financial consultancy fees charged by us are payable by instalments or due upon signing of the consultancy service agreement or signing of the loan agreement to be entered into between the lending institution and our customer. As advised by our PRC Legal Advisers, the rate or range of the financial consultancy fees charged by us are not subject to any legal or regulatory requirements in the PRC. For further information, please refer to the section headed “Business — Pricing strategies” below.

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While the target customers of our financial consultancy services will continue to be SMEs, we plan to broaden our source of customers for such services through the expansion of our financial guarantee business operations. In line with our plan to expand the market presence of our guarantee business to cities in the Guangdong Province other than Foshan City, our financial consultancy services can be introduced to our customers in such cities, depending on the market need for such services, the human resources available for our Group’s geographical expansion and the rate of return from such services.

### **(D) Contracts under a typical guarantee transaction**

In a typical guarantee transaction, parties will enter into the following contractual arrangements:

- (1) *Guarantee contract with our customer.* Our Group will enter into a contract for provision of guarantee services with our customer, pursuant to which our Group agrees to provide a guarantee in respect of, in case of a financial guarantee, repayment of the loan provided by the lending institution for our customer; or in case of a litigation guarantee, compensation to the litigating counter-party for the loss suffered as a result of the freezing of such counter-party’s property as a result of our customer’s inappropriate application for property preservation; or in case of a performance guarantee, performance of the contract by our customer with its counter-party. The contract sets forth the material terms of the guarantee, including but not limited to the type, use, amount of obligation guaranteed, term, name of the lending institution or beneficiary, guarantee fee, manner of payment, payment date and counter-guarantee condition.

In case of a financial guarantee, the maximum liability of our customer to our Group on each financial guarantee transaction will be an aggregate amount of the outstanding principal and accrued interest thereon, and the penalty, damages and costs claimed by the lending institutions if our customer should fail to pay the lending institution in full.

In case of a litigation guarantee, the maximum liability of our customer to our Group will be the amount of the guaranteed obligations owed and payable by us to the counter-party in the litigation. The customer will be obliged to pay our Group an amount which equals the amount we paid to the counter-party, plus interests and an agreed amount in default if the customer fails to pay us on time, and to reimburse us for our costs incurred.

In case of a performance guarantee, the maximum liability of our customer to us on performance guarantee transaction will be the amount of the guaranteed obligations owed and payable by us to the counter-party of the contract entered into between our customer and such counter-party. The customer will be obliged to pay our Group an amount which equals the amount we paid to the counter-party, plus interests and an agreed amount in default if the customer fails to pay us on time, and to reimburse us for our costs incurred.

- (2) *Counter-guarantee contract.* Our Group will require our customer, its owner(s) or director(s), his/her spouse or other third party to execute a counter-guarantee contract in favour of our Group, pursuant to which a guarantee and/or collaterals will be provided by our customer and/or its owner/director and/or his/her spouse or any third party to secure the guarantee. The counter-guarantee will only be discharged after our Group is fully discharged from the guarantee

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provided to the lending institutions (in case of financial guarantee), or where relevant litigation proceedings are completed and the case is closed (in case of litigation guarantee), or the relevant contractual obligation under the contract between the customer and its counter-party has been fulfilled by the customer (in case of performance guarantee).

- (3) *Guarantee contract with the lending institution or guarantee letter to the court or the counter-party.* Our Group will enter into a guarantee contract with or issue a guarantee letter to the lending institution (in case of a financial guarantee) or issue a guarantee letter to the court or the contractual counter-party of the customer (in case of a non-financial guarantee), pursuant to which our Group agrees to guarantee the obligations of our customer under the loan agreement between the lending institution and our customer (in case of a financial guarantee), the application by our customer for property preservation with the court (in case of a litigation guarantee), or the contract between the counter-party and our customer (in case of a performance guarantee).

In case of a financial guarantee, the maximum liability of our Group to the lending institution on each financial guarantee transaction depends on the aggregate amount of the outstanding principal and accrued interest thereon. The term of financial guarantee will take effect from the date of the draw-down by our customer(s), and will end when the loan is fully repaid by the customer to the lending institution. Similarly, the counter-guarantee will cover the same period to protect the interests of our Group.

In case of a litigation guarantee, the maximum liability of our Group to the relevant litigating counter-party in each case shall be the amount of the guaranteed obligations in respect of the assets frozen by the court as a result of the application made by our customer, which shall be equivalent to the value of assets (as stipulated under the guarantee letter issued to the court) against which the property preservation order is imposed. The period of provision of such guarantee will take effect from the date when the guarantee is duly executed by our Group, and will end following completion of the litigation proceedings when the judgement made by the court is effective. Similarly, the counter-guarantee will cover the same period to protect the interests of our Group.

In case of a performance guarantee, the maximum liability of our Group to our customer's counter-party on each performance guarantee transaction shall be the amount of guaranteed obligations as stipulated in the guarantee contract entered into between our customer's counter-party and us. The period of provision of performance guarantee is determined in accordance with the nature of the guarantee and will take effect from the date when the guarantee is duly executed by our Group, and will end following the date of due performance of our customer's contractual obligations or the day when such contract is terminated. Similarly, the counter-guarantee will cover the same period to protect the interests of our Group.

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### **INTERNAL CONTROL AND RISK MANAGEMENT**

#### **Overview**

Internal control and risk management is an integral part to the success of our Group’s business. Our risk management functions start from pre-transaction assessment, in-transaction risk evaluation, product design, pricing determination and counter-guarantee requirement design to post-transaction ongoing monitoring.

To better manage our risks and improve our internal control, our Group has implemented a set of internal guidelines and operation manuals which set out various guidelines, instructions and operational rules regarding business management, business operation procedures, human resource management, administration management and finance management. In this regard, we offer on-job trainings and seminars to our staff in relation to the recent developments of the PRC economy and the guarantee industry, updates on the relevant laws and regulations and reviews on our Group’s internal guidelines. We have a risk control department, comprising our risk control director with more than 18 years of experience in the banking industry, with over four years of experience specialising in the guarantee industry further to his banking experience, and four risk control managers, three of whom having approximately one to five year(s) of experience in the financial industry, and one being a PRC certified public valuer with over 15 years of valuation experience in the PRC. We also have a risk management committee, comprising four members with more than [seven] years of experience in the financial services field, with a variety of expertise in overall management and risk management functions.

#### ***2011 internal control review and our IT management system***

In 2011, we engaged a professional internal control review company for business consultation purposes with a view to enhancing our Group’s business operation capacity, strengthening our internal control and risk management system, and paving the way and getting ourselves prepared for the development of a more sophisticated computerised IT management system to cope with our Group’s continuous business expansion and long-term business development in the future. Based on the 2011 internal control review, our Group had implemented sufficient control to manage the key risks associated with our business processes and there was no significant internal control deficiencies, while several areas for improvements had been identified in the 2011 internal control review. Post-guarantee information collected was not systematically centralised and a computerised information technology management system which could improve the efficiency of the analysis and comparison of the customer information. In particular, with a manual filing system of customer records, the management may not be able to analyse the historical information of customers and compare customers from same industry effectively. Besides, information provided in the post-guarantee monitoring report was not comprehensive enough for management reporting. In certain cases, opinions provided by the project managers in the reports were not conclusive or information provided was not sufficient for our management to impose effective risk control measures. Inconsistency between internal guidelines, policies and the actual practice of the work processes was noted due to the lack of (i) regular review on the implementation of our internal guidelines; and (ii) timely and regular update on the internal guidelines and policies to satisfy the needs of the expanding business of our Group. For instance, it was reported that for certain guarantee applications, after preparing checking lists of approval documents the project managers did not carry out follow-up procedures in accordance with our

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internal guidelines such that the lists were not signed by all relevant handling officers of our Group. Moreover, during the 2011 internal control review, it was noted that there was a lack of a hierarchical guarantee application approval system based on the level of risk exposure such that, regardless of the relevant guarantee amount, every guarantee application had to be reviewed by our risk management committee and, even for guarantees applications with a relatively low level of risk exposure, its guarantee approval authority could not be delegated to departments other than our risk management committee. In view of (i) the workload saturation faced by our Group; and (ii) the growth in the number of guarantee applications and the variety of guarantee services we provide, it was identified that such approval process of our Group may not be able to fulfill the need for operational efficiency and accurate risk assessment in the course of our business expansion. Further, it was noted that systematic employee training were not established and implemented. Some of our employees did not receive complete training on all of our internal guidelines and thus they did not possess a full understanding of such guidelines.

In view of the areas for improvements identified during the 2011 internal control review, remedial actions had been taken by our Group. A computerised information technology management system was developed and implemented by us in January 2013 to improve the operational efficiency and risk management. Also, starting from the fourth quarter of 2012, the quarterly meetings for analysing and reviewing work performed for post-guarantee monitoring were organised. Besides, the internal guidelines and policies have been comprehensively reviewed and updated in 2012 to reflect the existing business processes and practice. [Going forward, in view of the continuous business expansion, we will consider to establish a hierarchical guarantee approval system based on the level of risk exposure and develop standardised risk assessment parameters as reference for our risk assessment and approval process.]

To facilitate our business and operations management, internal control and risk management, we developed a computerised management system which has been implemented since January 2013. [Prior to such implementation and during the Track Record Period, we adopt a paper documentation and written approval management system for handling and managing our operation procedures from receipt of guarantee application, due diligence investigation, review and approval of application, execution of guarantee transaction documents, post-transaction management to file management, under which we adopt paper filing and archiving of our work documents and information obtained. Our Directors considered that our Group maintained filing of adequate records and documentation during the Track Record Period. The following are the major functions of the computerised management system which we have implemented since January 2013:

- Industry management — through the classification of customers by industry, we will be able to manage and monitor our total guarantee outstanding amount among each industry;
- Marketing management — we can access customers’ information easily which complement our marketing activities; and our marketing activities can also be better managed by the management since they can track the marketing status online;
- Credit rating — based on customers’ information input to the system, the system can generate credit rating of our customers for our reference and further analysis;
- Approval management — each step of approval process will be carried out and recorded under the system;



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- Guarantee fee management — once the guarantee application has been approved, notice of reminder will be generated to the finance department for confirmation of receipt of guarantee fee and all relevant departments will be able to track the status of guarantee fee receipt;
- Post-guarantee monitoring management — work done for post-guarantee monitoring is recorded to the system for better post-transaction management;
- Financial statements management — we can generate a series of statistical reports for our analysis and consolidation; and
- File management — documents obtained and documents for review and approval will be scanned and uploaded to the system for access and review by relevant departments.

We believe that the implementation of the computerised management system enables us to, among others, enhance, standardise and computerise many aspects of our internal control, including client management, guarantee approval process and post-transaction monitoring; and we could also build up our database of customer information through the use of this system. Our Directors are of the view that the system enhances our risk management process in various ways, for instance, under the system, alert or reminder will be generated to remind different departments to take relevant follow up actions upon or prior to the occurrence of certain events, for example, when loan is due for repayment by customer, when it is time to carry our post-guarantee monitoring work, and when there is unfinished tasks which are overdue. Risks involved in the approval process can also be reduced as data entry into the system and each step of review and approval have to be strictly in accordance with the designed system processes and confirmed step by step, thereby reducing the risk of mistakes such as skipping a level of approval. Moreover, through the system we can set different transaction ceilings such as approval limit per transaction, guarantee amount per each cooperative lending institution, etc. to limit our risk of non-compliance and breach of laws and regulations and terms of cooperative arrangements with lending institutions. Further, we can generate consolidated statistical statements showing our business structure, industry distribution of our customers, rate of approval of guarantee application, etc. for our management to consider in business strategy planning so that risks such as industry risk can be controlled. With the use of the computerised management system, our management could monitor our business operations more efficiently online; and we could also retrieve or update customer data and credit information more efficiently through the use of this system. We believe standardisation and computerisation of our management system could also provide a platform for our expansion.

### *2013 internal control review*

In February 2013, our Company engaged another internal control consultant (“**Consultant**”) to perform an assessment of internal controls over certain business processes of our Group for the proposed [●]. The objective of this assessment is to assist our Company in identifying internal control weaknesses in relevant financial procedures, systems and internal controls, and provide recommendations for improvement in relation to the proposed [●]. The scope of the engagement was agreed with our Company and the [●], covering the major businesses of our Group, including the consultancy service, guarantee service and cooperating bank management. It also covered the corporate level controls, and the key business processes, i.e. cash management, compliance management, human resource management and fixed asset management, etc.

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The Consultant had identified some key findings on guarantee service and compliance management. It was recommended by the Consultant that Success Guarantee should maintain a list of collaterals under counter-guarantee measures in the due diligence investigation process. Quantitative analysis on the assessed value on the collaterals to the guarantee amount should be performed in the review and approval processes. Our Company was also recommended by the Consultant to develop a list of related parties of Success Guarantee, including its affiliates, its shareholder(s) who hold(s) 5% or more of its equity interest and its/their affiliates, and to regularly update and circulate such list to ensure the compliance with the Implementing Rules Article 36. Besides, the Consultant recommended our Group to formally establish a compliance department or appoint compliance personnel, who is independent from the daily operation and management decision, to monitor and oversee the compliance matters of our Group. The compliance department or compliance personnel should review each transaction of Success Guarantee, and any non-compliance matters should be reported to the management and an Audit Committee timely. All of the major recommendations proposed by the Consultant have already been implemented by Success Guarantee effective from July 2013.

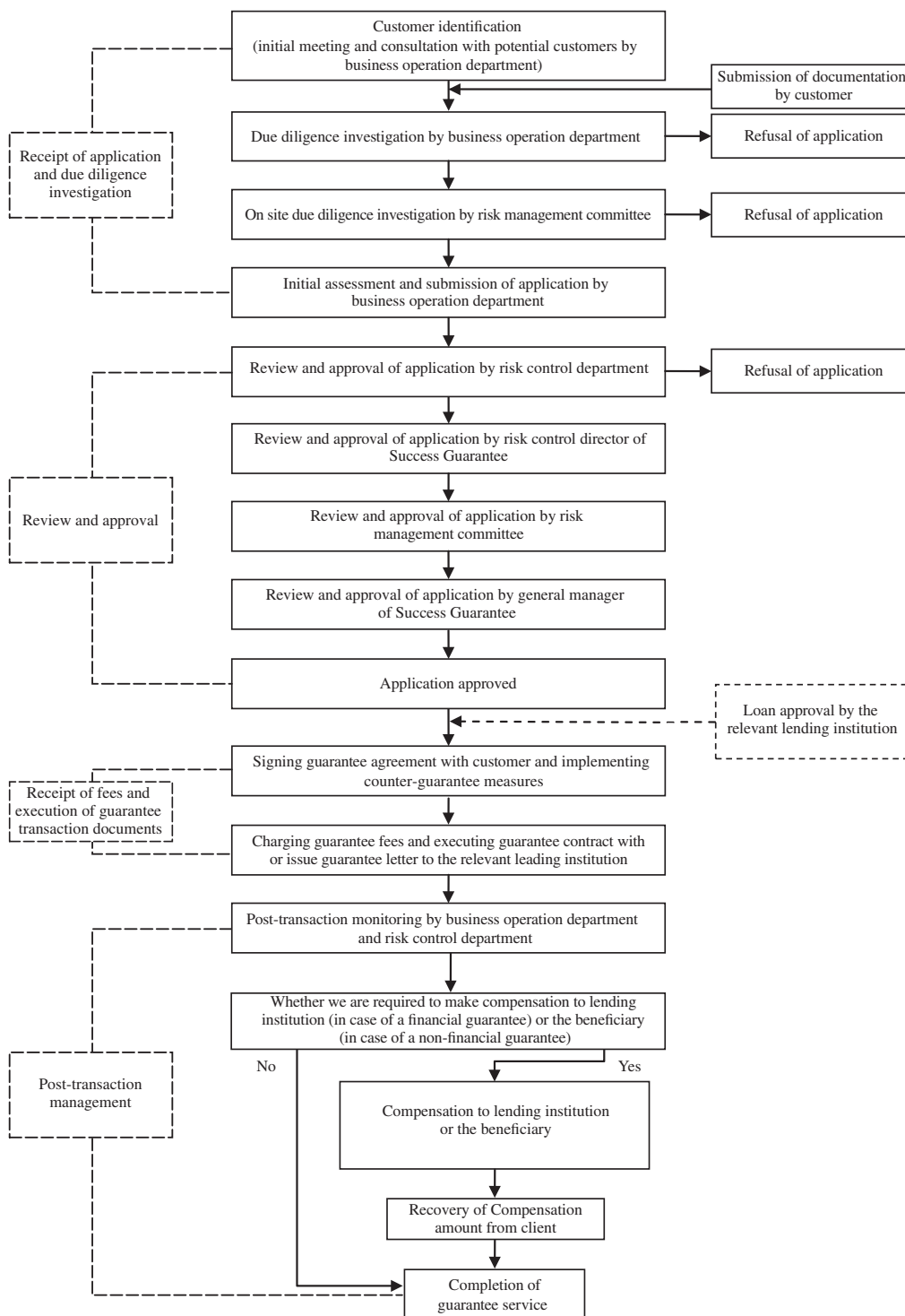
In light of the foregoing, the [●] are of the view that our Group has adequate and effective internal control procedures in place for the purpose of Rule 3A.15(5) of the [●].

The core of our business is to provide guarantee services based on our risk assessment of our customers and assessment of their loan repayment capacity. We have taken measures and steps to identify those risks and to minimise or manage such risks at every stage of our guarantee approval process, from pre-deal due diligence, in-transaction risk evaluation to post-guarantee monitoring process. Accordingly, our Directors believe that our existing measures in place can sufficiently protect our Group’s interest in the guarantee services we provide to our customers. For further information, please refer to the paragraph “Guarantee approval and operation process” under this section.

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**Guarantee approval and operation process**

Our risk management starts from the guarantee approval process and continues to the post-transaction monitoring process. The diagram below summarises our Group’s guarantee approval process from initial contact with potential customer, acceptance of an application to completion of our guarantee services:



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### **1. *Customer identification, initial assessment of application and acceptance of application***

Our Group identifies potential customers mainly through our sales and marketing efforts, recurring customers and referrals from our existing or past customers and cooperating banks and other institutions. We also participate in certain cooperative programmes organised by the local governments in the PRC for the purpose of assisting SMEs in obtaining financing for their business development, including the Eagle Scheme and the Flying Dragon Scheme which enable us to demonstrate our competence and an opportunity to broaden our clientele. Our business operation department will conduct initial meetings with potential customers to screen out potential customers who meet our basic requirements (for instance, an individual is required to attain legal age, and an enterprise is required to be a validly existing entity with at least two years of operation) and to understand their needs. The potential customer who meets our basic requirements may be requested to complete an application form detailing, with supporting documents, the amount of guarantee, duration of guarantee, proposed use of funding under the guarantee, proposed means of repayment, the type, size and location of available collateral(s), the provision of counter-guarantee, the identity and any other encumbrances associated with the collateral(s) or the customer. We will also require the applicant to provide a set of its corporate documents, including but not limited to its valid business licence, certificate of approval, taxation certificate, audited financial statements and capital verification report(s).

Upon receipt of documentation from our potential customer, our business operation department will take the first step to assess the application and conduct preliminary screening, and to decide whether to accept the application for further consideration. Applications which do not meet our basic requirements will be refused.

When an application is accepted for consideration, under normal circumstances, two officers (including the project manager) of our business operation department will be assigned to handle each project, whereas one risk control manager will be assigned to follow the project.

As at 31 May 2013, our business operation department has 25 members. Our business operation department is led by Mr. Yuan Chen, our vice general manager, whose qualification and experience is disclosed in the section headed “Directors, Senior Management and Staff” in this document.

### **2. *Due diligence investigation and site visits***

When the application has been accepted for consideration, our business operation department will conduct due diligence investigation and assessment focusing on, among others, (i) the applicant’s background information, (ii) operational condition, (iii) financial condition, (iv) purpose of financing and the ability and source of repayment, (v) condition of the counter-guarantee to be provided by the applicant; and (vi) counter-guarantees to be given. Due diligence investigation in relation to each applicant includes an investigation of the financial, business and legal aspects of the applicant’s affairs based on our internal guidelines. Our investigation may include but is not limited to the following steps:

1. to verify the information contained in the application and documentation;

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2. to examine the applicant’s corporate documents such as business licence, certificate of approval, taxation certificate to verify the validity of its business;
3. to review the applicant’s financial statements of the latest period and financial statements for the two latest financial years, bank statements and its capital verification reports to verify its financial position;
4. to assess the credibility and reputation of the applicant in its industry by analyzing its operational efficiency and financial condition through obtaining and reviewing the corporate information, financial statements, taxation certificate, bank statements, utility bills, identification document of its shareholders, etc. and checking those documents against the originals, obtaining information of applicants, their shareholders and counter-guarantee providers through independent sources such as local administration for industry and commerce, the People’s Bank of China Credit Reference Centre, websites of courts of the PRC and through site visits;
5. to conduct a review of the industry in which an applicant operates and to consider the industry’s growth potential, size, trends, prospects, market outlook and general economic factors by analyzing and reviewing industry or market information we obtain from independent sources such as government authorities, local industry associations and information available from the media and the Internet, which we may verify by comparing and cross-checking with information available to us of our other customers in similar industry;
6. to verify the accuracy of the information provided by the applicants in relation to their credit, operational and financial conditions through obtaining information issued by third parties, including but not limited to the local administration for industry and commerce, the People’s Bank of China, public utility bodies or tax bureaus;
7. to conduct site visits to the applicant’s place of operation and to perform interviews with the owners, senior financial and executive officers and key personnel of the applicant in order to understand its business operation and mode of management;
8. to conduct on-site verification of information provided by the applicant and examination of the proposed collaterals;
9. to request and examine a list of collaterals (if any) to be provided by the applicant and/or its owner(s) under the counter-guarantee; and
10. to assess the value of the proposed collaterals (if any) under the proposed counter-guarantee. For further information, please refer to the paragraph headed “Customised proposals for counter-guarantees” in this section below.

Our risk management committee will also participate in the preliminary due diligence process. In particular, the major procedures which we require our risk management committee to perform for on-site due diligence include: (i) conduct interviews with key personnel and employees of the applicants to understand background, business operation and financial performance of the applicants, purpose of the loan and the source of funding for repayment; (ii) conduct site visits to the applicants’ place of operation to understand their business operation and verify the information provided by the applicants; (iii) conduct selective checking of originals of documents or information provided by the applicants; and (iv) examine the condition of the proposed collaterals.

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We conduct review of an applicant’s business and operating history and financial affairs, which may include but is not limited to reviewing the financial statements and management accounts, inventories and core assets of the potential customer, reviewing the shareholding structure, legal and beneficial ownership of the potential customer, personal assets and liabilities of the shareholders of the potential customer. Under the internal guidelines, our risk control manager shall participate in checking of, among other matters, accounts and inventories of our potential customer, whereas he/she may at his/her discretion participate in other site visits and investigations.

After conducting due diligence investigation and assessment, our business operation department will issue a due diligence report (擔保調查報告) setting out its findings from the investigation with detailed analysis of the customer’s financial condition, cashflow condition, business operation, industry review, repayment ability, future business development plan, capital requirements, condition of collaterals under proposed counter-guarantees, credit risk, reasonableness of loan purpose, suggestion of risk control measures and its opinion and recommendation on the application, which will also include, among others, recommended guarantee amount, guarantee period, guarantee service fees, method of repayment, counter-guarantees to be obtained and post-transaction monitoring measures to be adopted, for review by our risk control department. As at the Latest Practicable Date, our risk control department comprised [five] members. Our risk control department is led by our risk control director, Mr. Zhong Zhiqiang, whose qualification and experience is disclosed in the section headed “Directors, senior management and staff” in this document.

**3. *Examination and approval according to internal procedures by (i) risk control manager and risk control director, (ii) risk management committee and (iii) general manager of Success Guarantee***

Once the application meets the qualifying requirements under our internal guidelines, it will be forwarded to our (i) risk control manager and risk control director; (ii) risk management committee; and (iii) general manager of Success Guarantee for further review and approval. As confirmed by our Directors, during the Track Record Period, there was no instance of any departure from the above standard approval procedures. Our risk management committee comprised four members and one secretary, each member with professional qualification and experience in at least an area of finance, bank credit, risk control and legal compliance. The four members of our risk management committee are, namely, Mr. Li Bin, our executive Director and chief executive officer; Ms. Dai Jing, the senior vice general manager of Success Guarantee; Mr. Yuan Chen, the vice general manager of Success Guarantee; and Mr. Zhong Zhiqian, the risk control director of Success Guarantee, whose qualifications and experience are also set out in the section headed “Directors, senior management and staff” in this document. Among them, each of Mr. Li Bin, Ms. Dai Jing and Mr. Zhong Zhiqian has over [ten] years of experience in the banking industry specialising in loans and credits and attained management position before each of them left the banking industry, providing them with solid background knowledge and experience in loan approval and management process which is closely related, and to a certain extent, similar to guarantee approval process and management. Mr. Yuan Chen, who has more than [eight] years of experience in the guarantee business and was awarded as an outstanding management personnel in guarantee business in Foshan by Foshan Guarantee Association (佛山市信用擔保行業協會) for the year 2008 and 2009, also possesses the relevant sufficient experience for guarantee approval and management. The committee secretary is designated by our risk control department. In order to maintain independence and segregation of duties in the



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approval process of guarantee applications, the committee is directly under the supervision of the board of directors of Success Guarantee, the operating subsidiary of our Group and independent of our other departments. Each guarantee application or project has to be approved by 100% of the votes of the committee members who are not required to abstain from voting.

Our risk management committee will review the guarantee applications, examine the due diligence reports and pass the resolutions approving, or disapproving each application. Post-transaction monitoring requirements including frequency of assessment and information to be obtained will also be included in the resolution approving the application. Although members of our risk management committee are also involved in the preliminary due diligence investigation in order that they can have a full picture of the operation condition of each guarantee applicant in the earlier opportunity prior to making approval decision, only our business operation department is responsible for such due diligence work and for preparation of the due diligence report; our risk management committee will not intervene with the due diligence work carried out by our business operation department, and they will not give any opinion to our business operation department regarding the approval of guarantee application during the stage of due diligence. More importantly, none of the members of our risk management committee is responsible for handling any particular guarantee application or transaction. Based on the above, we consider that there is clear segregation of duties between our risk management committee and our business operation department.

After the risk management committee meeting, resolutions passed by our risk management committee will be checked and endorsed by our risk control director and passed to the general manager of Success Guarantee for his review and approval, who may either approve or disapprove a guarantee application which has been approved by our risk management committee, or send any guarantee application which has been disapproved by our risk management committee for re-consideration for approval by our risk management committee if he considers that there is fundamental improvement in the business operating condition of the applicant, or where there is significant reduction in the risks of default by such applicant. During the Track Record Period, the general manager of Success Guarantee has not requested the risk management committee to re-consider any rejected application.

According to our internal procedural guidelines, the chairman of Success Guarantee has the right of veto in the guarantee application approval process, although he has no right of approval in the guarantee application approval process. Each rejected guarantee application can only be re-considered for approval once. For the sake of clarity, no one has the right to approve an application declined by our risk control department, risk management committee or the general manager of Success Guarantee. For factors which we consider in approving a guarantee application, please refer to the paragraph headed “Factors to consider in guarantee approval process” in this section below.

#### ***4. Execution of guarantee contracts and counter-guarantee contracts and the implementation of the counter-guarantee measures***

After our risk management committee and the lending institution have approved the guarantee application and the loan application respectively, the guarantee contract between our customers and us and the relevant counter-guarantee contracts will be prepared in accordance with the requirements stipulated in the resolution passed by our risk management committee. According to our internal guidelines, the execution of such contracts must be witnessed by our project manager and legal staff, who must verify the identity of the signatories prior to the execution.

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After the execution of such contracts, we will implement the counter-guarantee measures in accordance with the resolution passed by our risk management committee. In certain circumstances, we will apply for the registration of our interests in the collaterals under the counter-guarantee contracts. If properties of our customer are pledged to the lending institution under the relevant loan agreement, we will also request for a copy of the security documents from the lending institution.]

### **5. *Execution of guarantee contract with the lending institution***

After the execution of the guarantee contract between our customers and us, we will require our customer to pay the guarantee fee to us according to the terms therein, usually within one day after the execution of such contract and our finance department will issue a receipt to our customers after confirming the payment of guarantee fee.

Our project manager, risk control department and our senior vice general manager of Success Guarantee, who is a qualified lawyer in the PRC, will review the relevant legal documents in relation to the financial guarantee transaction, including but not limited to the guarantee contract, the counter-guarantee contracts, the board resolution of our customer approving the execution of such contracts (if any) and the loan application letter. After they have confirmed that the documents required for the financial guarantee transactions are ready, we will execute the guarantee contract with or issue the guarantee letter to the lending institution.]

### **6. *Post-transaction risk monitoring***

In order to identify as early as possible any problems that would affect a customer’s ability to repay a guaranteed obligation, our Group monitors the performance of all customers after the issuance of guarantee and implements the post-transaction monitoring measures approved by the risk management committee, which stipulate, among others, the key monitoring requirements for various financial or operational indicators, such as the customer’s monthly revenue or electricity usage. During the guarantee period, the project manager assigned to each case will liaise closely with the customer to understand, assess and monitor the customer’s financial condition, business operation, use of funds, material changes in management, counter-guarantee condition and performance of obligations under the guarantee contract, and will conduct regular assessment of the customer’s business operation and/or assets and liabilities. As part of our post-transaction risk monitoring measures:

- (i) we conduct regular site visits (either from time to time as we consider appropriate, monthly, quarterly or half-yearly, depending on the relevant counter-guarantee conditions and the particular circumstances in each case) and/or ad-hoc inspections at the place of operation of our customers to assess its business operation and at the collaterals charged to us;
- (ii) we regularly (either from time to time as we consider appropriate, monthly, quarterly or half-yearly, depending on the relevant counter-guarantee conditions and the particular circumstances in each case) collect corporate information including but not limited to accounting and financial information, tax filing, utility records (e.g. records of electricity bill or water charges), purchase order, delivery note, etc. from our customers in order to review and assess the financial condition, business operation, sales condition, risks and prospects of the customers;

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- (iii) where circumstances require, we will engage a third party to monitor the level of our customers’ inventory charged to us. Pursuant to the agreement signed among such third party, the customer and us, the third party shall be responsible for (i) the safekeeping of the inventory charged to us and stored at a property agreed by the parties; (ii) monitoring the level of inventory by examining, among others, the value and quantity of inventory inflow and outflow; (iii) ensuring the value of the inventory is kept at a level stipulated under the contract; and (iv) regularly issuing a list of charged inventory to us. If the value of charged inventory falls below the level stipulated under the contract, such third party will be liable to us for any resultant loss. Where we consider that the risks of default associated with a customer increases due to changes in its business conditions, we will require that the minimum inventory level be increased;
- (iv) through the communications with our customers, our project managers will seek to understand their market conditions and business plans, identify potential risks in their operation and propose measures to manage such risks, with an aim to minimise their risks of default on loans guaranteed by us;
- (v) after conducting each post-transaction regular review (either conducted from time to time as we consider appropriate, monthly, quarterly or half-yearly, depending on the relevant counter-guarantee conditions and the particular circumstances in each case), the project manager shall submit the post-transaction monitoring report setting out his findings, together with the information obtained from customers during the regular review, to [our senior vice general manager of Success Guarantee] for approval and to our risk control department and risk management committee for review;
- (vi) based on the circumstances of each case, our project managers implement and/or modify the post-transaction monitoring measures to monitor our risk, subject to the approval of our senior vice general manager of Success Guarantee. If the risks of default associated with a customer increase, we will (i) elevate our monitoring level on such customer by increasing the frequency of site visits and by including our senior vice general manager and/or our general manager of Success Guarantee in the regular monitoring process; and (ii) tighten the conditions for cooperation with such customer for guarantee transactions under the approval process or in the future, such as reducing the maximum guarantee amount, increasing the amount of counter-guarantee required, increasing the guarantee fee rate or even rejecting its application for further guarantee services; and
- (vii) according to our internal guidelines, upon being aware of any material risk of default on loan payment by our customers, the project manager shall report it to the head of business operation department within the day when he is aware of such risk, and thereafter the business operation department shall submit written report setting out the issue and suggestions on tackling such issue to our general manager and our risk control department within two days.

We keep track of changes in any information of our customers and collate such information for ease of analysis and to ensure information in our database is up-to-date. For each case, the project manager shall regularly submit to our senior vice general manager a post-transaction monitoring report, which typically contains an analysis of the customer’s business, including but limited to its business environment, corporate strategies, management, use of funds, operational data and financial conditions, and a proposal as to the post-transaction monitoring measures to be adopted for the senior

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vice general manager’s approval. To further manage our risk, our risk control department shall review the documents collected from the customers and the reports prepared by the project manager, and shall also conduct site visits to assess the operation of the customer and to identify any potential risks associated with it.

Our Group will continue to adopt the prudent approach on the approval of the guarantee application and reinforce the post-transaction monitoring.

**Factors to consider in guarantee approval process**

Our risk management starts from the guarantee approval process to post-transaction monitoring process. In the guarantee approval process, it is important for us to analyse the loan repayment capacity of each applicant so that we only approve applications for guarantees the applicants of which are able to repay the loans to lending institutions. Each of our business operation department, risk control department and risk management committee will analyse the information we gathered in our due diligence investigations and form an opinion whether they are satisfied that the potential customer is likely to be able to repay the loan upon maturity. Set out in the table below are examples of the factors which we would consider in typical guarantee application approval process according to our internal guidelines:

<b>Factors to consider</b>	<b>Relevant information to obtain</b>
Condition of an individual (an individual applicant, or the beneficial owner, spouse or family members of a company applicant)	Personal information, family assets, industry experience, bad credit record
Basic condition of corporation	Relationship with management, corporate credit, related enterprise
Operational condition of corporation	Industry background, raw material, products, product manufacturing condition, inventory, sales, employees, R&D capability and patents, machineries, prospect
Financial condition of the borrower company	Repayment ability, operational efficiency, profitability, growth ability
Use of loan proceeds	Details on the proposed use of loan proceeds and the ability to monitor the progress of repayment

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### **Customised proposals for counter-guarantee measures**

Our Group emphasises the importance of loan repayment capacity of our potential customers. The core of our business is to provide guarantee services based on assessment of our customers’ loan repayment capacity. Based on the information we gathered from our due diligence process, our analysis of the operating condition of the guarantee applicants and based on our experience, we assess the risk and the ability of guarantee applicants to repay the loans to lending institutions and approve applications which we are of the view that the risks can be managed and the loans can be repaid.

Apart from this, as a safeguard to our Group’s interest as a provider of guarantee services and to ensure our customers can repay us upon default, we design counter-guarantee measures and require our customers and/or their owners or third parties to enter into counter-guarantees under which collaterals and/or counter-guarantees are obtained as security for provision of our guarantee services. Unlike the lending institutions that primarily require the SMEs to provide fixed assets (such as land-use rights and properties) as collaterals for loan facilities, our Group may also accept other assets for counter-guarantee purpose, such as charges over machineries and equipment, vehicles, inventories, receivables, constructions on leased land, tenancy right, sub-letting right, insurance beneficiary right and unlisted shares. We may also accept collaterals and/or counter-guarantees provided by third parties if our customers themselves do not have sufficient assets as collaterals.

Regarding accounts receivables and tenancy rights, we will enter into a collateral agreement with the counter-guarantor, pursuant to which the counter-guarantor agrees to charge to us the accounts receivables of the counter-guarantor (in the case of accounts receivables) or the rental income from leases of the counter-guarantor (in the case of tenancy rights). Where we have indemnified the lending institution upon our customers’ default, we will be entitled to the proceeds of the accounts receivables or the rental income upon realisation of the relevant collateral.

Regarding sub-letting rights, we will enter into an agreement with the counter-guarantor, pursuant to which the counter-guarantor, who is a lessee of the relevant land and/or properties, agrees to transfer the right to sub-let such land and/or properties to us where we have indemnified the lending institution upon our customers’ default and we shall be entitled to income from the sub-lease as repayment of the indemnified amount. Under such agreement, the counter-guarantor also agrees to remain responsible for the rental payment under the lease with the owner of the relevant land and/or properties. In addition, we will seek written consent from the lessor to the above arrangement to ensure our rights on sub-letting such land and/or properties are enforceable pursuant to Article 224 of the Contract Law of the PRC (中華人民共和國合同法), which stipulates that a lessee may sublease the lease to a third person subject to consent by the lessor. As at 31 May 2013, [61] counter-guarantors provided sub-letting rights to our Group as collaterals (and the lease agreements that they entered into require lessors’ prior consent for sub-letting the relevant land and/or properties) and we obtained written consents from the relevant lessors in relation to the sub-letting rights provided to us by [17] counter-guarantors. As for the remaining [44] counter-guarantors, set out below is a summary, based on maturity dates, of the range of outstanding balance of guarantee amount of the contracts and the aggregate amount of outstanding balance of guarantee amount of the contracts under which

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sub-letting rights had been provided to our Group as collaterals but we had not obtained the necessary written consents from the relevant lessors as at 31 May 2013:

	<b>Number of guarantee contracts and relevant amount of outstanding balance as at 31 May 2013 which will fall due (Note) during the year ending 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Number of corresponding counter-guarantors/customers	[19]	[14]	[11]
Range of outstanding balance	RMB[0.1] million to RMB[20.0] million	RMB[0.8] million to RMB[19.8] million	RMB[2.0] million to RMB[6.4] million
Aggregate amount of outstanding balance	RMB[96.2] million	RMB[74.1] million	RMB[43.0] million

*Note:* Where a counter-guarantor or customer had entered into two or more outstanding guarantee contracts as at 31 May 2013 under which sub-letting rights was provided as collaterals, the latest maturity date among the relevant contracts is taken to be the relevant maturity date and the sum of all the relevant outstanding guarantee contracts as at 31 May 2013 in respect of such counter-guarantor or customer is taken to be the relevant outstanding balance.

We approved the above guarantee contracts without obtaining the relevant lessors’ consents as we had also considered the other factors in our guarantee approval process including [condition of an individual, operational and financial conditions of the corporation and the use of loan proceeds] and we had already entered into agreements with all the relevant counter-guarantors who agree to transfer the right to sub-let such land and/or properties to us in case indemnification is made by us upon default of loan repayment. All the above guarantee contracts were secured by other types of collaterals except for one guarantee contract of which the outstanding balance as at 31 May 2013 was approximately RMB1.98 million.

As advised by our PRC Legal Advisers, in case where the necessary prior consent has not been obtained from the relevant lessor, the lessor are entitled to terminate the relevant lease agreements. [We also regularly conduct physical inspection on the land and/or properties] and verify that the counter-guarantor has properly paid the relevant rent to ensure the counter-guarantor has not breached the lease agreement and/or land use rights contract.

In cases where we consider that the assets of our customers are flammable or explosive, we may require our customers to transfer the insurance beneficiary rights over the relevant assets to us as a measure to protect our collaterals, entitling us to compensation from the insurance company. The insurance beneficiary rights transferred to us are mainly commercial property insurance. According to the Ipsos Research Report, the acceptance of accounts receivables, tenancy rights and sub-letting rights as collaterals and insurance beneficiary rights as a measure to protect the collaterals is in line with the common industry practice of the financial guarantee companies in the PRC. Pursuant to the Property Law of the PRC, interests in such accounts receivables, tenancy rights and sub-letting rights are property rights which can be pledged and registered. Upon due registration of such interests in accounts receivables, tenancy rights and sub-letting rights in favour of us, we will be able to claim priority on such collaterals. If our interests in such collaterals are not registered in favour of us or are



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not registered at all, we will not be able to claim priority on the collaterals. In accordance with the Property Law of the PRC, when such collaterals are pledged to us, they cannot be transferred, leased or licensed to any third parties without our prior consent. [In view of the above, where we consider appropriate and practicable, we will ensure due registration of our interest in such collaterals shortly after the relevant counter-guarantee agreements are executed.] [In practice, for the sake of prudence, the registered value of our collaterals such as receivables is generally capped at our total guarantee amount in respect of the relevant customers.] Further information on the realisation procedures of such collaterals are set out in the paragraph headed “Outstanding guarantees, compensation upon default and recovery” in this section.

Prior to the 2013 Valuation Capability Enhancement, during the due diligence process, our business operation department investigates the asset portfolio of the guarantee applicants, explores the options for counter-guarantees measures, ascertains the legal ownership of collaterals under the counter-guarantee proposals and assesses the value of collaterals and/or counter-guarantees under the counter-guarantees proposals with reference to our internal guidelines for valuation. During the due diligence process, in order to ascertain the existence and legal title of the relevant collaterals, our business operation department will obtain the title documents and other relevant information in relation to the collaterals, obtain public filing information or conduct searches or obtain information from the relevant authority such as the Land and Resources Bureau, the Industry and Business Administration and real estate exchanges, etc. to verify the legal title of the collaterals, and make site visits to verify the existence, condition and status of the collaterals. The proposals for counter-guarantees measures, together with the preliminary assessment of value of any collaterals, will be set out in the due diligence report and be recommended to our risk control department for further review. Depending on the type of collaterals, the circumstances and the information available to us, we conduct our internal valuation of collaterals with reference to various sources, including but not limited to land valuation reports, public information on the transaction price of similar property in the area and the sale and purchase agreements of the relevant collaterals. After the 2013 Valuation Capability Enhancement, certain due diligence and collateral valuation procedures have been modified for the sake of prudence. Please refer to the paragraph headed “2013 Valuation Capability Enhancement” in this section for further details.

In evaluating collaterals such as machineries and equipment, vehicles, inventories, accounts receivables and unlisted shares, we will make reference to, among others, figures as stated in the financial statements (which may be audited or unaudited) provided by customers and/or counter-guarantors to us during the due diligence process. Under our guarantee approval process, each applicant are required to provide, among others, its financial statements (which may be audited or unaudited) at the stage of due diligence, without which its application for guarantee approval would not be considered by us. To verify the accuracy of the information and materials provided to us by our customers, including but not limited to, information set out in our customers’ financial statements thereby ensuring the reliability of information we rely on in our internal valuation of collaterals, we perform due diligence processes pursuant to our internal guidelines which includes but not limited to the following:

1. conduct on-site due diligence investigation on the major assets of customers (which may be our collaterals), including but not limited to the location, quantity, condition and completeness of such assets;

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2. conduct on-site checking and examination of inventories (including raw materials, semi-finished products and finished products) for the purpose of verifying information set out in the financial statements of our customers; and
3. verify the accuracy of the particulars of accounts receivables and prepayments provided by our customers by on-site sample checking against the underlying sale and purchase agreements and accounting documents.

Based on information provided by our customers which is verified by us during the due diligence and approval process and which is objectively reviewed and analysed by us with reference to our past experience and market information, we believe that we are able to make a fair valuation of the realisable values of the relevant collaterals/counter-guarantees.

The table below summarises the key sources of information based on which we conduct our internal valuation of different types of collaterals and/or counter-guarantees according to our internal guidelines prior to the 2013 Valuation Capability Enhancement (for relevant information after the 2013 Valuation Capability Enhancement, please refer to the paragraph headed “2013 Valuation Capability Enhancement” in this section):

<b>Type of collaterals/ counter-guarantees</b>	<b>Sources of information/basis of valuation</b>
Land use rights	<ul style="list-style-type: none"> <li>— land use right sale and purchase agreement</li> <li>— valuation report</li> <li>— market price of land of similar nature in the area from publicly available sources</li> </ul>
Properties	<ul style="list-style-type: none"> <li>— property sale and purchase agreement</li> <li>— valuation report</li> <li>— market price of property of similar nature in the area from publicly available sources</li> <li>— construction costs indicator (建築工程造價指標) from publicly available sources</li> <li>— list of fixed assets of the companies</li> <li>— [net book value as stated in financial statements of the companies]</li> </ul>
Machineries and equipment	<ul style="list-style-type: none"> <li>— sale and purchase agreement of machineries and equipment</li> <li>— list of fixed assets of the companies</li> </ul>

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**Type of collaterals/  
counter-guarantees**

**Sources of information/basis of valuation**

	— book salvage value (賬面殘值) as stated in financial statements of the companies
Vehicles	— vehicles sale and purchase agreement — list of fixed assets of the companies — book salvage value (賬面殘值) as stated in financial statements of the companies
Inventories	— list of inventory of the companies — net book value as stated in financial statements of the companies
Accounts receivables	— list of accounts receivables — amount as shown in the financial statements of the companies
Tenancy rights/sub-letting rights	— annual market rent of similar properties and the remaining period available for renting/sub-letting — actual annual rent of the part of properties rented/sub-let and the remaining period available for renting/sub-letting
Unlisted and listed shares	— proof of shareholding from public filing or searches — net book value as shown in financial statements of the companies — in case of listed shares, trading price of such shares on the relevant stock exchange

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The following table sets out the valuation approach we adopt in assessing the value of various types of collaterals and/or counter-guarantees and our internal requirements for various types of collaterals and/or counter-guarantees according to our internal guidelines prior to the 2013 Valuation Capability Enhancement (for valuation approach after the 2013 Valuation Capability Enhancement, please refer to the paragraph headed “2013 Valuation Capability Enhancement” in this section):

<b>Type of collaterals/ counter-guarantees</b>	<b>Valuation approach and requirements for collaterals and/or counter-guarantees</b>
Properties with property certificates	<ul style="list-style-type: none"><li>— nature of properties (commercial, residential, industrial, shops, office, etc.) should be taken into account; Different valuation methods are applicable to different types of properties, e.g. market price comparison approach which is suitable for commercial properties, office premises and shops, where we estimate the market value through consulting the banks, property agencies, information available on the Internet and in the media, etc.; whereas replacement cost method is generally applicable to industrial properties, self-constructed residential properties and dormitories</li><li>— valuation is with reference to recent transaction price of properties of similar nature in the neighbourhood, condition of the district, geographical location, transportation, neighbourhood, remaining term of use of the land, applicable government policies and environmental protection requirements</li><li>— also take into account the level of transaction activity which is an indicator of liquidity of the asset</li><li>— for second mortgage, the mortgaged value has to be subtracted from the assessed value</li></ul>
Properties without property certificates	<p>For properties without properties certificate, in addition to the factors above, consideration should be given to:</p> <ul style="list-style-type: none"><li>— the reason for the unavailability of properties certificate; properties the right to which are subjects of dispute shall not be accepted as collaterals</li><li>— the risks of losing exclusivity or priority in the collateral/charge</li><li>— for properties built on collectively-owned land, whether the cost of construction has been settled in full and the legality of the properties</li></ul>

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**Type of collaterals/  
counter-guarantees**

**Valuation approach and requirements for collaterals  
and/or counter-guarantees**

Land use right with land use  
right certificates

For land with land use right certificates, consideration should  
be given to:

- the reference land price published by the local  
government
- the land price for transactions recently completed in  
relation to land with similar land use in the surrounding  
areas
- the restrictions on land use
- the location of the land
- the remaining years of validity for the land use rights
- the effect of local urban or industrial planning on the  
liquidity of the land
- the value of the land which is charged where the land is  
already subject to mortgage

Land use right without land use  
right certificates

For land without land use right certificate, in addition to the  
factors above, consideration should be given to:

- the reasons for not possessing the land use right  
certificate
- the risks of losing exclusivity or priority due to the  
absence of the land use right certificate
- whether the land is state-owned land
- whether the original acquisition agreement of the land is  
valid and the relevant consideration has been fully  
settled, where the land is collectively-owned

Machineries and equipment

- valuation is based on the lower of the net book value as  
stated in financial statements of the relevant company  
and the acquisition cost as shown in acquisition  
agreement, sales invoice or receipt, term of use of the  
machinery, versatility or generality of the machinery

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**Type of collaterals/  
counter-guarantees**

**Valuation approach and requirements for collaterals  
and/or counter-guarantees**

- machinery which are not fully paid, or imported machinery that are still under customs supervision shall not be accepted as collaterals
  - the risks of losing exclusivity or priority in the collateral/charge in cases where the charge of machinery cannot be registered shall be considered
- Vehicles
- valuation is based on the lower of the net book value as stated in financial statements of the relevant company and the acquisition cost as shown in acquisition agreement, sales invoice or receipt, term of use of the vehicle
  - vehicles which are registered outside Foshan or not fully paid shall not be accepted as collaterals
  - the risks of losing exclusivity or priority in the collateral/charge in cases where the charge of vehicles cannot be registered shall be considered
- Inventories
- inventories may include raw materials, semi-finished products and finished products
  - valuation is made with reference to financial statements of the relevant company, list of inventory, actual condition of inventories, unit price of inventories as indicated in relevant purchase agreement and market price during the relevant period
  - we require regular post-guarantee inspection of inventory level; where the inventory level and value is below that stipulated in the counter-guarantee agreement, we may require further counter-guarantee condition
- Accounts receivables
- valuation is based on financial statements of the relevant company or list of accounts receivables provided by the relevant company
  - the amount of accounts receivables shall be verified with reference to the relevant supply agreements and sales agreements and payment schedule



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**Type of collaterals/  
counter-guarantees**

**Valuation approach and requirements for collaterals  
and/or counter-guarantees**

- |  |   |
|--|---|
| Type of collaterals/<br>counter-guarantees | <ul style="list-style-type: none"><li>— in practice, the appraised value of receivables is generally capped at our total guarantee amount in respect of the relevant customers for the sake of prudence</li><li>— in accepting accounts receivables as collaterals, priority will be given to amounts due from parties with higher reputation, higher credibility and less history of default</li><li>— accounts receivables with the ageing of which have exceeded normal credit term within the relevant industry, or accounts receivables for which provision for bad debts has been made shall not be included as our collaterals</li></ul> |
| Tenancy rights/ sub-letting rights         | <ul style="list-style-type: none"><li>— in the case of sub-letting of rented land or property, the remaining term of lease of such land or property must not be shorter than three years and must cover the whole credit period or guarantee period</li><li>— valuation is based on the expected amount of rental income received upon leasing/sub-letting, having regard to the market rent of land and/or property of similar nature in the area, the surface area of land, the gross floor area of property</li></ul>  |
| Unlisted and listed shares                 | <ul style="list-style-type: none"><li>— valuation is based on the net asset value of the company as reflected in the latest audited financial statements of such company</li><li>— in accepting unlisted shares as collaterals, priority will be given to companies with higher industry mobility, clearer shareholding structure and shareholding interest without dispute</li><li>— in the case of listed shares, valuation is based on the trading price of such shares on the relevant stock exchange</li></ul>   |

In assessing the value of our collaterals and/or counter-guarantees, we make and consider the following assumptions, for example, the political situation in China is stable, the domestic economy is stable and grows steadily, the sound and healthy operation of the financial system, the overall level of domestic prices remain stable, the balance of the supply and demand of the factors of production, the raw materials, labour and external production environment are under normal operating environment for production, and the similarity in terms of nature, purpose, geographical location and

## **BUSINESS**

area, etc. between the subject of valuation and the reference of valuation. For collaterals which can be registered (such as land and properties) and which can be transacted in public market, we assume an open market for such collaterals with wide range of use and high versatility. For collaterals which are unable to be registered (such as in cases where the customer cannot provide the necessary documentation for the pledge of inventories or equipment to us) but can be transacted in market, we assume such transactions can take place. In valuating tenancy or sub-letting rights, we assume the underlying land or properties can be rented or sub-let continuously throughout the expected term of tenancy or sub-tenancy. For customers’ pledged deposits, taking into account that (i) they are provided to us as security or counter-guarantee for the customers’ payment obligations (which is the defining nature of collateral); and (ii) our interests in such deposits are not registered, they are classified as unregistered collateral.

The [●] consider that the valuation methods and the assumptions adopted by our Group for collaterals are reasonable and appropriate.

Among the 25 staff members as of 31 May 2013 of our business operation department, all of them carry out internal valuation of collaterals, 18 of them completed tertiary education specialising in the financial fields, 15 of them possess working experience in the guarantee industry and thus relevant valuation experience of two years or above, whereas nine of them possess working experience in the financial industry of five years or above. Save as disclosed above, as at 31 May 2013, employees of our business operation department did not possess other professional qualifications or experience in valuation. In view of our Group’s continuous business development need, we engaged two PRC certified public valuers as our full time and part-time employees of our risk control department in June 2013 and July 2013 respectively. For details of their valuation qualifications and experience, please refer to the paragraph headed “2013 Valuation Capability Enhancement” in this section. Our business operation department is led by Mr. Yuan Chen, our vice general manager of Success Guarantee, whose qualification and experience are disclosed in the section headed “Directors, Senior Management and Staff” in this document. During the Track Record Period, each project manager handling the guarantee application will be responsible for investigating the conditions of the collaterals, assessing the collateral value and propose a valuation value in the due diligence report for further review and approval by our risk control department and risk management committee. During the Track Record Period, the collaterals were tracked and evaluated by each project handling team from the business operation department based on the internal guidelines of our Group, which is from time to time updated by our Group based on market and regulatory changes. We formulate and implement plans for staff training each year according to our Group’s business development needs, and we also arrange irregular staff training from time to time in order to provide our employees with the latest updates on industry and market information. Based on our staff’s relevant education background, past relevant experience, on-the-job training provided by our Group and our standardised internal guidelines on due diligence and valuation, we believe that we possess sufficient manpower and relevant expertise to conduct due diligence on our customers and perform proper valuation on the collaterals/counter-guarantees. To accommodate our future business development and expansion, we plan to recruit personnel with relevant valuation qualifications and experience, and to encourage our staff to obtain professional valuation qualifications in future according to our expansion plan. In around June/July 2013, we implemented the 2013 Valuation Capability Enhancement to enhance our capability in valuation of collaterals and counter-guarantees. For further details of the 2013 Valuation Capability Enhancement please refer to the paragraph headed “2013 Valuation Capability Enhancement” in this section.

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To ensure that our staff has sufficient knowledge and skills in respect of valuation and identification of collaterals, we provide in-house training to our staff to maintain good standards for the proper valuation and authentication of assets and properties.

As at the Latest Practicable Date, all current assets as collaterals in favour of our Group were retained in the custody at either our customers’ or Independent Third Party’s premises. To monitor any subsequent change in the condition and valuation of the collaterals, our Group makes both regular and spontaneous visits to such assets for risk control and on-going monitoring regularly to monitor the status of the collaterals, to discover any change in the collaterals to check whether they have been leased, transferred, given or disposed of, whether they have been lost, damaged, removed, moved, and whether there is any change in assessed value of the collaterals and, in some cases, we also make visits to monitor the other inventories of our customers that are not subject to the assets pledged to our Group. Through various visits, our Group will have a better understanding of our customers’ business conditions. In certain cases, our Group will hire agents at the expense of our customers to monitor and safeguard the assets pledged to our Group. In general, if the market value of the assets pledged to us has decreased substantially, our Group is entitled to require its customers or its owners to provide additional assets as collaterals.

Our Group follows internal guidelines in its valuation of collaterals and/or counter-guarantees. Collaterals and counter-guarantees provided for obligations guaranteed by us comprise (i) collaterals registered exclusively in favour of our Group; (ii) collaterals not registered exclusively in favour of our Group; (iii) collaterals registered exclusively in favour of third parties; and (iv) unregistered collaterals. Prior to January 2013, our Group did not maintain comprehensive documentation of our valuation process and procedures. For improved internal control and record-keeping purposes, since January 2013, it has become a standard internal requirement of our Group to maintain proper written record and documentation in the guarantee approval process for its work done on valuation of assets subject to collateral agreements and/or counter-guarantee agreements. [Using the methods of valuation as set out in our internal guidelines prior to the 2013 Valuation Capability Enhancement, our Group has re-assessed with documentation the asset value as at 31 December 2012 of the collaterals and/or counter-guarantees provided in respect of loans guaranteed by us outstanding as at 31 December 2012.

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The following table sets out the breakdown of such re-assessed values of the assets subject to pledge under the collateral agreements and/or counter-guarantee agreements in relation to obligations guaranteed by us as at 31 December 2012:

	As at 31 December 2012					
	Amount of assets (value of which is internally verifiable) <i>RMB million</i>	Percentage to the total amount of assets (value of which is internally verifiable) %	Amount of collaterals registered exclusively in favour of our Group <i>RMB million</i>	Amount of collaterals not registered exclusively in favour of our Group <i>RMB million</i>	Amount of collaterals registered exclusively in favour of third parties <i>RMB million</i>	Amount of unregistered collaterals and customers’ pledged cash deposits <i>RMB million</i>
	Properties	1,213.3	[17.0]	84.8	6.6	130.9
Land use rights	622.9	[8.8]	53.6	—	238.8	330.5
Machineries and equipment	1,339.1	[18.8]	580.2	—	60.0	698.9
Vehicles	13.8	[0.2]	13.8	—	—	—
Inventories	1,082.3	[15.2]	189.7	—	—	892.6
Receivables	544.0	[7.6]	390.3	—	—	153.7
Tenancy rights/sub-letting rights	2,254.0	[31.7]	612.4	—	—	1,641.6
Shares	35.0	[0.5]	—	—	35.0	—
Customers’ pledged cash deposits	12.6	[0.2]	—	—	—	12.6
<b>Total:</b>	<u>7,117.0</u>	<u>[100.0]</u>	<u>1,924.8</u>	<u>6.6</u>	<u>464.7</u>	<u>4,720.9</u>
Financial guarantee	7,104.5	[99.8]	1,924.8	6.6	464.7	4,708.4
Litigation guarantee	—	[—]	—	—	—	—
Performance guarantee	12.5	[0.2]	—	—	—	12.5
<b>Total:</b>	<u>7,117.0</u>	<u>[100.0]</u>	<u>1,924.8</u>	<u>6.6</u>	<u>464.7</u>	<u>4,720.9</u>

**2013 Valuation Capability Enhancement**

During the Track Record Period, employees of our business operation department did not possess professional qualifications in valuation. In view of our Group’s continuous business development need and in order to adopt a more prudent approach in our collateral valuation so as to minimise the risk exposure of our Group, we have engaged two PRC certified public valuers as our full time and part-time employees respectively of our risk control department since June and July 2013 respectively. Our full time professional valuer obtained his qualifications as a certified public valuer from the Ministry of Finance, the PRC in 1998, and has over 15 years of valuation experience in the PRC. He is also a member of the Chinese Institute of Certified Public Accountants of the PRC since 1994. Prior to joining our Group, he had worked in a valuation company and accounting firm responsible for valuation. Our part-time professional valuer obtained her qualifications as a certified public valuer from the Ministry of Finance, the PRC in 2008.

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In July 2013, we conducted internal review of our internal valuation guidelines with our in-house professional valuers, who were of the view that the valuation methodology adopted by our Group was basically fair and reasonable, but a more prudent approach was advised to be adopted in the future for minimising risk exposure of our Group. Having consulted our in-house professional valuers and having reviewed our internal valuation guidelines and procedures in a critical perspective, we modified certain aspects of our internal valuation process and methodology as follows for the sake of prudence.

Under our revised internal valuation guidelines adopted in July 2013, our in-house professional valuers will join the business operation department to participate in the site visits for inspection of the collaterals at the due diligence stage to obtain first hand information as to the condition and status of the collaterals. The preliminary assessment of collateral value by our business operation department will be further reviewed by our professional valuers, who will either endorse, disapprove or supplement the valuation opinion given by our business operation department. An application for guarantee will only be recommended to our risk control department for further review after it has been reviewed by our professional valuers.

Under the modified internal valuation guidelines, valuation of collaterals which are machineries, equipment and vehicles shall adopt the replacement cost method, under which an “appraised value” shall be obtained with reference to the latest purchase price of such assets at the time of valuation and by making adjustments to the value having regard to various factors such as the number of years for which an asset has been used, the condition and status of an asset, the frequency of use or operation, the level of maintenance, etc.. In the event that the latest purchase price of such assets at the time of valuation is not available, the “appraised value” will be determined based on the original purchase price of such assets as shown in, for instance, the invoices and the sale and purchase agreements. The asset value as shown in valuation reports or insurance policies which are within the validity period can also be a source of reference of the appraised value. After obtaining the “appraised value” under the replacement cost method, in order to arrive at a more prudent value which can reflect the realisable value of the collaterals in the event that collaterals are required to be realised within a very short period of time in cases of default, all the “appraised value” of machineries, equipment and vehicles will be adjusted by a prudent discount ranging from 30% to 50% to arrive at the “realisable value”, the range of such discount is determined by our in-house professional valuers based on the general rate of discount to the market prices of assets for which auctions are ordered by the courts of the PRC, and the actual rate of discount is to be determined by our in-house professional valuers based on various factors, such as the versatility of the asset (i.e. whether it is suitable for general purposes or specific purposes), and the level of liquidity (i.e. whether the asset is actively traded in the market) of the asset. For illustrative purpose, the “appraised value” and the “realisable value” of machineries and equipment were approximately RMB[1,191.4] million and RMB[735.6] million respectively as at 31 December 2012, and approximately RMB[1,169.6] million and RMB[719.5] million respectively as at 31 May 2013; whereas the “appraised value” and the “realisable value” of vehicles were approximately RMB[13.8] million and RMB[7.1] million respectively as at 31 December 2012, and approximately RMB[13.3] million and RMB[9.3] million respectively as at 31 May 2013.

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As for the valuation of collaterals which are inventories, in view that [the value, amount and quantity of inventories are floating in nature and the realisable value can only be determined when such counter-guarantees are crystallised and when such collaterals are actually realised], we, as advised by our in-house professional valuers, have adopted a standardised substantial discount of 90% to the preliminary assessed value of inventories to arrive at the “realisable value” based on the principle of prudence. The preliminary assessed value of inventories is determined based on the net book value as shown in financial statements of relevant companies, list of inventories as verified by us, and value as shown in valuation reports and insurance policies which are within the validity period. For illustrative purpose, the “appraised value” and the “realisable value” of inventories were approximately RMB[1,082.3] million and RMB[108.2] million respectively as at 31 December 2012, and approximately RMB[978.7] million and RMB[97.9] million respectively as at 31 May 2013.

As regard our counter-guarantees which are accounts receivables, [it has been the general practice of our Group to adopt the lower value among the total balance of accounts receivables as recorded in the financial statements of our customers and the total guarantee amount in respect of the relevant customers as the value of accounts receivables pledged to us, so that in effect, a prudent discount of the pledged value to the value of total accounts receivables of the relevant customers shown in the financial statements of such customers has already been adopted by us. [For illustrative purpose, as at 31 May 2013, the aggregate value of accounts receivables pledged to us was approximately RMB[660.0] million, while the relevant aggregate amount of accounts receivables stated in such customers’ latest financial statements provided for our guarantee approval process amounted to approximately RMB[5,771.7] million, representing an overall discount of approximately [88.6]%. According to one of our PRC certified public valuers, based on his knowledge and practical experience, it has been the general industry practice among financial institutions in the PRC to make on a case by case basis a reasonable discount of up to 30% to the total balance of accounts receivables stated in an enterprise’s financial statements as pledged value, depending on the quality and recoverability of such accounts receivables. On such basis, our Directors consider that our Group’s existing valuation policy and approach in respect of accounts receivables as collaterals is sufficiently prudent.] [As advised by our PRC Legal Advisers and based on the confirmation of our Group, where a guarantee customer is in default, we are entitled under the collateral agreement to ask for repayment from all debtors of the relevant guarantee customer appearing in that guarantee customer’s books and records without limiting to any specific debtor(s) and amounts, until the amount received by us from such debtors can fully cover our loss incurred in that guarantee transaction in default.] In addition, in circumstances where the repayment capacity of the relevant customers or counter-guarantors is seriously impaired, we are entitled to request for further collaterals or counter-guarantees to safely secure the relevant guarantee amount. Further, our Directors consider that given the total balance of accounts receivables provided by our Group’s customers as collateral are measured on a dollar-for-dollar basis (other than its floating amount in nature), the actual salvage value or net realisation value is expected not to be obsolete generally over time. In view of the above, we (including our in-house professional valuers) are of the view that further discount on such values for the sake of prudence for reflecting the realisable value is not necessary.

Save for the modification set out above, the valuation approach and methodology adopted by us and the key sources of information based on which we conduct our internal valuation of our collaterals/counter-guarantees which are machineries, equipment, vehicles and inventories after the 2013 Valuation Capability Enhancement are substantially the same as those prior to the 2013 Valuation



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Capability Enhancement. There is no change in the valuation approach and key sources of information based on which we conduct valuation before and after the 2013 Valuation Capability Enhancement in respect of our valuation of collaterals/counter guarantees which are properties, land use rights, receivables, tenancy rights/sub-letting rights and shares.

With a view to achieve a more prudent assessment of the value of collaterals and counter-guarantees provided to us, based on our modified valuation methodology adopted under the 2013 Valuation Capability Enhancement, we re-assessed the asset value as at 31 December 2012 and also assessed the asset value as at 31 May 2013 of the collaterals and/or counter-guarantees provided to us in respect of loans guaranteed by us outstanding as at 31 December 2012 and 31 May 2013 respectively. The following table sets out the breakdown of the re-assessed value of assets subject to pledge under the collaterals agreements and/or counter-guarantee agreements in relation to obligations guaranteed by us as at 31 December 2012:

	<b>As at 31 December 2012</b>					
	<b>Amount of assets (value of which is internally verifiable) RMB million</b>	<b>Percentage to the total amount of assets (value of which is internally verifiable) %</b>	<b>Amount of collaterals registered exclusively in favour of our Group RMB million</b>	<b>Amount of collaterals not registered exclusively in favour of our Group RMB million</b>	<b>Amount of collaterals registered exclusively in favour of third parties RMB million</b>	<b>Amount of unregistered collaterals and customers' pledged cash deposits RMB million</b>
Properties	[1,213.3]	[21.9]	[84.8]	[6.6]	[130.9]	[991.0]
Land use rights	[622.9]	[11.3]	[53.6]	—	[238.8]	[330.5]
Machineries and equipment	[735.6]	[13.3]	[360.3]	—	[41.6]	[333.7]
Vehicles	[7.1]	[0.1]	[7.1]	—	—	—
Inventories	[108.2]	[2.0]	[19.0]	—	—	[89.2]
Receivables	[544.0]	[9.8]	[390.3]	—	—	[153.7]
Tenancy rights/sub-letting rights	[2,254.0]	[40.8]	[612.4]	—	—	[1,641.6]
Shares	[35.0]	[0.6]	—	—	[35.0]	—
Customers' pledged cash deposits	<u>[12.6]</u>	<u>[0.2]</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>[12.6]</u>
<b>Total:</b>	<u>[5,532.7]</u>	<u>[100.0]</u>	<u>[1,527.5]</u>	<u>[6.6]</u>	<u>[446.3]</u>	<u>[3,552.3]</u>
Financial guarantees	[5,520.2]	[99.8]	[1,527.5]	[6.6]	[446.3]	[3,539.8]
Litigation guarantees	—	—	—	—	—	—
Performance guarantees	<u>[12.5]</u>	<u>[0.2]</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>[12.5]</u>
<b>Total:</b>	<u>[5,532.7]</u>	<u>[100.0]</u>	<u>[1,527.5]</u>	<u>[6.6]</u>	<u>[446.3]</u>	<u>[3,552.3]</u>

**THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed “Warning” on the cover of this Web Proof Information Pack.**

<b>BUSINESS</b>
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The following table sets out the breakdown of the value of assets subject to pledge under the collaterals agreements and/or counter-guarantee agreements in relation to obligations guaranteed by us as at 31 May 2013:

	As at 31 May 2013					
	Amount of assets (value of which is internally verifiable) <i>RMB million</i>	Percentage to the total amount of assets (value of which is internally verifiable) %	Amount of collaterals registered exclusively in favour of our Group <i>RMB million</i>	Amount of collaterals not registered exclusively in favour of our Group <i>RMB million</i>	Amount of collaterals registered exclusively in favour of third parties <i>RMB million</i>	Amount of unregistered collaterals and customers’ pledged cash deposit <i>RMB million</i>
Properties	[1,212.6]	[22.3]	[101.1]	[6.8]	[134.3]	[970.4]
Land use rights	[753.9]	[13.9]	[58.4]	—	[206.3]	[489.2]
Machineries and equipment	[719.5]	[13.2]	[361.6]	—	[29.5]	[328.4]
Vehicles	[9.3]	[0.2]	[9.3]	—	—	—
Inventories	[97.9]	[1.8]	[15.9]	—	—	[82.0]
Receivables	[660.0]	[12.1]	[395.2]	—	[100.0]	[164.8]
Tenancy rights/sub-letting rights	[1,960.9]	[36.1]	[537.7]	—	—	[1,423.2]
Shares	[17.6]	[0.3]	—	—	[15.0]	[2.6]
Customers’ pledged cash deposits	[3.7]	[0.1]	—	—	[—]	[3.7]
<b>Total:</b>	<u>[5,435.4]</u>	<u>[100.0]</u>	<u>[1,479.2]</u>	<u>6.8</u>	<u>[485.1]</u>	<u>3,464.3</u>
Financial guarantees	[5,423.3]	[99.8]	[1,479.2]	[6.8]	[485.1]	[3,452.2]
Litigation guarantees	—	—	—	—	—	—
Performance guarantees	[12.1]	[0.2]	—	—	—	[12.1]
<b>Total:</b>	<u>[5,435.4]</u>	<u>[100.0]</u>	<u>[1,479.2]</u>	<u>[6.8]</u>	<u>[485.1]</u>	<u>[3,464.3]</u>

**Our risk exposure under the outstanding guarantees provided by us**

As at 31 December 2012 and as at 31 May 2013, the total outstanding guarantee provided by us amounted to approximately RMB1,483.5 million and RMB[1,539.1] million, representing approximately 4.28 times and 4.20 times of the net assets of Success Guarantee, respectively. To mitigate our risk exposure under our outstanding guarantees, we (i) take extensive measures to assess the loan repayment capacity of potential customers in the guarantee approval process; and (ii) obtain collaterals and/or counter-guarantees in respect of our guaranteed obligations. The table below sets

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out a summary of the aggregate outstanding guarantee amount secured by collaterals (fully or partially) and the aggregate outstanding guarantee amount not secured by any collateral as at 31 December 2012 and as at 31 May 2013:

	As at 31 December 2012			As at 31 May 2013		
	Aggregate outstanding guarantee amount			Aggregate outstanding guarantee amount		
	Not		Total	Not		Total
	Secured by collaterals	secured by collaterals		Secured by collaterals	secured by collaterals	
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
<b>Financial guarantees</b>	[1,317.7]	[50.0]	1,367.7	[1,359.6]	[50.0]	1,409.6
<b>Litigation guarantees</b>	—	[57.3]	57.3	[—]	[71.0]	71.0
<b>Performance guarantees</b>	<u>[18.5]</u>	<u>[40.0]</u>	<u>58.5</u>	<u>[18.5]</u>	<u>[40.0]</u>	<u>58.5</u>
	<u>[1,336.2]</u>	<u>[147.3]</u>	<u>1,483.5</u>	<u>[1,378.1]</u>	<u>[161.0]</u>	<u>1,539.1</u>

***Guarantees not secured by any collateral***

As at 31 December 2012, 16 of the outstanding guarantees issued by us were not secured by any collaterals, comprising [one] financial guarantee (with outstanding guarantee amount of RMB[50] million), [one] performance guarantee (with outstanding guarantee amount of RMB[40] million, and [14] litigation guarantees (with an aggregate outstanding amount of approximately RMB[57] million). While all of the [14] litigation guarantees have no fixed repayment deadline, the outstanding amount of the loan in relation to the financial guarantee will fall due in 2014 and the guaranteed obligations under the performance guarantee will fall due in 2015. As at the Latest Practicable Date, our customers were not in default of the obligations guaranteed by us in such cases with no collaterals provided.

As at 31 May 2013, [28] of the outstanding guarantees issued by us were not secured by any collaterals, comprising [one] financial guarantee (with outstanding guarantee amount of RMB[50] million), [one] performance guarantee (with outstanding guarantee amount of RMB[40] million) and [26] litigation guarantees (with an aggregate outstanding amount of approximately RMB[71] million). While all of the [26] litigation guarantees have no fixed repayment deadline, the outstanding amount of the loan in relation to the financial guarantee will fall due in [2014] and the guaranteed obligations under the performance guarantee will fall due in [2015]. As at the Latest Practicable Date, our customers were not in default of the obligations guaranteed by us in such cases with no collaterals provided.

For the 14 and [26] outstanding litigation guarantees as at 31 December 2012 and 31 May 2013 respectively, our customers were applicants for property preservation with the court. [Our Directors consider that risks associated with such guarantees were low, taking into account (i) the relatively low

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average guarantee amount of approximately RMB[4] million as at 31 December 2012 and RMB[2.7] million as at 31 May 2013; (ii) our Group’s assessment of the merits and circumstances of the litigation; and (iii) that, in certain cases, personal and/or corporate guarantees were provided by our customers, its owners, directors and/or other third parties in respect of such litigation guarantees issued by us.]

For the outstanding financial guarantee with no collateral provided as at 31 May 2013, our customer was a high-technology pump manufacturer. For the outstanding performance guarantee with no collateral provided as at 31 May 2013, our customers were eight companies which entered into a government property development contract through competitive bidding. The summary of the maturity profile and the key background information considered by our Group in each of these [two] cases is set out as follows:

Customer (type of guarantee)	Outstanding guarantee amount as at 31 May 2013 <i>(RMB million)</i>	Maximum obligation due in 2013 <i>(RMB million)</i>	Maximum obligation due in 2014 <i>(RMB million)</i>	Maximum obligation due in 2015 <i>(RMB million)</i>	Current repayment status	Key background information considered by our Group
A high-technology pump manufacturer in the PRC (financial guarantee)	50	—	50	—	Not in default	As one the first selected SMEs eligible to participate in the issuance of regional collective notes for high-quality SMEs, it had been recognised as one of the Key High-Technology Enterprises of the National Torch Programme in 2007 and 2011 respectively. Thirteen shareholders who are also the senior management of the company, holding 74.1% interest in the company in aggregate, provided unlimited liability personal guarantee in respect of the loan.
Eight companies which entered into a government property development contract through competitive bidding (performance guarantee)	40	—	—	40	Not in default	To the best knowledge and belief of the Directors, the consideration of the land had been fully paid off and the performance guarantee provided by us was to ensure the eight selected companies would complete the construction by strictly adhering to the development schedule of a highly supported government property development project and so only minimal risk was involved.
<b>Total:</b>	90	—	50	40		

***Loan-to-value ratio***

In considering a guarantee application, we have been primarily focusing on considering the loan repayment capability and creditworthiness of our potential customers in the first resort for every guarantee transaction, rather than the value of collaterals provided by them as supplementary assurance. The core of our business is to provide financial guarantee services based on our assessment of customers’ loan repayment capability according to our analysis of their operational information gathered in the due diligence process for every potential case. As such, during the Track Record Period, we did not adopt any prescribed loan-to-value ratios as a prerequisite or assessment criterion for guarantee applications. The range of loan-to-value ratios (as calculated by dividing the outstanding guarantee amount under the guarantee contract by the total asset value of the collaterals and/or

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counter-guarantees provided in respect of loans guaranteed by us based on our Group’s internal re-assessed valuation) in relation to each of the outstanding guarantees issued by our Group as at 31 December 2012 and as at 31 May 2013 (excluding the outstanding guarantee amount not secured by any collateral, which amounted to approximately RMB[147.3] million and RMB[161.0] million respectively) is summarised below:

<b>Loan-to-value ratio</b> <i>(Note)</i>	<b>As at</b>		<b>As at</b>	
	<b>31 December 2012</b>		<b>31 May 2013</b>	
	<b>Aggregate</b>		<b>Aggregate</b>	
	<b>outstanding</b>		<b>outstanding</b>	
	<b>guarantee</b>		<b>guarantee</b>	
	<b>amount</b>		<b>amount</b>	
	<i>(RMB’ million)</i>	<i>% (RMB’ million)</i>	<i>% (RMB’ million)</i>	<i>%</i>
Larger than 100.0%	[179.8]	[13.5]	[148.5]	[10.8]
100.0% - 50.1%	[332.7]	[24.9]	[449.5]	[32.6]
50.0% - 10.0%	[694.4]	[52.0]	[656.3]	[47.6]
Less than 10.0%	<u>[129.3]</u>	<u>[9.6]</u>	<u>[123.8]</u>	<u>[9.0]</u>
	<u>[1,336.2]</u>	<u>100.0</u>	<u>[1,378.1]</u>	<u>100.0</u>

*Note:* The loan-to-value ratio in relation to all collaterals (including both registered and unregistered collaterals) provided for each outstanding guarantee we provided as at 31 December 2012 and 31 May 2013 is calculated by dividing the outstanding guarantee amount for the particular guarantee we provided by the aggregate value of all collaterals provided in respect of the relevant loan we guaranteed. The aggregate outstanding guarantee amount for the given range of loan-to-value ratios set out above represents the sum of the outstanding guarantee amount for every guarantee provided by us with a loan-to-value ratio of all collaterals falling within the given range.

The loan-to-value ratio in relation to the outstanding guarantees we issued represents the extent to which the outstanding guarantee amount is secured by the value of collaterals provided in respect of relevant loan we guaranteed. Accordingly, where the loan-to-value ratio is less than 100%, the value of collaterals provided in respect of the loan we guaranteed exceeds the relevant outstanding guarantee amount (i.e. the outstanding guarantee amount is fully secured by the value of the relevant collaterals). Where the loan-to-value ratio exceeds 100%, the outstanding guarantee amount is not fully secured by the value of collaterals provided in respect of the obligations we guaranteed. As collaterals, whether registered or not registered exclusively to our Group or unregistered, are provided as a counter-guarantee for the entire loan amount we guaranteed, the proportion of guarantee amount secured by registered collaterals or secured by unregistered collaterals cannot be clearly allocated and identified due to the nature of collaterals provided in guarantee transactions.

Among our total outstanding guarantee amount as at 31 December 2012, approximately RMB[147.3] million were not secured by any collateral, representing about [9.9]% of the total outstanding guarantee amount. For the total outstanding guarantee amount which was fully or partially secured by collaterals (i.e. approximately RMB[1,336.2] million), the aggregate outstanding amount of guarantees with a loan-to-value ratio larger than 100% (i.e. not fully secured by collaterals) and those with a loan-to-value ratio not more than 100% (i.e. fully secured by collaterals) were approximately RMB[179.8] million and RMB[1,156.4] million, representing about [13.5]% and [86.5]% of the total secured outstanding guarantee amount respectively.

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Among our total outstanding guarantee amount as at 31 May 2013, approximately RMB[161.0] million were not secured by any collateral, representing about [10.5]% of the total outstanding guarantee amount. For the total outstanding guarantee amount which was fully or partially secured by collaterals (i.e. approximately RMB[1,378.1] million), the aggregate outstanding amount of guarantees with a loan-to-value ratio larger than 100% (i.e. not fully secured by collaterals) and those with a loan-to-value ratio not more than 100% (i.e. fully secured by collaterals) were approximately RMB[148.5] million and RMB[1,229.6] million, representing about [10.8]% and [89.2]% of the total secured outstanding guarantee amount respectively.

As at 31 December 2012 and 31 May 2013, the average loan-to-value ratio (calculated by dividing the sum of the loan-to-value ratios for every outstanding guarantees in relation to all collaterals provided by the number of total outstanding guarantees as at 31 December 2012 and 31 May 2013) for the outstanding guarantees we issued (excluding the outstanding guarantees not secured by any collaterals) was approximately [47.6]% and [39.4]%, respectively.

In the guarantee approval process, we would seek to identify and require our customers and/or their counter-guarantors to charge the maximum amount of collaterals to us. Accordingly, we do not maintain a maximum limit on the loan-to-value ratio for the guarantees we provide. Among more than [240] outstanding financial guarantees and performance guarantees of our Group as at 31 May 2013, only [six] cases (which did not include guarantees not secured by any collateral) have a loan-to-value ratio larger than 100% respectively (calculated based on the aggregate value of all registered and unregistered collaterals provided). The loan-to-value ratios in respect of such guarantees ranged from approximately [126]% to [314]%. As at the Latest Practicable Date, our customers in such [six] cases as at 31 May 2013 were not in default of the obligations guaranteed by us.

Set out below is a summary of the maturity profile and the key background information considered by our Group in each of the [six] cases where the relevant loan-to-value ratios exceed 100% as at 31 May 2013:

Customer (type of guarantee)	Loan-to-value ratio	Outstanding guarantee	Maximum obligation	Maximum obligation	Current repayment	Key background information considered by our Group
		amount as at 31 May 2013	due in 2013	due in 2014	status	
		(RMB million)	(RMB million)	(RMB million)		
1. A textile trading company principally engaged in the export of textile products (financial guarantee)	[126]%	13.5	13.5	—	Not in default	The purpose of the loan was for operating cashflow for the increasing sales in the PRC. Based on the accounts being provided to us, the company had stable account receivables of around RMB12 million per month and average collection period of around 30 days. For the year ended 31 December 2011, its revenue amounted to around RMB130 million and its net profit amounted to around RMB12 million.
2. A high-technology ceramics manufacturer in the PRC (financial guarantee)	[139]%	60.0	—	60.0	Not in default	It was one the first selected SMEs eligible to participate in the issuance of regional collective notes for high-quality SMEs. It had a registered paid-in capital of RMB140 million. Based on our research on the publicly available information, as at June 2011, it ranked the fifth ceramics manufacturer in Guangdong Province in terms of production volume and market share.



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Customer (type of guarantee)	Loan-to-value ratio	Outstanding guarantee amount as at 31 May 2013 (RMB million)	Maximum obligation due in 2013 (RMB million)	Maximum obligation due in 2014 (RMB million)	Current repayment status	Key background information considered by our Group
3. A distributor of a global brand of personal care products in Yunnan Province, the PRC (performance guarantee)	[153]%	18.5	—	18.5	Not in default	Based on its accounts, its revenue amounted to around RMB408 million for the year ended 31 December 2012 and its total assets amounted to around RMB135 million at the end of 2012. There had been no default payment since our provision of performance guarantee services to it in 2008. The senior management has over ten years of experience in the industry.
4. A musical instrument retailer and learning center (financial guarantee)	[229]%	3.0	3.0	—	Not in default	As at the date of application, it had established over 10 years and had 9 learning centers and 1 nursery school. For the year ended 31 December 2011, its revenue amounted to around RMB25 million and its net profit amounted to around RMB1.1 million. Since most of its collateral being provided consists of musical instrument and therefore substantial discount has been applied to inventories, leading to a loan-to-value ratio of over 100%.
5. A company principally engaged in the management of government infrastructure projects (financial guarantee)	[270]%	13.5	13.5	—	Not in default	The purpose of loan was to satisfy the greater need of cashflow for the remaining construction costs of a government infrastructure project so to complete the construction more quickly and to recover the amounts receivable thereof.
6. A high-technology plastic product manufacturer (financial guarantee)	[314]%	40.0	—	40.0	Not in default	It was one the first selected SMEs eligible to participate in the issuance of regional collective notes for high-quality SMEs. Based on the accounts provided to us, the company had sustainable growth in profit (around RMB 19 million as at June 2011). The Company was planning to invest around RMB150 million to start its new line of production on the land being provided to us as collateral which would greatly increase the value of the land.
<b>Total:</b>		[148.5]	[30.0]	[118.5]		

The default risks associated with the guarantees for these [six] cases were considered to be relatively low in our guarantee approval process based on their financial conditions, scale of operation or the nature of guarantee given.

### ***Registered and unregistered collaterals***

Based on our internal valuation, the total asset value (which is internally verifiable by our internal record and documentation) of the collaterals and/or counter-guarantees provided in respect of the obligations guaranteed by us outstanding as at 31 December 2012 was approximately RMB[5,532.7 million], whereas our outstanding guarantee amount as at 31 December 2012 was approximately

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RMB[1,483.5] million. Based on our internal valuation, the total asset value (which is internally verifiable by our internal record and documentation) of the collaterals and/or counter-guarantees provided in respect of the obligations guaranteed by us outstanding as at 31 May 2013 was approximately RMB[5,435.4] million, whereas our outstanding guarantee amount as at 31 May 2013 was approximately RMB[1,539.1] million.

Based on our internal valuation, the total asset value of registered collaterals provided in respect of loans guaranteed by us outstanding as at 31 December 2012 and 31 May 2013 were approximately RMB[1,980.4] million and RMB[1,971.1] million respectively. Such registered collaterals comprise:

- (a) *Collaterals registered exclusively in favour of our Group.* The total asset value of such collaterals amounted to approximately RMB[1,527.5] million and RMB[1,479.2] million respectively based on our internal valuation. As advised by our PRC Legal Advisers, where the interests under the collaterals and/or counter-guarantees are registered in favour of us only, we shall be entitled to the exclusive collateral rights to such collaterals and/or counter-guarantees, which shall be enforceable against bona fide third parties.
  
- (b) *Collaterals registered not exclusively in favour of our Group.* The total asset value of such collaterals amounted to approximately RMB[6.6] million and RMB[6.8] million based on our internal valuation, representing approximately [0.3]% and [0.3]% of the total valuation of the registered collaterals as at 31 December 2012 and 31 May 2013, respectively. As at 31 December 2012, such collaterals, among other collaterals, were provided as counter-guarantees for three outstanding financial guarantees issued by us, the aggregate outstanding amount of which was approximately RMB[9.5] million, representing approximately [0.6]% of our outstanding guarantee amount. As at 31 May 2013, such collaterals, among other collaterals, were provided as counter-guarantees for [three] outstanding financial guarantees issued by us, the aggregate outstanding amount of which was approximately RMB[9.1] million, representing approximately [0.6]% of our outstanding guarantee amount. Such collaterals as at 31 December 2012 and 31 May 2013 only comprised properties mortgaged to certain banks, which were subsequently charged to us as collaterals in respect of the guarantee we provided. As such, Success Guarantee was registered as the secondary beneficiary of the collaterals, rather than the primary beneficiary, which was the bank. According to the Property Law of the PRC, where a charged collateral is registered in favour of two or more beneficiaries, proceeds from the realisation of the collateral shall be applied to the settlement of liabilities owed to the beneficiaries according to the sequence of their registration. Accordingly, as advised by our PRC Legal Advisers, the mortgagee bank enjoys priority over our interest in such properties and thus proceeds from the realisation of the collaterals will be repaid to the mortgagee bank before they can be applied to the settlement of our payment to the relevant lending bank in cases where our customers default on the loan. Save as disclosed, there were no collaterals registered in favour of both our Group and other third parties. Further, in enforcing the counter-guarantee in respect of such collaterals, the progress will be subject to the realisation process of the mortgage. In view of such difficulties, we do not generally accept such collaterals as counter-guarantees. In such cases, the value of such collaterals charged to us would be the value of the properties excluding the outstanding mortgage amount, and thus, as our customer made further mortgage payments, the value of collaterals charged to us would increase accordingly. For all other types of collaterals (comprising (i) collaterals registered exclusively in favour of our Group; (ii) collaterals

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registered exclusively in favour of third parties; and (iii) unregistered collaterals provided for obligations guaranteed by us) as at 31 December 2012 and 31 May 2013, prior to the entering into of the relevant collateral and/or counter-guarantee agreements, the relevant charged assets were not subject to any mortgage and were not provided as security for any liabilities other than the loans guaranteed by us. As such, for such other types of collaterals, no outstanding mortgage amount or other liabilities have to be deducted from the collateral value provided in respect of our outstanding guarantee amount.

- (c) *Collaterals registered exclusively in favour of third parties.* The total asset value of such collaterals amounted to approximately RMB[446.3] million and RMB[485.1] million based on our internal valuation as at 31 December 2012 and 31 May 2013, respectively. We were not a registered beneficiary of such collaterals. As at 31 December 2012 and 31 May 2013, in most of the cases where collaterals provided in respect of our outstanding guarantees were registered exclusively in favour of third parties, such collaterals were charged to the lending institutions. As advised by our PRC Legal Advisers, in the event of default, the lending institution may (i) realise such collaterals and apply the proceeds in settlement of the default amount, thereby reducing our liability under the guarantee (if any); or (ii) elect to require us to indemnify the lending institution for the default amount, in which case we may enter into agreement with the relevant parties, including such lending institution and the chargor of the collateral, to transfer the right to realise the relevant collaterals to us. As at 31 December 2012 and 31 May 2013, other than those charged to lending banks, such collaterals also included collaterals charged to and registered exclusively in favour of the Re-guarantee Company (acting as a principal guarantor) in transactions where we agreed to undertake a proportion of the Re-guarantee Company’s guarantee amount. [In such cases, pursuant to the agreement between the Re-guarantee Company and Success Guarantee, both parties were entitled to the collateral rights to such collaterals and proceeds from the realisation of such collaterals charged to the Re-guarantee Company shall be applied to compensate both parties in the agreed proportion with respect to the guaranteed obligations.] Accordingly, for such cases, instead of the full value of the relevant collaterals, the value of collaterals provided in respect of our outstanding guarantees only comprised the portion of collateral value proportionate to our guarantee amount. The total value of such collaterals charged to the Re-guarantee Company attributable to our outstanding guarantees amounted to RMB[248.6] million as at 31 December 2012 and RMB[328.6] million as at 31 May 2013.

Based on our internal valuation, the total asset value of unregistered collaterals and customers’ pledged cash deposits provided in respect of obligations guaranteed by us outstanding as at 31 December 2012 was approximately RMB[3,539.7] million and RMB[12.6] million respectively, which in aggregate accounted for approximately [64.2]% of the total internally verifiable value of collaterals provided in respect of loans guaranteed by us. Based on our internal valuation, the total asset value of unregistered collaterals and customer’s pledged cash deposits provided in respect of obligations guaranteed by us outstanding as at 31 May 2013 was approximately RMB3,460.6 million and RMB[3.7] million respectively, which in aggregate accounted for approximately [63.7]% of the total internally verifiable value of collaterals provided in respect of loans guaranteed by us.

[As confirmed by our Directors,] we did not register the unregistered collaterals mainly because the collaterals do not possess the necessary land use rights certificates and the property ownership certificates to complete the registration process and the customers or the relevant parties are not

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willing to cooperate, for example, where the registration, if insisted, will adversely affect the procedure of the application for construction on the relevant land, or where the lease agreement was entered into by previous village committee with the lessee and the existing village committee is not willing to give consent to sub-let to effect registration.

Accordingly, as at 31 December 2012 and 31 May 2013, the total asset value of collaterals not registered in favour of our Group as primary beneficiary, which consisted of (i) collaterals registered not exclusively in favour of our Group; (ii) collaterals registered exclusively in favour of third parties; and (iii) unregistered collaterals and customers’ pledged cash deposits, amounted to approximately RMB[4,005.2] million and RMB[3,956.2] million, representing approximately [72.4]% and [72.8]% of the total internally verifiable value of collaterals provided in respect of obligations guaranteed by us.

Certain portion of our Group’s total outstanding guarantees as at 31 December 2012 was not secured by any registered collateral. As at 31 December 2012 and 31 May 2013, the aggregate guarantee amount of our outstanding guarantees which were not secured by any registered collaterals was approximately RMB[536.8] million and RMB[585.9] million, respectively. To mitigate risks associated with such guarantees we provided, we primarily focus on the assessment on the loan repayment capacity of our potential customers through our due diligence investigation and our analysis of their operation and revenue generating ability, details of which are set out in the section headed “Business — Internal control and risk management” in this document. In respect of counter-guarantee measures, we required the relevant counter-guarantors to provide unregistered collaterals and/or personal or corporate guarantees in respect of the loans. As advised by our PRC Legal Advisers, in the event of default, our Group may enforce our contractual right on the collaterals and/or counter guarantees which are unregistered based on the collateral agreements and/or counter-guarantee agreements and pursuant to the applicable laws and regulations of the PRC. We may enforce such contractual rights in accordance with the procedures set out in the paragraph headed “Outstanding guarantees, compensation upon default and recovery” in this section; and the personal or corporate guarantees were unlimited and fully covered the entire loan amount. As such, we consider that taking into the account impact of realisation of the collaterals and/or the personal or corporate guarantees on the business operation and financial condition of our customers, the costs of default by our customers would increase substantially, thereby reducing the relevant default risks. Further, we also conduct post-transaction risk monitoring measures with an aim to reduce the default risks and the potential loss to us upon our customers’ default.

It is possible that the collaterals and/or counter-guarantees provided in respect of loans guaranteed by us cannot be realised, or cannot be realised in time, or cannot be realised at prices that are equal to or above the amount of our liability under the guarantees given by us. For risks associated with realisation of collaterals, please refer to the section headed “Risk factors — Our Group provides financial and non-financial guarantee services to our customers and guarantees the repayment of loans or performance by our customers of their obligations and our Group will be liable under the guarantees given by us if our customers default; and the counter-guarantees obtained from our customers may not be sufficient to cover our corresponding exposure under the guarantees given by us” in this document.

As analysed above and disclosed in this section, for the guarantees with the relevant value of collaterals less than the outstanding guarantee amount, it has been our Group’s risk control and management policies to manage the associated risks primarily by the assessment of the loan repayment capacity of the relevant customers in the guarantee approval process through due diligence

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investigation and operational and financial analysis on such customers. Further, in addition to collaterals (if any), as a form of counter-guarantee measures, personal or corporate guarantees were provided by our customer’s owner(s) or director(s), their spouse and/or other third party(ies) in favour of our Group in respect of such guarantees. In each transaction conducted and completed during the Track Record Period, the personal or corporate guarantees were provided by them for the entire amount we guaranteed.

Having considered (i) the risk control and management procedures implemented by our Group so far up to the Latest Practicable Date; (ii) the total outstanding guarantee amount without being fully secured or not secured at all amounted to RMB182 million which is not significant when comparing to our Group’s the total outstanding guarantee amount as at the Latest Practicable Date; and (iii) our Group’s average historical loss rates had been less than 0.5% of the total outstanding guarantee amounts and the actual loss rates of 0%, 0.01%, 0.07% and 0% for each of the three years ended 31 December 2012 and the period from 1 January 2013 and up to the Latest Practicable Date respectively, which had demonstrated the proven continuing effort in minimizing our risk exposure to the financial guarantee business during the Track Record Period and up to the Latest Practicable Date, the [●] are of the view that our Group’s overall risk exposure to total default on such non-fully secured cases is low, despite a portion of the outstanding guarantee amount is not fully secured or not secured at all.

### **Outstanding guarantees, compensation upon default and recovery**

As part of our internal control, we established a set of internal guidelines to list out the procedures in case any of the customers fails to discharge their obligations under the guarantee, which are set out as follows. Around 30 days before its due date, our risk control department will remind the project manager to follow up with the customer urging the customer to repay the loan on time. If the customer wishes to extend the guarantee period he shall, after obtaining approval from the lending bank, submit a guarantee period extension application to us. Where loan is overdue and not repaid on time, the project manager will report to our general manager by submitting written inspection report setting out details of the overdue loan, reason for delay in repayment and measures to handling the matter.

In the event of a default or failure to repay any outstanding loan amount by its due date by the customers, the lending institution will serve an indemnification notice on us and we will be liable to indemnify the lending institution for the default amount within a certain period of time after such notice is served as stipulated under the guarantee contract between the lending institution and us. In such cases or where we are required to compensate the beneficiary under a guarantee agreement upon our customers’ default, we will take the following steps as set out in the internal guidelines:

1. Our business operation department and our risk control department will conduct thorough investigation to ensure if there exist any fraud, dishonesty or malfeasance to identify the party responsible. We will then analyse the cause of default and prepare our plan for compensating the lending institution and the debt recovery plan, which may include proposals for the principal debtor to obtain capital for repayment, to realise their assets and/or to adjust their financial position and plans for our project managers to conduct site visits and monitor their operation and financial conditions (such as monitoring the settlement progress of account receivables).
2. After approving the compensation proposal and compensating the lending institution in accordance with the relevant cooperation agreement and guarantee agreement, we shall obtain

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the documentation and proof of debts and the relevant credit information from the lending institution in order for us to recover the guarantee amount. The principal debtor shall repay us the amount compensated by us in full within a period after we made the compensation as stipulated in the guarantee contract.

3. The project manager is responsible for the debt recovery while our risk control department shall cooperate closely with the project manager in the debt recovery process. The project manager will implement and/or propose modifications to the debt recovery plan according to the debtor’s circumstances, conduct site visits to assess the operation of the principal debtor and regularly report on the progress of debt recovery.
4. We shall attempt to negotiate with the principal debtor and the party providing the counter-guarantee to agree on a settlement proposal. If no agreement can be reached, or where we are unable to recover the indemnified amount in full within six months, we shall bring action against the principal debtor and the party providing the counter-guarantee in accordance with the law.

The legal procedures we may take for the realisation of the collaterals provided under the counter-guarantee are set out below:

- In respect of collaterals charged to us as counter-guarantee and duly registered in our favour exclusively, as advised by our PRC Legal Advisers, in accordance with the Property Law of the PRC, where our customer (i.e. the principal debtor) fails to repay us the amount we pay to the lending bank on its behalf in full, we may reach an agreement with the party providing the counter-guarantee regarding the realisation of our security interest in the collaterals by means of conversion, auction or sale and the proceeds from the realisation will be applied to the settlement of the liabilities owed to us in preference to other creditors of the principal debtor. In case we fail to reach such an agreement with the party providing the counter-guarantee, as advised by our PRC Legal Advisers, we are entitled to request the competent court in the PRC for auction or sale of the relevant collaterals and we will be able to claim priority on such registered collaterals.
- In respect of collaterals registered in favour of two or more beneficiaries, as advised by our PRC Legal Advisers, the proceeds from the realisation of the collateral shall be applied to the settlement of liabilities owed to them according to the sequence of their registration. For collaterals not registered in favour of our Group exclusively and where we are registered as the second beneficiary over the collaterals, as advised by our PRC Legal Advisers, after we have indemnified the lending bank on behalf of our customers, we may claim priority over the value of the collateral not covered by the interest of the registered first beneficiary only if we have obtained the consent of the first beneficiary or the appropriate court order. As such, the proceeds will be repaid to us only after the liabilities owed to the first beneficiary have been settled.
- In respect of unregistered collaterals charged to us, as advised by our PRC Legal Advisers, we are only entitled to contractual rights to such collaterals under the counter-guarantee agreements and we will not be able to claim priority on such collaterals over the other creditors of the



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principal debtor. As advised by our PRC Legal Advisers, we may also reach an agreement with the counter-guarantor or file an action to the court in the PRC for the realisation of such unregistered collaterals, but we will not be able to claim priority over the proceeds from the realisation against other creditors of the principal debtor.

- As advised by our PRC Legal Advisers, where we bring an action to the court in the PRC for the auction or sale of the registered or unregistered collaterals, the court will normally conclude the case within two to six months from the date when the action is filed to the court. The time required for the auction or sale ordered by the court is not stipulated under the PRC laws and regulations and is subject to the circumstances of the particular case, but based on our Directors’ knowledge and experience in the industry, our Directors estimate that auction ordered by the court will take approximately 6 to 24 months to complete. Where we reach an agreement with the party providing the counter-guarantee regarding the realisation of the collaterals, the time required for realisation will depend on the terms of such agreement. Further, as advised by our PRC Legal Advisers, for the conversion, auction or sale of collaterals including properties, land use rights, vehicles and shares, changes in their registration need to be filed to the relevant authority and, normally, such procedures can be completed within one month. For conversion, auction or sale of collaterals including inventories, receivables, tenancy rights/sub-letting rights and insurance beneficiary rights, no registration procedure is required to be completed. Based on our Directors’ knowledge and experience in the industry, our Directors estimate that conversion, sale or voluntary auction (as opposed to auction ordered by the court) will be completed in approximately six months.

Among [15] default cases during the Track Record Period, (i) in [two] cases [whose aggregate guarantee amount was about RMB[6] million), all collaterals provided were registered; (ii) in [nine] cases (whose aggregate guarantee amount was about RMB[36] million), collaterals provided comprised both registered and unregistered collaterals; and (iii) in [four] cases (whose aggregate guarantee amount was about RMB[21] million), all collaterals provided were unregistered.

During the Track Record Period, there were only [five] cases where we were to realise the collaterals through litigation to recover our indemnified amounts. As at the Latest Practicable Date, the enforcement of judgment against the collaterals in [one] of the cases above had been completed. In that case, the relevant collaterals/counter-guarantees involved properties, machineries, tenancy rights and unlimited personal guarantees which cover the entire loan amount. The recovery process lasted for approximately 29 months since the date we indemnified the lending institution upon customer’s default. For the remaining [four] default cases whose litigation or judgment enforcement process was still on-going as at the Latest Practicable Date, the respective indemnification for [two] default cases was made in [February 2012, and the respective indemnification for the other [two] default cases was made in November 2012 and January 2013].

It is possible that the collaterals and/or counter-guarantees provided in respect of loans guaranteed by us cannot be realised, or cannot be realised in time, or cannot be realised at prices that are equal to or above the amount of our liability under the guarantees given by us. For risks associated with realisation of collaterals, please refer to the section headed “Risk factors — Our Group provides financial and non-financial guarantee services to our customers and guarantees the repayment of loans

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or performance by our customers of their obligations and our Group will be liable under the guarantees given by us if our customers default; and the counter-guarantees obtained from our customers may not be sufficient to cover our corresponding exposure under the guarantees given by us” in this document.

Set out below is a summary of outstanding balance of guarantee amount and the number of outstanding guarantee contracts by type of our Group’s guarantee services during the Track Record Period:

<b>Outstanding balance of guarantee amount and the number of outstanding guarantee contracts as at</b>				
	<b>31 December</b>			<b>31 May</b>
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Financial guarantee</b>	RMB1,024 million (287 contracts)	RMB1,411 million (293 contracts)	RMB1,368 million (252 contracts)	RMB[1,410] million ([238] contracts)
<b>Non-financial guarantee</b>	RMB43 million (20 contracts)	RMB133 million (11 contracts)	RMB116 million (16 contracts)	RMB[129] million ([28] contracts)

A summary of our Group’s exposure under its guarantees as at 31 May 2013 based on the maturity dates of the underlying outstanding guarantees is set out below:

	<b>Amount of guarantee liabilities which will fall due within one year from 31 May 2013</b>	<b>Amount of guarantee liabilities which will fall due within two years but over one year from 31 May 2013</b>	<b>Amount of guarantee liabilities which will fall due within five year but over two years from 31 May 2013</b>	<b>Amount of guaranteed liabilities which have no fixed repayment deadline</b>
	<b>As at 31 May 2013</b>	<b>31 May 2013</b>	<b>31 May 2013</b>	<b>31 May 2013</b>
	<b>RMB’000</b>	<b>(Note 1) RMB’000</b>	<b>(Note 1) RMB’000</b>	<b>(Note 2) RMB’000</b>
Amount of outstanding guarantees	[1,539,109]	[962,820] ([62.6]%)*	[287,284] ([18.7]%)*	[217,990] ([14.1]%)*

\* Figures in brackets denote the amount of outstanding guarantees by our Group expressed as a percentage of the total guarantee amount of our Group as at 31 May 2013.

Notes:

1. The amount represents the amount of liabilities we guaranteed whose maturity date falls within one year from 31 May 2013, within two years but over one year from 31 May 2013 and within five years but over two years from 31 May 2013 respectively.
2. As at 31 May 2013, all of our outstanding guarantees which have no fixed repayment deadline related to the litigation guarantees we provided. [Our management estimates that the litigation in relation to the litigation guarantees we provide generally conclude within approximately 3 months to 1 year.]

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Set out below is a summary of cases (“**default cases**”) where our customers defaulted on loans guaranteed by us and the relevant lenders required compensation from us during the Track Record Period and up to the Latest Practicable Date:

	For the year ended 31 December			For the period from 1 January 2013 and up to the Latest Practicable Date
	2010	2011	2012	Date
Number of new default cases ( <i>Note 1</i> )	[1]	[5]	[8]	[1]
Default rate ( <i>Note 2</i> )	[0.2]%	[1.3]%	[1.1]%	[0.3]%
Guarantee amount attributable to the new default cases (RMB million)	[2.5]	[27.0]	[28.5]	[5.0]
Approximate value of collaterals provided to us (RMB million) ( <i>Note 3</i> )	[9.4]	[166.3]	[81.0]	[18.9]
Actual amount indemnified by us (RMB million) ( <i>Note 4</i> )	[2.2]	[20.7]	[17.0]	[5.0]
Shortfall between the amount guaranteed by us and the value of collaterals provided to us ( <i>Note 5</i> )	N/A	N/A	N/A	N/A
Actual loss incurred by us (RMB million)	Nil	[0.1]	[1.1]	Nil
Provision for trade receivables recognised in the consolidated statements of profit or loss of our Group (RMB million)	[0.8]	[1.0]	[1.1]	[0]
Actual loss rate ( <i>Note 6</i> )	[0]%	[0.01]%	[0.07]%	[0]%
Status of default cases	No potential or on-going litigation ( <i>Note 7</i> )	No potential or on-going litigation ( <i>Note 7</i> )	No potential or on-going litigation in [five] cases ( <i>Note 7</i> ); enforcement of judgment against collateral in progress in [two] cases; [one] on-going litigation ( <i>Note 8</i> )	[Enforcement of judgment against collateral in progress]

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*Notes:*

1. During the Track Record Period and up to the Latest Practicable Date, all default cases were related to the financial guarantees provided by us; and we had not been required to provide any compensation in respect of the litigation guarantees and/or performance guarantees provided by us.
2. The default rate represents the ratio of the total actual amount indemnified by us to the total outstanding balance of guarantee amount provided by us as at the end of the same period.
3. The value of collaterals provided to us represents the total value of collaterals and/or counter-guarantee provided to us in respect of the guarantee contract(s) for the default case(s) occurred during the relevant year/period, according to our internal valuation based on our valuation method adopted after the 2013 Valuation Capability Enhancement. Further details of the valuation methods are set out in the section headed “Business — Internal control and risk management” in this document.
4. The actual amount indemnified by us also represented the total amount of payments initially made by our Group on behalf of our guarantee clients in default to the relevant banks or financial institutions in respect of default cases occurred during the relevant year/period before realisation of collaterals provided by such clients.
5. During the Track Record Period and up to the Latest Practicable Date, the value of collaterals (according to our internal valuation) exceeds the loan amount guaranteed by us in respect of each of the default cases.
6. The loss rate represents the ratio of the total amount of loss incurred on the default cases (being the total amount indemnified by us net of repayment made by our customers, proceeds from the realisation of collaterals and/or other means of debt recovery) to the total outstanding balance of guarantee amount provided by us as at the end of the same period.
7. For the default case during the year ended 31 December 2010, we recovered the amount we indemnified in full through the realisation of collaterals, the recovery process of which lasted for approximately 29 months since the date when indemnification was made. For the ten default cases during the two years ended 31 December 2012 with no potential or on-going litigation, we fully or partially recovered the amount we indemnified through repayments from our customers or through factoring, the recovery process of which lasted for less than a month and approximately 2 to 24 months since the date when indemnification was made, respectively. We did not realise the relevant collaterals in these ten default cases.
8. In the on-going litigation in respect of such default case, the court accepted (i) our claim against the relevant customers for the repayment of an aggregate amount of approximately RMB2.0 million comprising, among others, the actual amount indemnified by us and the relevant penalty under the guarantee contract on 25 January 2013; and (ii) our application for property preservation over the collaterals provided to us by such customers on 31 January 2013. The first instance for the hearing was held in April 2013, but the defendants were absent for presentation at the court. [As at the Latest Practicable Date, the date for next proceeding is yet to be fixed by the court.]

Our Directors consider that our Group will have sufficient working capital and financial resources to discharge its obligations, taking into account the following factors:

- the total outstanding balance of financial guarantees issued by our Group as at 31 May 2013 did not exceed the Aggregate Cap Amount as stipulated under the Interim Measures (i.e. 10 times of the net assets of Success Guarantee);

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- the level of net assets of our Group had been continuously improving from approximately RMB234.7 million as at 31 December 2010 to approximately RMB420.3 million as at 31 May 2013, representing approximately [27.3]% of the total outstanding balance of our guarantee amount as at 31 May 2013, with respective current ratios of approximately 2.8 times to 6.6 times;
- the level of working capital (net current assets) of our Group had basically increased from approximately RMB185.5 million as at 31 December 2010 to approximately RMB225.4 million as at 31 May 2013;
- Based on our internal valuation, the total value (which is internally verifiable by our internal record and documentation) of all collaterals provided in respect of our outstanding guarantee amount as at 31 May 2013 amounted to approximately RMB[5,435.4] million, which, for illustrative purpose only, represents about [3.5] times of our outstanding guarantee amount as at 31 May 2013 (i.e. approximately RMB[1,539] million). Notwithstanding that as at 31 May 2013 (i) our total unsecured outstanding guarantee amount was approximately RMB[161.0] million; and (ii) guarantees with loan-to-value ratios exceeding 100% (excluding the unsecured guarantees) in aggregate amounted to approximately RMB[148.5] million, our outstanding guarantees with a loan-to-value ratio of not more than 100%, which represented our fully secured guarantees, amounted to approximately RMB[1,229.6] million, accounting for [89.2]% of our total outstanding secured guarantee amount. The total value of collaterals registered in favour of our Group as at 31 May 2013 amounted to approximately RMB[1,479.2] million. Although the value of unregistered collaterals and/or counter guarantees provided in respect of our outstanding guarantee amount as at 31 May 2013 was approximately RMB[3,464.3] million, as advised by our PRC legal Advisers, our Group may still enforce its contractual right to the unregistered collaterals and/or counter guarantees based on the collateral agreements and/or counter-guarantee agreements and pursuant to the applicable laws and regulations of the PRC. For the guarantees with the relevant value of collaterals less than the outstanding guarantee amount, we managed the associated risks primarily by the assessment of the loan repayment capacity of the relevant customers in the guarantee approval process through due diligence investigation and operational and financial analysis on such customers, details of which are set out in the section headed “Business — Internal control and risk management” in this document. Further, in addition to collaterals (if any), as a form of counter-guarantee measures, personal or corporate guarantees were provided by our customer’s owner(s) and director(s), their spouse or other third party(ies) in favour of our Group in respect of such guarantees. In each transaction, the personal or corporate guarantees were provided by them for the entire amount we guaranteed and, as at 31 May 2013, we obtained such guarantees in respect of over 90% of our total outstanding guarantee amount;
- our exposure to the guarantees provided by us are managed to an adequate level by our internal control and risk management process, details of which are set out in the section headed “Business — Internal control and risk management” in this document. During the three years ended 31 December 2012 and the five months ended 31 May 2013, the default rate of our Group was approximately [0.2]%, [1.3]%, [1.1]% and [0.3]% respectively while the actual loss rate of our Group was merely approximately [0]%, [0.01]%, [0.07]% and [0]% respectively. Further, during the Track Record Period, we recovered fully or partially our indemnified amount through repayments from our customers, factoring and realisation of collaterals, the recovery process of

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which lasted for less than a month, approximately 2 to 24 months and approximately 29 months, respectively. Our Directors estimate that similar amount of time will be required to recover our indemnified amount, subject to the circumstances of the particular case. Given the relatively low default rate and time required for full recovery of our indemnified amount during the Track Record Period, our Directors consider that our operation and working capital position had not been materially affected by the default cases during the Track Record Period. In view of the above, our Directors consider that our obligations under the outstanding guarantee are limited to an adequate level and our Group has sufficient working capital and resources to discharge such obligations; and

- [our Directors consider that the default risk of our customers are diversified as they are distributed in over eight different industries and, with [247] customers as at 31 May 2013, the average outstanding guarantee amount per customer was approximately RMB[6.2] million.]

We believe our long term business relationship with banks and other financial institutions, recurring customers and referrals from our past or existing customers, and the fact that we have been enlisted as one of the authorised guarantee companies to participate in certain cooperative programmes organised by the local governments in the PRC for the purpose of assisting SMEs in obtaining financing for their business development, demonstrates our ability to cater our services to customers’ requirements and customers’ general satisfaction to our services which we believe, in turn, could generate further business opportunities for us.

**PRICING STRATEGIES**

Our Group’s pricing comprises services fees from financial guarantee contracts, non-financial guarantee contracts and financial consultancy contracts. The table below illustrates the rate of charges normally applied by our Group during the Track Record Period:

Type	Financial guarantee			Non-financial guarantee		Financial consultancy services
				Litigation guarantee	Performance guarantee	
Term	no more than 12 months	13-24 months	25-36 months	N/A	N/A	N/A
Fee scale	0.5%-4% of the loan size	4.5%-6% of the loan size	5.5%-7.5% of the loan size	0.5%-1.5% of the guarantee amount	0.5%-3.5% of the guarantee amount	a fee to be determined on arm’s length negotiation between us and our customer
Payment terms	Due within one day after the execution of both of the loan agreement between our customer and the lending institution and the guarantee contract between our Group and the lending institution			Due on the date when the guarantee letter is issued to the court	Due within one day after the execution of the guarantee contract between our customer, our customer’s counter-party and our Group	Due upon signing of the financial consultancy services contract; or payable by instalments



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(a) **Guarantees**

**Financial guarantee fees and pricing.** Our Group charges fees for the provision of financial guarantee services provided to our customers. The guarantee fees are determined with reference to, among others, the principal amount of guarantee obligations, the duration, repayment method, the counter-guarantees, collaterals and cash deposits provided by our customers (if any). Under the Opinions on SME Guarantee System, the benchmark rate for financial guarantee fees may be 50% of the bank’s interest rate for loans with the same duration and the actual rates for individual transactions may be 30%-50% higher or lower than the benchmark rate, depending on the level of risks of the specific projects.

**Non-financial guarantee fees and pricing.** Our Group charges customers non-financial guarantee fees. The guarantee fees charged by us vary with, among others, the amount of guarantee obligations, duration and counter-guarantees conditions.

(b) **Financial consultancy services**

Our Group charges financial consultancy fees subject to commercial negotiations between our Group and our customers with reference to, among others, nature of the proposed transaction, the size of financing, and its complexity on a case by case basis. During each of the two years ended 31 December 2012 and the five months ended 31 May 2013, revenue generated from our financial consultancy services were approximately RMB11.0 million, RMB11.0 million and RMB2.8 million respectively.

As advised by our PRC Legal Advisers, our Group is obliged to charge fees for our financial guarantee services in accordance with the Interim Measures, the Implementing Rules and the Opinions on SME Guarantee System. Other than that, guarantee fees for non-financial guarantee services and financial consultancy fees charged by our Group are not subject to other regulations on the determination of the rate of guarantee fees or consultancy fees chargeable. As confirmed by our Directors, the range of the rate of the guarantee fees charged by our Group for our financial guarantee services was in compliance with the Interim Measures, the Implementing Rules and the Opinions on SME Guarantee System during the Track Record Period.

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**GOVERNMENT GRANTS**

For each of the three years ended 31 December 2012 and the five months ended 31 May 2013, we received government grants amounting to approximately RMB[4.1] million, RMB [8.2] million, RMB[10.6] million and RMB[0.3] million respectively. Such government grants were mainly issued with an aim to promote SME development in the PRC. A summary of the government grants received by our Group during the Track Record Period is set out below:

Identity of the awarding government authorities	Nature of grant	Major grant conditions and/or criteria for the applicant (Note 1)	Year ended 31 December			Five months ended 31 May
			2010	2011	2012	2013
			RMB'000	RMB'000	RMB'000	RMB'000
Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) and Ministry of Finance (中華人民共和國財政部)	Government cash subsidies for guarantee companies providing guarantee services to SMEs	Regarding the grant received by us in 2010, (i) at least 80% of the New Guarantee Amount must be granted to SMEs; (ii) at least 60% or at least RMB250 million of the New Guarantee Amount must comprise guarantees of RMB8 million or below; (iii) the New Guarantee Amount must exceed 1.5 times of the applicant's paid-up capital; and (iv) the default rate during the assessment period must be less than 3%.  Regarding the grants received by us in 2011), (i) at least 70% of the New Guarantee Amount must be granted to SMEs; (ii) at least 70% or at least RMB300 million of the New Guarantee Amount must comprise guarantees of RMB15 million or below; (iii) the New Guarantee Amount must exceed 3 times of the applicant's paid-up capital; and (iv) the default rate during the assessment period must be less than 3%.  Regarding the grant received by us in 2012, (i) at least 70% or RMB1 billion of the New Guarantee Amount must be granted to SMEs; (ii) at least 70% or at least RMB300 million of the New Guarantee Amount must comprise guarantees of RMB15 million or below; (iii) the New Guarantee Amount must exceed 3.5 times of the applicant's paid-up capital; and (iv) the default rate during the assessment period must be less than 2%.  For all the government grants above, the average guarantee fee rate charged by the applicant during the assessment period must not exceed 50% of the bank's loan interest rate for the same period.	1,300	6,000	3,400	—

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Identity of the awarding government authorities	Nature of grant	Major grant conditions and/or criteria for the applicant (Note 1)	Year ended 31 December			Five months ended 31 May
			2010	2011	2012	2013
			RMB'000	RMB'000	RMB'000	RMB'000
Department of Finance of Guangdong Province (廣東省財政廳) and the Economic and Information Commission of Guangdong Province (廣東省經濟和信息化委員會)	Government cash subsidy granted to guarantee companies providing guarantee services to SMEs engaging in commerce and trade (Note 2)	During the assessment period, (i) at least 20% of the New Guarantee Amount must be granted to SMEs engaging in commerce and trade; (ii) the New Guarantee Amount must exceed 2 times of the applicant's paid-up capital; (iii) the average guarantee fee rate charged by the applicant during the assessment period must not exceed 50% of the bank's loan interest rate for the same period; and (iv) the applicant's paid-up capital must exceed RMB40 million.	380	—	—	—
Department of Finance of Guangdong Province (廣東省財政廳) and the Economic and Information Commission of Guangdong Province (廣東省經濟和信息化委員會)	Government cash subsidy granted to guarantee companies providing guarantee services to SMEs engaging in commerce and trade (Note 2)	The paid-up capital of the financial guarantee company applicant must exceed RMB40 million. For each guarantee of less than RMB8 million granted to SMEs during the assessment period, cash subsidy amounting to 2% of the relevant guarantee amount will be granted to the successful applicant.	—	—	—	[339]
Department of Finance of Guangdong Province (廣東省財政廳) and the Department of Foreign Trade and Economic Cooperation (廣東省對外貿易經濟合作廳)	Government cash subsidies granted to approved guarantee companies providing guarantee services to SMEs engaging in foreign trade (Note 2)	The applicant may be granted (i) an amount no more than 2% of the aggregate guarantee amount for guarantees of RMB5 million or above provided to SMEs engaging in foreign trade; and/or (ii) an amount not exceeding the difference between guarantee fee charged by the applicant during the assessment period and 50% of the bank's loan interest for the same period.	2,270	—	4,082	—
Department of Finance of Guangdong Province (廣東省財政廳) and the SME Bureau of Guangdong Province (廣東省中小企業局)	Government cash subsidies for guarantee companies providing guarantee services to SMEs (Note 2)	For the government grant received by us in 2011, the applicant must be principally engaged in the provision of guarantee services to SME. During the assessment period, (i) at least 50% of the New Guarantee Amount must be granted to SMEs; (ii) the New Guarantee Amount must exceed 3 times of the applicant's registered capital; and (iii) the applicant's default rate and loss rate must not exceed 3% and 2% respectively.  For the government grant received by us in 2012, the applicant must be a “Model Institution of SME Financing Services in Guangdong Province” (廣東省中小企業融資服務示範機構) awarded by the Guangdong Province SME Bureau (廣東省中小企業局).	—	400	400	—

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Identity of the awarding government authorities	Nature of grant	Major grant conditions and/or criteria for the applicant ( <i>Note 1</i> )	Year ended 31 December			Five months ended 31 May
			2010	2011	2012	2013
			RMB'000	RMB'000	RMB'000	RMB'000
Foshan Department of Finance (佛山市財政局) and the Bureau of Foreign Trade and Economic Cooperation of Foshan City (佛山市對外貿易經濟合作局)	Government cash subsidies for guarantee companies providing guarantee services to SMEs	For the government grant received by us in 2010, the applicant must be a guarantee company which (i) participated in the local credit rating programme of guarantee companies providing services to SMEs; and (ii) provided services in support of local SME development in accordance with the local government policies.				
		For the government grant received by us in 2011, during the assessment period, (i) at least RMB20 million of the New Guarantee Amount must be granted to SMEs, among which the amount of guarantees of RMB3 million or below each must in aggregate exceed RMB10 million; (ii) at least 50% of the New Guarantee Amount must be granted to SMEs; and (iii) the applicant's default rate must be less than 2%.	190	250	—	—
Local governments of various districts of Foshan City ( <i>Note 3</i> )	Government cash subsidies for guarantee companies providing guarantee services to SMEs ( <i>Note 4</i> )	For the grant from the local government of the Nanhai District of Foshan City, the applicant shall receive an amount equivalent to 0.8% to 1.2% of the average daily outstanding guarantee amount granted under the SME development scheme of a trust fund of such local government, subject to a maximum of RMB3 million.	—	1,030	2,233	—
		For the grant from the local government of the Gaoming District of Foshan City, the applicant shall receive an amount equivalent to 0.8% of the average daily outstanding guarantee amount granted under the SME development scheme of a trust fund of such local government, subject to a maximum of RMB1 million.	—	63	—	—

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Identity of the awarding government authorities	Nature of grant	Major grant conditions and/or criteria for the applicant <i>(Note 1)</i>	Year ended 31 December			Five months ended 31 May
			2010	2011	2012	2013
			RMB'000	RMB'000	RMB'000	RMB'000
		For the grant from the local government of the Shunde District of Foshan City, (i) the applicant must be a guarantee company with a branch in the Shunde District established for over two years; and (ii) its average daily outstanding guarantee amount for the previous year must exceed RMB150 million. The applicant shall receive an amount equivalent to 0.6% of the average daily outstanding guarantee amount granted under the SME development scheme of a trust fund of such local government, subject to a maximum of RMB500,000.	—	500	500	—
<b>Total:</b>			<b>4,140</b>	<b>8,243</b>	<b>10,615</b>	<b>339</b>

*Notes:*

1. The awarding government bodies determined whether to provide the relevant government grants based on, among others, the aggregate new guarantee amount (“**New Guarantee Amount**”) provided by the applicant during the assessment period, which generally referred to the year before lodging the relevant application.
2. Such cash subsidies may only be used in the indemnification in respect of guarantees we provide in case of our customers’ default or (in one case of such government grants) be utilised in the regulatory reserve in relation to financial guarantee losses. Our Directors confirm that such subsidies have not been used for any purpose other than the required purpose set out above.
3. Such local governments include the respective People’s Government, the Economic Promotion Bureau and tax bureau of Shunde District, Nanhai District, Gaoming District of Foshan City.
4. The cash subsidy granted jointly by the People’s Government and the Economic Promotion Bureau of Shunde District, and the cash subsidy granted jointly by the People’s Government, the Economic Promotion Bureau and the tax bureau of Gaoming District of Foshan City may only be used in the indemnification in respect of guarantees we provide in case of our customers’ default or be utilised in the regulatory reserve in relation to financial guarantee losses. Our Directors confirm that such subsidies have not been used for any purpose other than the required purpose set out above.

As at 31 May 2013, there was no remaining obligations to be fulfilled by our Group in relation to the government grants we received during the Track Record Period, save for the restrictions on the use of such grants as set out above. Our Directors are of the view that our Group has not been and will not be dependent on the government grants for its operation, taking into account that the government grants are granted based on our Group’s business operation (including, among others, the total amount of guarantee issued).

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Taking into account that the major grant conditions for government grants to Success Guarantee during the Track Record Period generally stipulated a minimum level of New Guarantee Amount of the financial guarantee company and/or the New Guarantee Amount provided to SMEs, the business of our Group will continue to focus on (i) increasing the guarantee amount provided to SMEs in the PRC; and (ii) maintaining a low default rate in order to receive government grants for financial guarantee companies in the future.

### **CUSTOMERS**

During the Track Record Period, most of our Group’s customers were SMEs which included, but are not limited to manufacturers, and construction enterprises. We source our customers through our sales and marketing efforts, from referrals from cooperation with banks and financial institutions, and we also have recurring customers as well as referrals from our existing or past customers. Referrals are not subject to any referral fees or rebate arrangements between our Group and our customers or cooperative banks or institutions.

Set out below is a summary of numbers of our Group’s customers and recurring customers of our Group during the Track Record Period:

	<b>During the year ended 31 December</b>			<b>During the five months ended 31 May</b>
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Number of customers contributing to the revenue recognised during the relevant year	276	324	305	[247]
Number of recurring customers	92	89	100	[43]

The following table shows the number of guarantee applications received, accepted and rejected during the Track Record Period according to our internal records:

	<b>During the year ended 31 December</b>			<b>During the five months ended 31 May</b>
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Number of guarantee applications received	243	312	325	[110]
Number of guarantee applications accepted	225	283	278	[100]
Number of guarantee applications rejected	18	29	47	[10]



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The following table shows the number of new contracts entered into by us during the Track Record Period in each category of services:

	<b>No. of contracts signed</b>			
	<b>During the year ended</b>			<b>During the</b>
	<b>31 December</b>			<b>five months</b>
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>ended 31 May</b>
				<b>2013</b>
Financial guarantee services	205	212	201	[76]
Non-financial guarantee services	20	21	15	[24]
Financial consultancy services	—	50	56	[39]

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

The profile of our five largest customers during the Track Record Period is summarised as follows:

<b>Customer</b>	<b>Length of business relationship with us for the relevant year</b>	<b>Type of service rendered</b>	<b>Background of customer</b>
<b><i>For the year ended 31 December 2012:</i></b>			
Customer A	2 years	Financial consultancy	Manufacturer of industrial electric wire and cable
Customer B	4 years	Financial guarantee and consultancy	Manufacturer of furniture
Customer C	2 years	Financial guarantee	Manufacturer of ceramics
Customer D	1 year	Financial consultancy	Investment and property management
Customer E	2 years	Financial guarantee	Manufacturer of pumps
<b><i>For the year ended 31 December 2011:</i></b>			
Customer A	1 year	Financial consultancy	Manufacturer of industrial electric wire and cable
Customer F	4 years	Financial guarantee and consultancy	Printing and packaging
Customer G	2 years	Financial guarantee and consultancy	Manufacturer of ceramics
Customer H	2 years	Financial guarantee	Property investment and Construction
Customer I	3 years	Financial guarantee	Construction

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<b>Customer</b>	<b>Length of business relationship with us for the relevant year</b>	<b>Type of service rendered</b>	<b>Background of customer</b>
<i>For the year ended 31 December 2010:</i>			
Customer J	2 years	Financial guarantee	Manufacturer of metal materials and building materials
Customer K	3 years	Financial guarantee	Manufacturer of mechanical and electrical equipment
Customer L	4 years	Financial guarantee	Manufacturer of building materials
Customer M	2 years	Financial guarantee	Communications equipment installation
Customer N	3 years	Financial guarantee	Manufacturer of metal products
<i>For the five months ended 31 May 2013:</i>			
Customer A	3 years	Financial consultancy	Manufacturer of industrial electric wire and cable
Customer C	3 years	Financial guarantee	Manufacturer of ceramics
Customer E	3 years	Financial guarantee	Manufacturer of pumps
Customer O	2 years	Financial guarantee	Manufacturer of plastic products
Customer P	1 year	Financial guarantee	Retailer of building materials and property developer

None of our Directors or their respective associates, or any Shareholder who, to the knowledge of our Directors, holds more than 5% of the issued Shares, had any interest in any of the customers or our Group’s five largest customers during the Track Record Period.

For the three years ended 31 December 2012 and the five months ended 31 May 2013, approximately 81%, 76%, 72% and 64% respectively of our total outstanding guarantees relates to our customers who are in the manufacturing and processing industry. The customers in the manufacturing and processing industry are further categorised into 13 different industries, among which the highest concentrated industry for each of the two years ended 31 December 2011 was metal product industry, which accounted for approximately [22.5]% and [17.5]% of the outstanding guarantee amount as at 31 December 2010 and 31 December 2011 respectively. For each of the year ended 31 December 2012 and the five months ended 31 May 2013, the highest concentrated industry was ceramic construction materials industry, which accounted for approximately [13.3]% and [11.7]% of the outstanding guarantee as at 31 December 2012 and 31 May 2013 respectively. [Our Directors consider that, since our exposure to the manufacturing and processing industry is further sub-classified into 13

## **BUSINESS**

different industries, each of which is exposed to different risk factors, and concentration in each such industry is not intense; and [the development of manufacturing and processing industries have been promoted and encouraged by the local government and enjoy more government support among the various industries; the level of concentration of our credit risk exposure is not particularly high and therefore, measures to mitigate credit risk are not necessary in this respect.]

Furthermore, our Group adopts a prudent approach on the approval of guarantee applications and the post-transaction review of our customers.

### **SUPPLIERS**

During the Track Record Period, our Group did not have regular or significant suppliers in terms of business nature.

### **MARKETING**

The principal marketing strategies of our Group are referrals from cooperating financial institutions and from our existing or past customers, and our own sales and marketing efforts.

#### **(a) Referral from cooperating financial institutions and customers**

Our Group maintains good business relationships with the cooperating financial institutions as well as our past or existing customers. Some of our potential customers were referred to by the banks and institutions which have cooperation relationships with us. From time to time, some of our potential customers approach us through our past or existing customers. Referrals are not subject to any referral fees or rebate arrangements between our Group and our customers or cooperating financial institutions.

#### **(b) Our own sales channels**

Potential customers can approach us through our telephone hotline, website, business representatives from our main office in Foshan City and our branch offices in Sanshui District and Shunde District respectively of Guangdong Province.

#### **(c) Seminars and forums**

Our Group also participates in seminars and forums from time to time organized by guarantee industry associations and other organizations, such seminars or forums are attended by local government officials, bank officers, SMEs executives and our attendance can enhance our visibility in the industry and also enable us to expand our business connection and explore business opportunities.

### **INVESTMENT IN SUCCESS CREDIT**

Apart from our guarantee services and financial consultancy services, we also provide small loans lending services through our investment in Success Credit. With a view to broaden our Group's business direction and to gain more experience of providing a broader range of financial services to SMEs, our Group completed the acquisition of approximately [18.18]% interests in Success Credit on 18 December 2012. Success Credit, held as to approximately [18.18]% by Success Guarantee at the

## **BUSINESS**

Latest Practicable Date, is a limited liability company incorporated in the PRC with a registered capital of RMB200 million which is principally engaged in [provision of small loans financing to SMEs and individuals]. Success Credit is treated as an associate of our Group under equity method of accounting, because we can exert significant influence over its operating and financial policies. The business operation of Success Credit does not form a significant part of our Group’s business as a whole. It was accredited as “Model Institution of SME Financing Services in Guangdong Province” (廣東省中小企業融資服務示範機構) by the Guangdong Province SME Bureau (廣東省中小企業局) in 2012.

Our Directors consider that Success Credit is a long term investment of our Group and has no material short term impact on our Group’s performance since its business does not form part of the core business of our Group as at the Latest Practicable Date. Under existing PRC laws and regulations, the main promoters, the largest shareholders and their respective affiliated entities cannot collectively be interested in more than [45]% interests of a small loan lending company, and each of the main promoters, the largest shareholders and their respective affiliated entities shall not hold more than 20% interests of such company. In future where the law permits, we may acquire further interests in Success Credit to increase our investment in it.

### **COMPETITIVE LANDSCAPE**

Taking into account the growth of SMEs in the PRC, their increasing financing needs and the entry barrier to the guarantee industry, our Directors consider that there is competition between our Group and the government-financed and privately-controlled guarantee companies in the PRC, particularly in the Guangdong Province. According to the Ipsos Research Report, the guarantee industry in the Guangdong Province is consolidating with the top financial guarantee companies, where the top seven financial guarantee service providers, in terms of revenue, in the Guangdong Province 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 engaging in direct competition, financial guarantee companies strive to raise their reputation and strengthen their cooperation with banks. The major factors affecting their performance include their capital, their reputation, their risk control ability and their relationship with banks. Details of the competitive landscape of the guarantee industry are set out in the section headed “Industry overview — Analysis of the credit guarantee service industry — Competitive landscape of credit guarantee service industry in Guangdong Province” in this document. Our Directors believe that the competitive strengths of our Group set out in the section headed “Business — Competitive strengths” in this document may allow us to compete effectively with our major competitors. Further, following the Guangdong Guarantee Incidents, the industry implications of which are set out in the section headed “Industry overview — Analysis of credit guarantee service industry — Future trends and developments” of this document, our Directors believe that the expected elimination of the unqualified guarantee service providers may reduce competition in the guarantee industry and raise recognition for guarantee companies among the public and the financial institutions, which may be beneficial to our Group’s business in the long run.

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### EMPLOYEES

As at the Latest Practicable Date, we had approximately 51 full-time employees. Set out below is a breakdown of the number of our full-time employees by function:

<b>Division</b>	<b>Number of employees</b>
Management	5
Business operation	27
Risk control	4
Internal control	2
Finance	4
Administration	7
Compliance	<u>2</u>
<b>Total</b>	<u><u>51</u></u>

We recruit our personnel from the open market and we enter into employment contracts with them. We offer competitive remuneration packages to our employees, including salaries and bonuses to qualified employees. We provide training to our staff on a regular basis to enhance their knowledge of the financial products in the market and the applicable laws and regulations in relation to the industry in which our Group operates.

In the PRC, in accordance with relevant national and local labour and social welfare laws and regulations, we are required to pay in respect of our employees in the PRC various social security funds including basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance, hospital insurance, insurance for maternity leave (together “**social insurance**”) and housing provident fund contributions. Based on the relevant confirmation letters issued by the relevant authorities in charge and based on the advice of our PRC Legal Advisers, our Directors believe that we have no outstanding social insurance funds payable by us in accordance with PRC law as at the Latest Practicable Date.

As at the Latest Practicable Date, we have not experienced any strikes, work stoppages or labour disputes which affected our operations and we believe we have maintained good working relations with our employees.

### INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we have been licenced to use the trademarks of Success Holdings set out in “Appendix IV — Statutory and General Information — Further Information About Our Business — Intellectual property rights” pursuant to the Trademarks Licence Agreements. Please refer to the section headed “Connected transactions” of this document for details of the Trademarks Licence Agreements.

For further information in relation to our intellectual property rights is set out in Appendix [IV] to this document.

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### INSURANCE

Our Group maintains social insurance for its employees as required by the PRC social security regulations. As at the Latest Practicable Date, we had not been the subject of any insurance claims which are material to us. Based on the confirmation issued by the relevant social insurance bureau of Foshan City, our PRC Legal Advisers confirmed that we have complied with the PRC social insurance law and regulations.

As at the Latest Practicable Date, our Group did not maintain insurance for the assets pledged to our Group under the counter-guarantees provided by our customers or their owners. Instead, our Group may require the chargors to maintain insurance for the pledged assets under the counter-guarantees, where we consider necessary. Our Directors and the [●] consider that our Group’s insurance coverage shall be adequate.

### PROPERTY INTERESTS

As at the Latest Practicable Date, to support our business activities and operations, we leased four premises in the PRC with an aggregate floor area of approximately 1,436 square metres as offices. Such properties were not used for property activities as defined under Rule 5.01(2) of the [●] and their details are set out below:

No.	Location	Gross floor area (sq.m.)	Existing usage	Lease term
1.	廣東省佛山市季華五路29號廣發大廈21樓 (21st Floor, Guangfa Building, No.29 Jihua 5th Road, Chancheng District, Foshan, Guangdong Province, the PRC*)	1,100	Office	1 February 2013 to 31 January 2014
2.	廣東省佛山市三水區西南街道張邊路9號 “三水廣場”3座842單元 (Unit 842, Block 3, Sanshui Plaza, No.9, Zhangbian Road, Xinan Street, Sanshui District, Foshan, Guangdong Province, the PRC*)	109	Office	20 July 2013 to 19 July 2016
3.	廣東省佛山市順德區大良沿江北路121號 建設大廈第十八樓C區寫字樓 (Region C, 18th Floor, Jian She Building, No. 121 Yuan Jiang Bei Road, Da Liang, Shunde District, Foshan, Guangdong Province, the PRC*)	191.5	Office	3 August 2012 to 31 August 2015
4.	廣東省佛山市順德區大良鎮沿江北路121號 建設大廈第十二樓A7區寫字樓 (Region A7, 12nd Floor, Jian She Building, No. 121 Yuan Jiang Bei Road, Da Liang Town, Shunde District, Foshan Guangdong Province, the PRC*)	35.9	Office	1 July 2013 to 30 June 2016



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Pursuant to (i) [●] and (ii) [●], both of which came into effect on 1 January 2012, exempt property interests are not required to be the subject of a valuation report set out in a document. Whether a property interest is exempt depends on its carrying amount being below, in the case of property interests of non-property activities, 15% of total assets, and in the case of property interests of property activities, 1% of total assets (assuming they together do not exceed 10% of our Group’s total assets). Operating leases are also exempt from the requirement under the [●].

Our Directors have considered the requirements under Rules 5.01A and 5.01B of the [●] when assessing whether any of our property interests is subject to the requirement to be set out in a valuation report in this document.

Our Directors confirmed that, as at 31 May 2013, the latest audited consolidated statement of financial position date, (i) the aggregate carrying amount of each of our property interests of property activities with a carrying amount of less than 1% of our total assets did not exceed 10% of our total assets in compliance with Rule 5.01A(1) of the [●]; and (ii) each of our property interests of non-property activities had a carrying amount of less than 15% of our total assets in compliance with Rule 5.01A(2) of the [●].

Pursuant to Rule 5.01B(2)(b) of the [●], our Directors confirm that as at 31 May 2013, no single property interest of our Group’s non-property activities had a carrying amount of 15% or more of our total assets.

As at the Latest Practicable Date, our Directors confirm that no single property interest of our Group was material to our Group’s total assets, and none of our property interests was individually material to us in terms of turnover contribution or rental expenses.

Accordingly, all of our Group’s property interests are exempt from the requirement to be set out in a valuation report in this document.

## **SAFETY AND ENVIRONMENTAL PROTECTION**

Due to the nature of our business, our operational activities do not generate industrial pollutants and our operations do not raise any material safety or health related concerns and we did not incur any cost of compliance with applicable environmental protection rules and regulations during the Track Record Period. As at the Latest Practicable Date, we have not come across any non-compliance issues in respect of any applicable laws and regulations on environmental protection and safety or any complaints from our customers or the public in respect of safety and health issues relating to the use of, or any incidents arising from, the use of our application solutions.

Our Directors are of the view that there are no environmental and safety laws and regulations which may affect the provision of our application solutions and services in any material respect, and that our operational activities are in compliance with the application laws and regulations of the PRC in respect of environmental protection and safety.

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### **LEGAL PROCEEDINGS AND COMPLIANCE**

From time to time, we may be involved in litigation or other legal proceedings in the ordinary course of our business. As at the Latest Practicable Date, we are not aware of any legal or administrative proceedings currently existing or pending against us that would have a material adverse effect on the operating results or financial conditions of our Group.

As advised by our PRC Legal Advisers, save as disclosed in [the paragraph headed “Legal proceedings and compliance — Non-compliance”] in this section, our Group has complied with all major PRC laws and regulations during the Track Record Period.

[As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had duly obtained all approvals, permits, consents and licences relating to our incorporation and necessary for the our business operation and all of them are in force [as at the Latest Practicable Date].

#### **Compliance**

During the Track Record Period and as at the Latest Practicable Date, our Group had obtained the following licence for the operation of its business, in addition to its business licenses:

<b>Name of our Group’s member</b>	<b>Name of licence/permit</b>	<b>Validity of licence/permit</b>
Success Guarantee	融資性擔保機構經營許可證 (Operating Licence for Financial Guarantee Institutions)	23 March 2011 to 23 March 2016

The Interim Measures set out detailed requirements for financial guarantee companies in relation to, among others, their minimum registered capital, organisation form, business scope, maximum outstanding guarantee amount for a single customer. The financial guarantee companies established in the PRC before the Interim Measures were granted a transitional period from 8 March 2010 to 31 March 2011 for the purposes of reviewing their existing businesses and carrying out necessary rectifications according to the Interim Measures and the relevant implementing rules promulgated by the provincial governments. Additional information on the Interim Measures and the relevant implementing rules is set out in the section headed “Regulatory overview” in this document.

Prior to the promulgation of the Interim Measures, there were no major specific laws and regulations governing guarantee companies or guarantee business save for the following laws and regulations:

- the Guarantee Law of the PRC (中華人民共和國擔保法) to govern the relationship between guarantors and principal debtors under guarantee contracts; and
- the Opinions on SME Guarantee System to provide guidelines in relation to financial guarantee fees.

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Set out below are the major regulatory requirements applicable to our Group and a summary of how our Group has complied with them during the Track Record Period:

- Applicable laws and regulations**

Interim Measures (“**Record-filing Measures**”) for Record-filing of SME Credit Guarantee Institutions (中小企業信用擔保機構備案暫行辦法) issued by the Commission for Foreign Economic Relations and Trade of Guangdong Province (廣東省經濟貿易委員會), the Department of Finance of Guangdong Province (廣東省財政廳), the Guangdong Financial Office and the Guangzhou Branch of the People’s Bank of China (人民銀行廣州分行)
- Regulatory requirements**

Article 7:

Guarantee companies established in accordance with the law shall complete the record-filing procedures with the relevant record-filing authority within one month of its registration with the relevant registration authorities. Guarantee companies which are already operating shall complete the record-filing procedures within one month of the announcement of the Record-filing Measures.
- How our Group meets the regulatory requirements during the Track Record Period**

According to the record-filing certificate of SME credit guarantee institutions in Guangdong Province dated 25 October 2005 and issued by the Bureau of Foreign Trade and Economic Cooperation of Foshan City (佛山市經濟貿易局), Success Guarantee has completed the record-filing procedures in accordance with applicable regulatory requirements.
- Applicable laws and regulations**

Interim Measures for the Post-holding Qualifications of Directors, Supervisors and Senior Management of Financial Guarantee Companies (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)
- Regulatory requirements**

Article 3:

The post-holding qualifications of directors, supervisors and senior management of financial guarantee companies shall be submitted to the regulatory authorities for approval.
- How our Group meets the regulatory requirements during the Track Record Period**

In its reply dated 30 January 2011 regarding the post-holding qualifications of certain of our officers, the Guangdong Financial Office approved the appointment of Mr. Zhang Tiewei and Mr. Li Bin as the chairman and general manger of Success Guarantee respectively.

In its reply dated 15 February 2011 regarding the post-holding qualifications of certain of our officers, the Foshan Financial Bureau approved the appointment of Mr. Xu Kaiying as vice chairman, Mr. He Darong, Mr. Pang Haoquan and Mr. Chen Guoxian as directors, Mr. He Jingyun as chief supervisor, Mr. Lan Tiecheng and Mr. Yu Jianqun as supervisors, Ms. Dai Jing as senior vice general manager, Mr. Zhong Zhiqiang as risk control director and Ms. Zhao Minquan as chief financial officer of Success Guarantee, the appointment of Mr. Yuan Chen as general manager of Shunde branch office of Success Guarantee and the appointment of Mr. Huang Yuan as general manager of Sanshui branch office of Success Guarantee.
- Applicable laws and regulations**

Implementing Rules (*Note 1*)
- Regulatory requirements**

Article 8:

Financial guarantee companies approved to be established shall include the words “Financial Guarantee (融資擔保)” in its company name. They shall obtain the business license issued by the Guangdong Financial Office before applying for registration with industry and commerce administration authorities.

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Unless otherwise provided by laws and administrative regulations, any entities or individuals shall not conduct financial guarantee business nor shall they include the words “Financial Guarantee” in its company name without prior approval.

- How our Group meets the regulatory requirements during the Track Record Period**
- The Guangdong Financial Office has stated in its reply dated 23 March 2011 that Success Guarantee had been granted the business licence as it became qualified following the regulatory examination and rectification in the Guangdong Province. Success Guarantee had obtained the operating licence for financial guarantee institutions issued by the Guangdong Financial Office on 23 March 2011. The Sanshui branch and Shunde branch of Success Guarantee obtained each of their operating licence for financial guarantee institutions issued by the Guangdong Financial Office on 12 July 2011. As Success Guarantee obtained the operating licence for financial guarantee institutions and included the “Financial Guarantee” in its company name before 31 March 2011, Success Guarantee conducted its financial guarantee in compliance with article 8 of the Implementing Rules during the Track Record Period.
4. **Applicable laws and regulations**
- Implementing Rules (*Note 1*)
- Regulatory requirements**
- Article 10:
- The minimum capital requirements for financial guarantee companies shall vary from region to region.
- Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing are classified as Class I regions, and the others are classified as Class II regions. The minimum registered capital for financial guarantee companies in Class I regions shall be RMB100 million, and the minimum registered capital for financial guarantee companies in Class II regions shall be RMB50 million.
- How our Group meets the regulatory requirements during the Track Record Period**
- The registered capital of Success Guarantee increased to RMB200 million in February 2009. According to the business licence of Success Guarantee issued by Foshan Administration of Industry and Commerce (佛山市工商行政管理局) and dated 17 September 2012, Success Guarantee has a registered capital of RMB250 million. The registered capital of Success Guarantee exceeded RMB100 million before 31 March 2011 and throughout the Track Record Period. As such, Success Guarantee had complied with article 10 of the Implementing Rules throughout the Track Record Period.
5. **Applicable laws and regulations**
- Implementing Rules (*Note 1*)
- Regulatory requirements**
- Article 29:
- Financial guarantee companies shall not conduct any of the following activities:
- (i) taking deposits.
  - (ii) granting loans;
  - (iii) granting entrusted loans;
  - (iv) entrusted investments;
  - (v) any other activities prohibited by the Guangdong Financial Office.

## BUSINESS

<b>How our Group meets the regulatory requirements during the Track Record Period</b>	<p>Details of our Group’s non-compliance with the provision prohibiting financial guarantee companies from granting loans are set out in the paragraph headed “Non-compliance” in this section.</p> <p>[As advised by our PRC Legal Advisers, the restrictions under article 29 of the Implementing Rules regarding entrusted investments (受託投資) prohibit a financial guarantee company from being entrusted funds to make investments as a trustee. During the year ended 31 December 2012, Success Guarantee entered into an entrusted investment agreement with Guangdong Finance Trust Co. Ltd (廣東粵財信託有限公司) (“<b>Yuecai Trust</b>”), pursuant to which Yuecai Trust was entrusted by Success Guarantee to invest in certain debt securities. As confirmed by our Directors, we made such entrusted investments with internal funds from our Group. Accordingly, as advised by our PRC Legal Advisers, we did not act as a trustee under our entrusted investment arrangement with Yuecai Trust and hence such entrusted investment arrangement did not violate article 29 of the Implementing Rules.]</p>
<b>6. Applicable laws and regulations</b>	Implementing Rules ( <i>Note 1</i> )
<b>Regulatory requirements</b>	<p>Article 33:</p> <p>Financial guarantee companies and the guaranteed may negotiate as to whether client deposits will be charged. The client deposits received shall be deposited into a special bank account in accordance with the custody agreement entered into among the financial guarantee company, the guaranteed and the bank, which will be under the management of the bank and shall not be appropriated by any entities or individuals.</p>
<b>How our Group meets the regulatory requirements during the Track Record Period</b>	<p>Details of our Group’s non-compliance with such requirements are set out in the paragraph headed “Non-compliance” in this section. In accordance with the requirements applicable to the industry, our Group has formulated internal guidelines which were adopted by our Group in May 2012, which specifies the major requirements for receiving and dealing with customers’ pledged deposits, including the entry into tripartite custodian agreement among lending bank, customer and our Group for ensuring the entrustment of lending banks to manage the deposits, the deposit of the customers’ pledged deposits received from customers into a segregated bank account, and that such deposits shall not be mis-appropriated.</p> <p>In March 2013, a supplemental internal guideline for providing clearer internal guidance to our employees on management of customers’ pledged deposits was adopted by our Group to strictly enforce the requirements under our first set of internal guidelines adopted earlier in May 2012. Under the supplemental guideline, it was strictly required that the Implementing Rules and the first set of internal guidelines be strictly implemented, and in particular, where tripartite custody agreement cannot be entered into to ensure that the deposits received from customers be kept in a segregated custodian bank account and be managed by the relevant bank, no customers’ pledged deposits shall be received by our Group. Our Group also maintains a deposit management record and records every deposit to be received for ease of management and supervision since March 2013.</p>
<b>7. Applicable laws and regulations</b>	Implementing Rules ( <i>Note 1</i> )
<b>Regulatory requirements</b>	<p>Article 34:</p> <p>The outstanding balance of financial guarantee obligations of any financial guarantee company shall not exceed 10 times its net assets.</p> <p>The outstanding balance of financial guarantee obligations of any financial guarantee company in respect of guarantees provided for any single customer shall not exceed 10% of its net assets; the balance of financial guarantee obligations in respect of guarantees provided for any single customer and its related parties shall not exceed</p>

**BUSINESS**

15% of its net assets; the balance of financial guarantee obligations in respect of guarantees provided for bond issues by any single customer shall not exceed 30% of its net assets. The outstanding balance of financial guarantee obligations means the amount of guarantee obligations in which a financial guarantee company actually bears the risks, excluding the amount of obligations shared in accordance with contracts among banking institutions, re-guarantee institutions, government guarantee funds and other financial guarantee companies.

**How our Group meets the regulatory requirements during the Track Record Period**

Since the implementation of the Implementing Rules in November 2010, our Group has been complying with Article 34. Prior to May 2013, to monitor the compliance matters of our daily operation and the decision making process of Success Guarantee, according to our internal guidelines, our risk control department was responsible for reviewing every proposed transaction of Success Guarantee and rejecting any non-compliant proposed transaction for avoiding any non-compliant business operation.

Since May 2013, in addition to appointing an independent compliance officer with effect from 2 May 2013, our Group has formulated internal guidelines governing the discharge of duties by the compliance officer and a compliance checklist which shall be complied with during the operation of our Group. The compliance officer will check every transaction against the checklist (including compliance with article 34 of the Implementing Rules) before it takes place, and any non-compliant transaction will be rejected. Training on the requirements of the Implementing Rules had also been provided to our employees during the Track Record Period. In September 2013, our independent compliance department was established to take up the duty of our independent compliance officer since then.

**8. Applicable laws and regulations**

Implementing Rules (*Note 1*)

**Regulatory requirements**

Article 35:

Financial guarantee companies shall invest with their own funds only in treasury bonds, financial bonds and fixed-income financial products with high credit ratings such as debt financing instruments issued by large enterprises, and other investments in which there are no conflicts of interest and which in aggregate do not exceed 20% of their net assts.

**How our Group meets the regulatory requirements during the Track Record Period**

Since the implementation of the Implementing Rules in November 2010, our Group has been complying with Article 35. Prior to May 2013, as confirmed by our Company, our financial department propose the transactions for review by the general manager of Success Guarantee who was responsible for reviewing every proposed transaction of Success Guarantee and rejecting any non-compliant proposed transaction for avoiding any non-compliant business operation.

Since May 2013, in addition to appointing an independent compliance officer with effect from 2 May 2013, our Group has formulated the internal guidelines governing the discharge of duties by the compliance officer and a compliance checklist which shall be complied with during the operation of our Group. The compliance officer will check every transaction against the checklist (including compliance with Article 35 of the Implementing Rules) before it takes place, and any non-compliant transaction will be rejected. Training on the requirements of the Implementing Rules had also been provided to our employees during the Track Record Period. In September 2013, our independent compliance department was established to take up the duty of our independent compliance officer since then.

**9. Applicable laws and regulations**

Implementing Rules (*Note 1*)



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<b>Regulatory requirements</b>	<p>Article 36:</p> <p>A financial guarantee company shall not provide financial guarantees for its affiliates such as its parent and subsidiaries, and its shareholder(s) who hold(s) 5% or more of its shares and its/their affiliates. This restriction does not apply to mutual financial guarantee companies.</p>
<b>How our Group meets the regulatory requirements during the Track Record Period</b>	<p>Details of our Group’s non-compliance with such requirements are set out in the paragraph headed “Non-compliance” in this section.</p> <p>Prior to May 2013, to monitor the compliance matters of our daily operation and the decision making process of Success Guarantee, according to our internal guidelines, our risk control department was responsible for reviewing every proposed transaction of Success Guarantee and rejecting any non-compliant proposed transaction for avoiding any non-compliant business operation.</p> <p>Since May 2013, in addition to appointing an independent compliance officer with effect from 2 May 2013, our Group has formulated the regulations governing the performance of duties by the compliance officer and a compliance checklist which shall be complied with during the operation of our Group. The compliance officer will check every transaction against the checklist (including compliance with this article) before it takes place, and any non-compliant transaction will be rejected. Training on the requirements of the Implementing Rules had also been provided to our employees during the Track Record Period. In September 2013, our independent compliance department was established to take up the duty of our independent compliance officer since then.</p>
10. <b>Applicable laws and regulations</b>	<p>Implementing Rules (<i>Note 1</i>)</p>
<b>Regulatory requirements</b>	<p>Article 37:</p> <p>Financial guarantee companies shall set aside 50% of guarantee premium during the year as unearned premium reserve using the difference method where the unearned premium reserve provided for the previous year can be carried forward to or deducted from the unearned premium reserve as should be provided during the year.</p> <p>Financial guarantee companies shall each year establish guarantee indemnification reserve of no less than 1% of the outstanding guarantee balances as at the end of the year. The guarantee indemnification reserve shall be set aside using the difference method should it reach 10% of the guarantee balances in total during the year.</p> <p>The administration measures for setting aside and utilising unearned premium reserve and guarantee indemnification reserve are otherwise formulated by provincial financial offices. Provincial financial offices may require a higher percentage of guarantee indemnification reserve based on the obligation risk profiles of financial guarantee companies and the need for prudential supervision. Financial guarantee companies shall manage risks by types of guarantee obligations and accurately measure risks of guarantee obligations.</p>
<b>How our Group meets the regulatory requirements during the Track Record Period</b>	<p>Our Group has provided unearned premium reserve equal to 50% of guarantee premium during the year as required during the Track Record Period and established guarantee indemnification reserve of no less than 1% of the outstanding guarantee balances as at the end of the year. Such reserves are reviewed and approved at the end of each year during tax audit and year-end audit of financial statements.</p>
11. <b>Applicable laws and regulations</b>	<p>Notice on Guarantee Deposits (<i>Note 2</i>)</p>

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### **Regulatory requirements**

The use of client guarantee deposits received by financial guarantee institutions shall be restricted to compensation in the event of default as agreed in contracts. The use of client guarantee deposits as entrusted loans, investment or other uses is strictly prohibited, and they shall not be used to pay deposits to banking institutions. Financial guarantee institutions shall not charge client guarantee deposits in the form of management fees or consultation fees, nor shall they charge client guarantee deposits off-the-record disguisedly in the form of providing wealth management services to clients or withholding client loans. Financial guarantee institutions shall deposit in full the client guarantee deposits received into a special account maintained with banking institutions. Financial guarantee institutions shall implement the circular and adopt rectification measures by 30 September 2012 in respect of any client guarantee deposits received before its issue.

### **How our Group meets the regulatory requirements during the Track Record Period**

Details of our Group’s non-compliance with such requirements are set out in the paragraph headed “Non-compliance” in this section.

In accordance with the requirements applicable to the industry, our Group has formulated internal guidelines regarding the deposits which were adopted by our Group in May 2012, which specifies the major requirements for receiving and dealing with customers’ pledged deposits, including the entry into tripartite custodian agreement among lending bank, customer and our Group for ensuring the entrustment of lending banks to manage the deposits, the deposit of the customers’ pledged deposits received from customers into a segregated bank account, and that such deposits shall not be mis-appropriated.

In March 2013, a supplemental internal guideline for providing clearer internal guidance to our employees on management of customers’ pledged deposits was adopted by our Group to strictly enforce the requirements under our first set of internal guidelines adopted earlier in May 2012. Under the supplemental guidelines, it was required that the Implementing Rules and the first set of internal guidelines be implemented, and in particular, where tripartite custody agreement cannot be entered into to ensure that the deposits received from customers be kept in a segregated custodian bank account and be managed by the relevant bank, no customers’ pledged deposits shall be received by our Group.

Our Group also maintains a deposit management record and records every deposit to be received for ease of management and supervision since March 2013.

#### *Notes:*

1. As advised by our PRC Legal Advisers, pursuant to article 60 of the Implementing Rules, financial guarantee companies established before the effective date of the Implementing Rules (i.e. 1 November 2010) were required to comply with the requirements therein by 31 March 2011. Accordingly, Success Guarantee, being a financial guarantee company established in 1996, was required to comply with the requirements under the Implementing Rules by 31 March 2011.
2. As advised by our PRC Legal Advisers, the requirements under the Notice on Guarantee Deposits were required to be fulfilled by 30 September 2012.

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### Non-compliance

During the Track Record Period, our Group has failed to comply with certain laws and regulations in the PRC, a summary of which is set out as follows:

#### 1. Advances

##### Events of and reasons for non-compliance

During the Track Record Period, there were instances where our Group did not comply with the General Rules on Credit (貸款通則) and the Interim Measures in relation to certain advances made by our Group (“Advances”).

Success Guarantee made certain Advances to certain independent third parties and related parties from time to time during the Track Record Period. As at 31 December 2010, 2011 and 2012 and 31 May 2013, the outstanding balance of the Advances to related party amounted to approximately RMB[43.4] million, RMB[3.9] million, [nil] and [nil] respectively. During each of the three years ended 31 December 2012 and the five months ended 31 May 2013, our Group granted [85], [37], [20] and [nil] Advances to a total of [28], [nil], [nil] and [nil] independent third parties and [3], [1], [1], and [nil] related parties respectively. During each of the three years ended 31 December 2012 and the five months ended 31 May 2013, the total amount of Advances provided by us was approximately RMB[849.0] million, RMB[429.0] million, RMB[426.2] million and [nil] respectively. All of such Advances bear no interest and Advances to related parties were mainly made for the purposes of better working capital management among entities controlled by the then shareholders of Success Guarantee, while the Advances to the independent third parties were made with an aim to maintain or develop long-term cooperation relationship with such parties, which generally were our then existing customers or business entities which we intended to develop business relationships with, by providing assistance for their temporary financial needs and/or working capital requirements on request by such third parties. Under the General Rules on Credit, effective since 1 August 1996, a corporate entity which provides loans to another corporate entity may be subject to a maximum penalty amounting to five times of the interest received from the corporate borrower. Under the Interim Measures, financial guarantee companies are prohibited from engaging in the financing business.

Our Chairman of our Company and our general manager, each an executive Director (collectively, “Relevant Directors”), were involved in the authorisation of the Advances. As (i) all of the Advances did not bear any interests; and (ii) the relevant penalty under the General Rules on Credit is based on the income generated from the loans between corporate entities and our Group did not derive any income from the Advances, the Relevant Directors were not aware at the relevant time that such Advances constituted loans as stipulated under the Interim Measures or the General Rules on Credit. As such, they considered that no penalties would be imposed on Success Guarantee in relation to the Advances and they were not in breach of the above regulations; and therefore they authorised the Advances. Further, as the Relevant Directors at the material time considered that (i) our Group would not receive any interest or fee from the Advances and thus the Advances differed materially from non-compliant financing activities commonly engaged by companies in the PRC, which generally involved interest-bearing loans; and (ii) the Advances were mainly made for the purposes of conducting capital management and enhancing business relationship as set out above], but not for obtaining interest income by providing financing to other entities, they did not realise that the General Rules on Credit or the Interim Measures were applicable to the Advances and therefore had not sought formal legal advice prior to authorising the Advances.

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### Legal consequences and potential penalties and financial losses

Pursuant to the General Rules on Credit, the maximum potential penalty for a corporate entity providing loans to another corporate entity shall be five times of the interests received from the corporate borrower and the inter-company loan may be declared invalid. As such, as advised by our PRC Legal Advisers, the Advances may be declared invalid but, as all Advances provided by our Group were not interest-bearing, Success Guarantee will not be subject to the monetary penalty set out above. As advised by our PRC Legal Advisers, there were no specific penalty provisions on financial guarantee companies engaged in the financing activities under the Interim Measures.

Success Guarantee obtained a confirmation letter dated 6 August 2012 (“**Confirmation Letter**”) from the Foshan Financial Bureau, confirming that (i) no penalty had been imposed on Success Guarantee in relation to the Advances; (ii) the relevant Advances have been basically settled as at 30 June 2012; and (iii) the Foshan Financial Bureau will continue to support Success Guarantee in the provision of financial guarantee services in accordance with the applicable regulations. Our PRC Legal Advisers advised us that the Foshan Financial Bureau was the competent and appropriate regulatory authority of Success Guarantee on this matter. As confirmed by our Directors, the PRC Legal Advisers advised us that, pursuant to the Implementing Rules, the city-level financial bureaus are responsible for, among others, the examination and approval of matters relating to, and the routine supervision and management of, financial guarantee companies and their respective branches within their jurisdictions. Hence, as advised by our PRC Legal Advisers, as Foshan Financial Bureau, being the city-level financial bureau for Foshan City, is the regulatory authority of Success Guarantee, the risk of any higher authority revoking the Confirmation Letter issued by the Foshan Financial Bureau is minimal. Our Directors confirm that, since (i) all Advances have been completely settled as at 13 August 2012; and (ii) our PRC Legal Advisers are of the view that, based on the Confirmation Letter, our Group will not be subject to any administrative penalty from relevant regulatory authorities under the General Rules on Credit and the Interim Measures in relation to the Advances, no provision has been made in relation to such Advances in the financial statements of our Group for the Track Record Period.

Success Guarantee has obtained a more updated written confirmation letter from the Foshan Finance Bureau dated 5 July 2013 (“**Updated Confirmation**”), it explicitly confirmed that there has been no instance where Success Guarantee acted in breach of the national and local financial laws and regulations or the requirements of any regulatory documents. Further details relating to the issuance of the Updated Confirmation are set out below in the paragraph headed “Customers’ pledge deposits” in this section of the document.

The Financial Work Office of the People’s Government of Guangdong Province (廣東省人民政府金融工作辦公室) (“**Guangdong Financial Office**”) issued a confirmation letter on 9 September 2013 confirming that (i) the city-level financial bureaus are responsible for, among others, the routine supervision and management of financial guarantee companies within their jurisdictions; (ii) confirmation letters relating to the daily business operation of Success Guarantee shall be issued by the Foshan Financial Bureau; and (iii) no penalty regarding non-compliance matters had been imposed by the Guangdong Financial Office on Success Guarantee since it obtained its business licence.

### Latest status

As confirmed by our Directors, in June 2012, we were advised by our PRC Legal Advisers that we are prohibited from granting the Advances under the General Rules on Credit and the Interim Measures. Therefore, we ceased to provide such Advances from July 2012 and since then and up to the Latest Practicable Date, no Advance was provided by us in breach of the General Rules on Credit and the Interim Measures. All such non-interest bearing Advances had been settled as at 13 August 2012.

## 2. Related Guarantees

### Events of and reasons for non-compliance

During the Track Record Period, Success Guarantee entered into two financial guarantee contracts in September 2011 and one financial guarantee contract in June 2012 with related companies of certain holders of 5% or more equity interest in Success Guarantee, which did not comply with Article 36 of the Implementing Rules (“**Related Guarantees**”).

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Pursuant to Article 36 of the Implementing Rules, a financial guarantee company is prohibited to provide financial guarantee for a holder of 5% or more equity interest in such company or for a related company of such equity holder.

The value of each of the loans in relation to the Related Guarantees was RMB18 million. The relevant guarantee fee for all of such loans, all being Foshan Trust Loans, was charged at the rate of 3.6% per annum of the guarantee amount, which was the rate charged on the financial guarantees we provided for all Foshan Trust Loans during the Track Record Period. The aggregate revenue recognised from such financial guarantees during each of the two years ended 31 December 2012 amounted to approximately RMB296,000 and RMB729,000 respectively, representing approximately 0.6% and 1.3% of our total revenue for the relevant year. Our guarantee obligations under each of the Related Guarantees were released in or before August 2012. As advised by our PRC Legal Advisers, the PRC laws and regulations do not specifically provide for the maximum potential penalty for such Related Guarantees.

The Relevant Directors and our risk control director (collectively, “**Relevant Officers**”), were involved in the authorisation, in accordance with the normal guarantee approval process of Success Guarantee, of the Related Guarantees. The Related Guarantees were authorised by the Relevant Officers principally due to a misunderstanding on their part on the application of the Implementing Rules.

As advised by our PRC Legal Advisers, “financial guarantees” under the Implementing Rules refer to agreements entered into between guarantors and creditors such as financial institutions in the banking industry, pursuant to which the guarantor agrees to fulfill its guarantee obligations where the principal debtor fails to discharge its financial liabilities owed to the creditor. The Related Guarantees were provided by Success Guarantee in relation to Foshan Trust Loans, which were granted by a trust fund, rather than banks as in the majority of our other guarantee arrangements during the Track Record Period. Given (i) the differences between the bank loans in our normal guarantee arrangements and the Foshan Trust Loans in that the Foshan Trust Loans were granted by a trust fund, instead of a bank; and (ii) that the cooperation agreement in relation to the provision of guarantee services for the Foshan Trust Loan was entered into by Success Guarantee in July 2011, under which the cooperative arrangement was relatively new to the Relevant Officers at the relevant time, the Relevant Officers misinterpreted the Implementing Rules and believed that such regulation did not apply to guarantees provided in relation to the Foshan Trust Loans, which were not loans granted by a “financial institution in the banking industry”. In view of the nature of the Foshan Trust Loans, which is different from the bank loans in our usual guarantee arrangements, we consider that the Related Guarantees were exceptional and isolated incidents of non-compliance among more than 200 guarantee contracts entered into by our Group during each of the two years ended 31 December 2012 respectively. Due to their misunderstanding on the application of the Implementing Rules, the Relevant Officers had not sought formal legal advice prior to authorising the Related Guarantees.

### Legal consequences and potential penalties and financial losses

Success Guarantee obtained a confirmation letter dated 22 January 2013 (“**Compliance Confirmation**”) from the Foshan Financial Bureau confirming that there has been no instances where Success Guarantee acted in breach of the national and local financial laws and regulations or the requirements of any regulatory documents and that it has not received any administrative penalty due to breaches of such laws and regulations or the requirements of any regulatory documents. Our PRC Legal Advisers advised us that the Foshan Financial Bureau was competent and appropriate regulatory authority of Success Guarantee on this matter. Our PRC Legal Advisers advised us that, pursuant to the Implementing Rules, the city-level financial bureaus are responsible for, among others, the examination and approval of matters relating to, and the routine supervision and management of, financial guarantee companies and their respective branches within their jurisdictions. Hence, as advised by our PRC Legal Advisers, as Foshan Financial Bureau, being the city-level financial bureau for Foshan City, is the regulatory authority of Success Guarantee, the risk of any higher authority revoking the Compliance Confirmation issued by the Foshan Financial Bureau is minimal. In respect of the Related Guarantees, the [●], together with our PRC Legal Advisers, initiated an interview (“**March Consultation**”) with the vice president of the



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Foshan Financial Bureau in March 2013, who, as advised by our PRC Legal Advisers, was a competent and appropriate representative of the bureau. During the March Consultation, the vice president expressed that the Foshan Financial Bureau had knowledge of the Related Guarantees at the time when they issued the Compliance Confirmation and taking into account that (i) all of the relevant financial guarantees had been released; (ii) the relevant guarantee fees were charged at a fair rate; and (iii) no issues arose in the course of execution of the relevant transactions, no administrative penalty will be imposed on Success Guarantee due to the Related Guarantees. Based on the March Consultation and the Compliance Confirmation, our PRC Legal Advisers advised us that Success Guarantee will not be subject to any administrative penalty from the relevant regulatory authorities in relation to the Related Guarantees. Our Directors confirm that, since (i) all of the Related Guarantees have been released as at 31 December 2012; and (ii) we will not be subject to any administrative penalty as a result of the Related Guarantees as advised by our PRC Legal Advisers, no provision has been made in relation to the Related Guarantees in the financial statements of our Group for the Track Record Period.

Success Guarantee has obtained the Updated Confirmation from the Foshan Finance Bureau on 5 July 2013, it explicitly confirmed that there has been no instance where Success Guarantee acted in breach of the national and local financial laws and regulations or the requirements of any regulatory documents. Further details relating to the issuance of the Updated Confirmation are set out below in the paragraph headed “Customers’ pledge deposits” in this section of the document.

The Guangdong Financial Office issued a confirmation letter on 9 September 2013 confirming that (i) the city-level financial bureaux are responsible for, among others, the routine supervision and management of financial guarantee companies within their jurisdictions; (ii) confirmation letters relating to the daily business operation of Success Guarantee shall be issued by the Foshan Financial Bureau; and (iii) no penalty regarding non-compliance matters had been imposed by the Guangdong Financial Office on Success Guarantee since it obtained its business licence.

**Latest status** Our guarantee obligations under each of the Related Guarantees were released in or before August 2012 and since then and up to the Latest Practicable Date, we did not enter into any Related Guarantee in breach of the Implementing Rules.

### 3. Customers’ pledged deposits

**Events of and reasons for non-compliance** During the Track Record Period, our Group did not fully comply with Article 33 of the Implementing Rules and the Notice on Guarantee Deposits.

As advised by our PRC Legal Advisers, pursuant to the Implementing Rules, financial guarantee companies established before the effective date of the Implementing Rules (i.e. 1 November 2010) were required to comply with the requirements therein by 31 March 2011. Accordingly, Success Guarantee, being a financial guarantee company established in 1996, was required to comply with the requirements under the Implementing Rules by 31 March 2011. The requirements under the Notice on Guarantee Deposits were required to be fulfilled by 30 September 2012. [As advised by our PRC Legal Advisers, the outstanding customers’ pledged deposits provided to us as at 31 March 2011, and those received afterwards, in respect of which no tripartite custody agreement has been entered into or which were not kept in a segregated bank account would be considered in breach of the Implementing Rules.]

With a view to complying with the above requirements, starting from November 2010 (i.e. the effective date of the Implementing Rules), our Group had prepared discussion draft of the tripartite custody agreements and attempted to liaise with the lending banks and customers who provided customers’ pledged deposits in an effort to enter into tripartite custody agreements with the lending banks and customers who provided customers’ pledged deposits pursuant to the Implementing Rules, in order to have the banks agree to manage the customers’ pledged deposits and agree to deposit the customers’ pledged deposits received from customers into a segregated bank account



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maintained with each relevant banks. Despite our Group’s effort since November 2010, most of the lending banks involved did not sign the custody agreements, so that in such cases the relevant custody agreements were signed only between our Group and the relevant customers who provided customers’ pledged deposits and not signed by the lending banks.

Among the 16 guarantee transactions involving customers’ pledged deposits with outstanding guarantee amount as at 31 December 2012, the parties in 2 transactions entered into tripartite custody agreements (between the lending banks, our Group and the relevant customers) and deposited such customers’ pledged deposits received into a segregated bank account maintained with the relevant lending bank, whereas the parties in 14 transactions entered into two-party custody agreements (between our Group and the relevant customers) (“**Lack of Tripartite Agreement**”) and the deposits received were not kept in a segregated bank account (“**Lack of Segregated Custodian Bank Account**”).

As at 31 March 2011, the outstanding balance of customers’ pledged deposits received by our Group which were not kept in a segregated bank account amounted to approximately RMB[86.4] million. During the period from 31 March to 31 December 2011, such customers’ pledged deposits received by our Group amounted to approximately RMB[1.2] million and those released amounted to approximately RMB[46.9] million. During the year ended 31 December 2012 and the five months ended 31 May 2013, the total customers’ pledged deposits received by our Group which were not kept in a segregated bank account amounted to approximately RMB[6.3] million and [nil] respectively. As at 31 December 2011 and 2012 and 31 May 2013, the total balance of customers’ pledged deposits received by our Group which were not kept in a segregated bank account amounted to approximately RMB[40.7] million, RMB[11.0] million and RMB[2.1] million respectively. As at 31 December 2011 and 2012 and 31 May 2013, (i) the corresponding guarantee amounts for such deposits were approximately RMB[408.3] million, RMB[84.9] million and RMB[21.0] million respectively; and (ii) the corresponding guarantee fees for such deposits were approximately RMB[21.3] million, RMB[4.4] million and RMB[1.3] million respectively. During the Track Record Period, such deposits were kept in our Group’s bank account with the relevant lending bank, which was not a separate escrow bank account, and were not set aside from our Company’s bank balance. All of such deposits were pledged in favour of Success Guarantee exclusively under the custody agreements entered into between our customers and Success Guarantee.

Despite the Lack of Segregated Custodian Bank Account, during the Track Record Period, according to our internal guidelines, transactions through the bank accounts with customers’ pledged deposits were monitored by our finance department, which maintained an internal ledger for the customers’ pledged deposits and checked the balance of such bank accounts regularly to ensure that the bank balance did not fall below the total outstanding balance of customers’ pledged deposits provided to our Group at the relevant time. There were no instances of any mis-appropriation of the customers’ pledged deposits received by our Group from customers during the Track Record Period.

Success Guarantee had gradually reduced the number of guarantee transaction in respect of which customers’ pledged deposits were received by us since 2011. During the period from 31 March 2011 to 15 April 2012 (i.e. the date on which the Notice on Guarantee Deposits was issued), we accepted customers’ pledged deposits in respect of [three] guarantee transactions, and from 15 April 2012 to 31 August 2012, we accepted customers’ pledged deposits in respect of [two] guarantee transactions (“**Acceptance of Deposits after the Notice**”), notwithstanding the Lack of Tripartite Agreement and the Lack of Segregate Custodian Bank Account, as the Relevant Officers considered that (i) pursuant to the custody agreements entered into between us and the respective customers and taking into account our internal monitoring measures regarding bank accounts with customers’ pledged deposits set out above, such deposits would not be utilised for purposes other than as counter-guarantees and thus taking such deposits would not constitute substantive non-compliance with the applicable PRC laws and

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regulations; (ii) guarantees provided by us required such deposits as counter-guarantees based on our risk assessment on particular customers; (iii) it was common in Foshan City for banks not to cooperate with financial companies in signing tripartite custody agreements; and (for the Acceptance of Deposits after the Notice) (iv) the requirements under the Notice on Guarantee Deposits were required to be fulfilled by 30 September 2012.

Among such two guarantee transactions involved in the Acceptance of Deposits after the Notice, customers’ pledged deposit in respect of one guarantee transaction was received by us in April 2012 before the adoption of our internal guidelines regarding customers’ pledged deposits in May 2012, while customers’ pledged deposit in respect of another one guarantee transaction was received in August 2012 despite the adoption of our internal guidelines regarding customers’ pledged deposits in May 2012, which specifies the major requirements for receiving and dealing with customers’ pledged deposits, including (among others) the entry into tripartite custodian agreement among lending bank, customer and our Group, and the deposit of the customers’ pledged deposits into a segregate custodian bank account. In that instance, the customer’s pledged deposit received from our customer previously in 2010 in respect of a guarantee transaction entered into between us and such customer in 2010 which was deposited into an account kept with a bank not being the relevant lending bank, was in effect transferred to an account kept with the relevant lending bank in August 2012 as a risk management measure, and a custody agreement between us and such customer was entered into in August 2012 in such regard. Having taken into account the factors (i) to (iv) set out above, the specific situation of the particular guarantee transaction, their risk assessment of the particular guarantee transaction, and having considered that the requirements under the Notice on Guarantee Deposits were only required to be fulfilled by 30 September 2012, we accepted customers’ pledged deposit from that particular customer as an exceptional case despite the adoption of our internal guideline in May 2012. Since late August 2012, we ceased to accept any customers’ pledged deposit in respect of our guarantee transactions to avoid further non-compliance so long as there exist a Lack of Tripartite Agreement or a Lack of Segregate Custodian Bank Account.

The Relevant Officers were involved in the authorisation, in accordance with the normal guarantee approval process of Success Guarantee, of the relevant guarantees.

**Legal  
consequences  
and potential  
penalties and  
financial  
losses**

In respect of the Lack of Tripartite Agreement and the Lack of Segregated Custodian Bank Account, the [●], together with our PRC Legal Advisers, initiated an interview (“**May Consultation**”) with the vice president of the Foshan Financial Bureau in May 2013 who, as advised by our PRC Legal Advisers, was responsible for the regulation of guarantee companies in Foshan City. During the May Consultation, the Foshan Financial Bureau acknowledged that since the Implementing Rules were mainly for regulating and monitoring financial guarantee companies and not the banks, it was common in Foshan City for banks to refuse to cooperate with financial guarantee companies in signing of tripartite custody agreements regarding the customers’ pledged deposits. It was confirmed by the Foshan Financial Bureau that the Lack of Tripartite Agreement does not constitute substantive non-compliance with the relevant laws and regulations of the PRC by our Group, and no administrative penalty or punishment will be imposed on our Group.

Based on the May Consultation, our PRC Legal Advisers advised that the Lack of Tripartite Agreement and the Lack of Segregated Custodian Bank Account do not constitute substantive non-compliance with the relevant laws and regulations of the PRC by our Group, and no administrative penalty or punishment will be imposed on our Group by relevant regulatory authorities under the Implementing Rules and the Notice on Guarantee Deposits. As advised by our PRC Legal Advisers, both the Implementing Rules and the Notice on Guarantee Deposits do not specify or provide for potential penalties for the above non-compliance. Success Guarantee has obtained the Updated Confirmation from the Foshan Finance Bureau on 5 July 2013, it explicitly confirmed that there has been no instance where Success Guarantee acted in breach of the national and local financial laws and regulations or the requirements of any regulatory documents. During the two independent due diligence interviews the [●] and our PRC Legal Advisers conducted with the vice president of the

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Foshan Financial Bureau, namely the March Consultation and the May Consultation, the vice president expressed that the Foshan Financial Bureau had acknowledged the incidents of the Related Guarantees, the Lack of Tripartite Agreement and the Lack of Segregated Custodian Bank Account in the respective interviews. In the confirmation letter dated 6 August 2012 issued by the Foshan Financial Bureau, it also indicated that it had knowledge of the Advances. As such, the Foshan Financial Bureau issued the Updated Confirmation on 5 July 2013 with acknowledgment of the non-compliance incidents set out above. Further, during the March Consultation and May Consultation, the vice president expressed that, among others, the confirmation letter it issued to Success Guarantee was an official document confirming that no penalty would be imposed on Success Guarantee based on its previous non-compliance incidents. As advised by our PRC Legal Advisers, taking into account the views of the vice president of the Foshan Financial Bureau expressed in the March Consultation and the May Consultation and the confirmation letter dated 6 August 2012 issued by the Foshan Financial Bureau relating to the Advances, the Updated Confirmation constituted a confirmation from the Foshan Financial Bureau that no administrative penalties would be imposed on Success Guarantee based on its previous non-compliance incidents, including the Advances, the Related Guarantees, the Lack of Tripartite Agreement and the Lack of Segregated Custodian Bank Account. On such basis, the [●] do not consider that there is any inconsistency between the non-compliance incidents set out above and the Updated Confirmation.

The Guangdong Financial Office issued a confirmation letter on 9 September 2013 confirming that (i) the city-level financial bureaux are responsible for, among others, the routine supervision and management of financial guarantee companies within their jurisdictions; (ii) confirmation letters relating to the daily business operation of Success Guarantee shall be issued by the Foshan Financial Bureau; and (iii) no penalty regarding non-compliance matters had been imposed by the Guangdong Financial Office on Success Guarantee since it obtained its business licence.

### Latest status

In order to eliminate any possible non-compliances with the requirements under the Notice of Guarantee Deposits in the future, Success Guarantee had voluntarily ceased the acceptance of customers’ pledged deposit since late August 2012 to avoid further non-compliance therewith. As at 31 May 2013, the outstanding balance of customers’ pledged deposits which are not kept in segregated custodian bank account and for which no tripartite custody agreement has been entered into is RMB2.1 million. Such balance have been fully released in July 2013 and since then and up to the Latest Practicable Date, we had no outstanding balance of such customers’ pledged deposits or any customers’ pledged deposit in respect of which no tripartite custody agreement has been entered into.

### 4. Housing provident fund

#### Events of and reasons for non-compliance

During the Track Record Period, we did not fully comply with the housing provident fund contribution requirements.

Success Guarantee has completed registration with the relevant housing provident fund authority in November 2011 and made contributions to the housing provident funds for all our employees from November 2011 onwards. However, during the Track Record Period, from January 2010 to October 2011 (“Unpaid Period”), Success Guarantee did not made contributions to its employees’ housing provident fund, as our employees considered that such payment might reduce their disposable income, and were therefore reluctant to make such contribution.

The person responsible for the above non-compliance is Zhang Jing (張靜), director of the human resources department.

#### Legal consequences and potential penalties and financial losses

In May 2013, our Group arranged for payment of the housing provident fund contributions for the Unpaid Period of approximately RMB317,000. Our Group also obtained a written confirmation dated 6 May 2013 from the Administration of Housing Provident Fund of Foshan City (佛山市住房公積金管理中心), the competent housing provident fund authority, which confirmed that Success Guarantee has made payment of housing provident fund contributions from January 2010 up to April 2013, and has not up to the date of such confirmation been pursued to make payment of housing provident fund nor sanctioned with administrative penalty or punishment by it.



## BUSINESS

### Measures to prevent future breaches

### Implementation status

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| <ul style="list-style-type: none"><li>• Success Guarantee to adopt a compliance checklist, covering compliance requirements of all laws and regulations to applicable our business (such checklist shall be regularly updated by our staff with relevant legal qualifications) and the independent compliance department to review every transaction of Success Guarantee according to such checklist, both during the guarantee approval process and the post-transaction monitoring process. The department will report to the audit committee of our Group within two days after discovering any non-compliance. The compliance checklist shall contain, among others, the identity of the potential customer, the fee rate and guarantee amount of the relevant transaction and the requirements of the Interim Measures and the Implementing Rules (such as whether the total outstanding balance of our guarantees exceeds the Aggregate Cap Amount, whether the guarantee amount of the individual transaction exceeds the Individual Cap Amount, whether the potential customer is a Guarantee Related Party, etc.). The use of the compliance checklist is to reduce the risks of our Group in breaching the applicable laws and regulations.</li><br/><li>• Our Group to formulate internal guidelines to provide internal guidance on the management of customers' pledged deposits.</li><br/><li>• Our Group to maintain a deposit management record for recording every deposit to be received for ease of management and supervision.</li><br/><li>• Our legal advisers and our trained management personnel to provide relevant training to relevant staff. The training aims at reducing the risks for the management of our Group in breaching the applicable laws and regulations due to the lack of updated legal knowledge relating to our business.</li></ul> | <p>Compliance checklist adopted by our Group's independent compliance officer since [May] 2013 to review transactions of Success Guarantee. As confirmed by our independent compliance officer and our independent compliance department for the period before and after the establishment of such department respectively, from [May] 2013 to the Latest Practicable Date, [no] material non-compliance was identified during their reviews of transactions in the guarantee approval process and the post-transaction monitoring process of Success Guarantee.</p><br><p>In March 2013, a supplemental internal guideline for providing clearer internal guidance to our employees on management of customers' pledged deposits was adopted by our Group to strictly enforce the requirements under our first set of internal guidelines adopted earlier in May 2012. Under the supplemental guideline, it was strictly required that where tripartite custody agreement cannot be entered into to ensure that the deposits received be kept in special custodian bank account and be managed by the relevant bank, no customers' pledged deposits shall be received by our Group.</p><br><p>A deposit management record for recording every deposit to be received has been maintained by our Group for ease of management and supervision since March 2013.</p><br><p>On-going</p> <p>Our Directors and senior management attended the training seminar delivered by our PRC Legal Advisers in relation to the applicable laws and regulations on the guarantee business in the PRC on 18 March 2013, and our Group will further engage qualified legal professionals to arrange relevant courses to our staff and give relevant updates on such laws and regulations on a semi-annual to annual basis</p> |
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### Measures to prevent future breaches

### Implementation status

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| <ul style="list-style-type: none"><li>• Our Group to formulate internal guidelines to provide internal guideline on the management of housing provident fund matters.</li></ul> | In October 2011, Success Guarantee adopted a guideline on housing provident fund management to provide guidance to our Group’s management on, among others, registration, payment, deposit, withdrawal and use of housing provident funds. |
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As advised by our PRC Legal Advisers, after the Track Record Period and up to the Latest Practicable Date, our Group had no incident of material non-compliance with the applicable PRC laws and regulations.

[To monitor the compliance matters of our daily operation and the decision making process of Success Guarantee, we established our independent compliance department in September 2013, which directly reports to our Audit Committee (or, prior to its establishment, the directors of Success Guarantee). Prior to the establishment of our independent compliance department, its duties were carried out by our independent compliance officer which we appointed in May 2013, who reported directly to the directors of Success Guarantee. According to our internal guidelines, our independent compliance department is (or, prior to its establishment, our independent compliance officer was) responsible for keeping track of changes in the applicable PRC laws and regulations on our business operation and changes in the related parties to Success Guarantee and constantly updating the compliance checklist and the list of related parties accordingly. According to our internal guidelines, our independent compliance department is (or, prior to its establishment, our independent compliance officer was) also responsible for (i) reviewing every proposed transaction of Success Guarantee with our compliance checklist and list of related parties before such transaction is submitted for further approval; (ii) rejecting any non-compliant proposed transaction and report to our Audit Committee (or, prior to its establishment, the directors of Success Guarantee) within two days after discovery of any non-compliant activities of Success Guarantee; (iii) proposing measures to the relevant department to rectify the non-compliant activities, supervise the implementation of such measures and report the rectification results to our Audit Committee (or, prior to its establishment, the directors of Success Guarantee); and (iv) conducting regular reviews quarterly on all on-going operational and financial activities of Success Guarantee for compliance matters.] [After our independent compliance department (or, prior to its establishment, our independent compliance officer) reports the non-compliant activities to our Audit Committee (or prior to its establishment, the directors of Success Guarantee), [our Audit Committee (or prior to its establishment, the directors of Success Guarantee)] will conduct review on the non-compliant activities, propose measures to rectify the non-compliance, and monitor the implementation of the rectifying measures. The frequency of meeting of the members of our Audit Committee (or prior to its establishment, the directors of Success Guarantee) for considering the effectiveness of the remedial measures implemented to rectify the non-compliance activities will depend on [the number, nature, urgency and materiality of non-compliance activities, and the nature of the rectifying measures]].

Our independent compliance department comprises two members, one of them joined our Group in September 2010 and had been the general manager of our risk control department from [January] 2012 to August 2013, who was then internally transferred to the independent compliance department as the head of our independent compliance department. She graduated from Guangdong Commerce Institution (廣東商學院) (now known as Guangdong University of Finance & Economics (廣東財經大

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學)) majoring in economic management in 2007, qualified as a financial planner in 2008 and has more than ten years of experience in the banking industry. The other member was our former independent compliance officer prior to the establishment of our independent compliance department who graduated with a bachelor’s degree in laws from Guangdong Ocean University (廣東海洋大學) and was qualified as a registered lawyer in the PRC. She has approximately one year of work experience in the guarantee industry as a risk control officer.

Prior to the establishment of our independent compliance department, our independent compliance officer and our risk control department were responsible for ensuring the effectiveness of compliance checklist. Training had been provided to our risk control managers in relation to the laws and regulations in the compliance checklist and, in addition to our independent compliance officer, our risk control managers will review every proposed transaction with the compliance checklist according to our internal guidelines.

Our Group’s legal and compliance work is led by Ms. Dai Jing, the senior vice general manager of Success Guarantee. She graduated with a bachelor’s degree in laws from Wuhan University (武漢大學) in July 1993 and was qualified as a registered lawyer in the PRC in September 1995. In addition, Mr. Liang Tao, our chief financial officer, is responsible for our Group’s compliance and internal control work in relation to financial matters. He obtained a bachelors’ degree in business studies with a major in accountancy from Massey University in New Zealand in April 2010 and has five years experience in accounting. Ms. Dai Jing and Mr. Liang Tao are both responsible for the implementation of the above internal control measures and directly report to the Board. Taking into account the above measures, our Directors and the [●] consider that our internal control procedures are adequate and effective under Rule 3A.15(5) of the [●] as at the Latest Practicable Date.

Each of the Relevant Officers confirmed that he has not obtained any personal benefit directly or indirectly from the Advances and the Related Guarantees. Our Directors (including our independent non-executive Directors) have undertaken to procure us not to engage in or permit the engagement in the Advances and Related Guarantee arrangements in future. We have also taken a series of actions to address and rectify these issues, details of which are set out in the table above.

Our Directors undertake that they will use their best endeavours to ensure the compliance of all relevant rules and regulations in the PRC, as well as the [●] going forward.

Having considered the above together with the opinion of our PRC Legal Advisers and the past experience of our Directors, the [●] are of the view that each of our Directors has the character, experience and integrity required for a Director under Rules 3.08 and 3.09 of the [●] for the following reasons:

- (a) financial guarantee companies established before 8 March 2010 were given a year of transitional period to review their existing businesses and carry out necessary rectifications according to the Interim Measures. Success Guarantee has successfully obtained the Operating License for Financial Guarantee Institutions on 23 March 2011;
- (b) Success Guarantee obtained the Confirmation Letter and the Compliance Confirmation;
- (c) the Relevant Directors have not obtained any personal benefit from the Advances and the Related Guarantees;



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- (d) as at the Latest Practicable Date, to the best of our knowledge and having made reasonable enquiry, there were no legal proceedings against each of the Relevant Directors in the PRC and Hong Kong;
- (e) the confirmation from our PRC Legal Advisers that our Group had not contravened any of the laws and regulations in the PRC in any material aspects in its operation, save as disclosed in this sub-section headed “Non-compliance”;
- (f) the Relevant Directors have substantial experience in the guarantee industry in the PRC;
- (g) the directors of Success Guarantee had taken appropriate steps and measures to comply with the requirements under the Interim Measures and the Implementing Rules in order to ensure the continuation of its business;
- (h) our Directors had taken preventive measures by setting up a compliance team comprising the necessary expertise to ensure the ongoing compliance of all relevant rules and regulations in the PRC; and
- (i) our Directors had gone through the training provided by the legal advisers of our Company as to Hong Kong laws on 3 September 2012 and 8 March 2013 (for certain Directors, corresponding training sessions were held on 12 September 2012, 13 September 2012, 12 March 2013 and 18 October 2013) to ensure their understanding as to their roles and responsibilities as required under the [●] and as to the applicable laws and regulations in relation to our business in the PRC to ensure their understanding of application of such laws and regulations on our daily operation.

Having considered the facts and circumstances leading to the non-compliance incidents as disclosed in this section and our Group’s internal control measures to avoid recurrence of these non-compliances, our Directors and the [●] are of the view that these past non-compliance incidents do not involve any dishonesty on the part of our Directors and Mr. Zhong Zhiqiang or impugn on their integrity or competence and do not affect their suitability to act as directors of a listed company under Rules 3.08, 3.09 and 8.15 of the [●] and as our risk control director respectively and also did not affect our Company’s suitability for [●] under Rule 8.04 of the [●].

We will appoint legal advisers as to the laws of Hong Kong and the PRC, respectively, after the [●] to advise our Group on the laws and regulations of Hong Kong (in particular the requirements under the [●]) and the PRC, respectively.