

Measures Administering Finance Leasing Companies

No. 1

The Measures for Administering Finance Leasing Companies have been adopted at the 55th chairman's meeting on December 28, 2006, are hereby promulgated and shall go into effect on March 1, 2007.

Chairman Liu Mingkang

January 23, 2007

Measures Administering Finance Leasing Companies

Chapter I General Rules

Article 1 For the purpose of promoting the healthy development of the finance leasing industry of our country and strengthening the supervision over and administration of finance leasing companies, the present Measures are constituted in accordance with the Banking Supervision Law of the People's Republic of China, the Company Law of the People's Republic of China and other laws and regulations.

Article 2 The "finance leasing companies" as mentioned in the present Measures means the non-banking financial institutions mainly engaging in the finance leasing business upon approval of China Banking Regulatory Commission (CBRC) .

The name of a finance leasing company shall include words "finance leasing". Unless it is otherwise prescribed by any law or regulation, no entity or individual may engage in the finance leasing business or use the words "finance leasing" in its name without approval of the CBRC.

Article 3 The term "finance leasing" as mentioned in the present Measures means such trading activities by which the lessor leases the objects that are obtained from the supplier in accordance with the lessee's choice or affirmation of the object and supplier to the lessee for the stipulated occupation or use.

The leased objects applicable to the finance leasing business shall be fixed assets.

Article 4 The term "business of sale and rent-back" as mentioned in the present Measures means such business by which the lessee sells its self-owned articles to the lessor, meanwhile, signs a finance leasing contract with the lessor, and then rents the said articles back from the lessor. The business of sale and rent-back is a means of finance leasing in which the lessee and the supplier are identical.

Article 5 The expression "relationship of associated parties and associated transaction " as

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mentioned in the present Measures means the relationship of associated parties and associated transaction satisfying the relevant provisions in the accounting standards for business enterprises.

Article 6 The CBRC and its dispatched institutions shall impose supervision and administration on the finance leasing companies in accordance with law.

Chapter II Establishment, Alteration and Termination of Institutions

Article 7 For applying for the establishment of a finance leasing company, the following requirements shall be satisfied:

- (1) having contributors satisfying the requirements of the present Measures;
- (2) having the minimum registered capital as provisioned in the present Measures;
- (3) having the articles of association in line with the Company Law of the People's Republic of China and the present Measures;
- (4) having directors and senior managers satisfying the post holding qualification requirements as specified by the CBRC, as well as qualified staff members knowing well the finance leasing business;
- (5) having perfect systems for corporate governance, internal control, business operation and risk prevention, etc.;
- (6) having qualified business places, safety measures and other facilities in relation to business operations; and
- (7) satisfying other requirements as specified by the CBRC.

Article 8 The contributors of a finance leasing company are sorted into the principal contributors and ordinary contributors. The former means a contributor who has contributed 50% or more of the registered capital of the finance leasing company to be set up, and the latter means those contributors other than the principal contributors.

The principal contributor shall, as the applicant, file an application to the CBRC for the establishment of a finance leasing company.

Article 9 The principal contributor of a finance leasing company shall satisfy any of the following requirements:

(1) a commercial bank with independent legal person status as registered at home or abroad shall also satisfy the following requirements:

I. its capital adequacy ratio satisfies the requirements of the finance supervisory organ in the place where the commercial bank is registered and is not below 8%;

II. its year-end assets for the recent one year is not below RMB 80 billion Yuan or any freely

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convertible currency with equivalent value;

III. it has consecutively made profits for the recent two years;

IV. it complies with the laws and regulations of its registration place, and has not been involved in any major case or committed any serious illegal or irregular act within the recent two years;

V. it possesses good corporate governance structure and internal control mechanism as well as perfect risk management system ;

VI. it satisfies the other prudential requirements as specified by the CBRC.

(2) a lease company as registered at home or abroad shall also satisfy the requirements as follows:

I. its year-end assets for the recent one year is not below RMB 10 billion Yuan or any freely convertible currency with equivalent value;

II. it has consecutively made profits for the recent two years; and

III. it conforms to the laws and regulation of its registration place, and has not been involved in any major case or committed any serious illegal or irregular act within the recent two years.

(3) a large-scale enterprise, which is registered within the territory of China and whose main business is to produce products fit for finance leasing business, shall also satisfy the requirements as follows:

I. its year-end assets for the recent one year is not below RMB 50 billion Yuan or freely convertible currency with equivalent value;

II. it has consecutively made profits for the recent two years; and

III. its year-end ratio of net assets for the recent one year is not below 30%;

IV. its incomes from main businesses account 80% or more of all its business incomes;

V. it possesses good credit records;

VI. it complies with the laws and regulations of its registration place, and has not been involved in any significant case or committed any serious illegal or irregular act within the recent two years.

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(4) other financial institutions that are recognized by the CBRC to be the principal contributor.

Article 10 A general contributor of a finance leasing company shall conform to the related provisions of the CBRC on the investment into and subscription of the shares of financial institutions. Any contributor satisfying the requirements for the principal contributor may act as an ordinary contributor of a finance leasing company.

Article 11 The minimum registered capital of a finance leasing company is RMB 100 million Yuan or any freely convertible currency with equivalent value, and the registered capital shall be the paid-in money.

The CBRC may adjust the minimum registered capital of finance leasing companies on the basis of the demand for the development of the finance leasing business.

Article 12 The establishment of a finance leasing company covers two phases: preparatory establishment and start of business. The Chinese version of the application materials for preparatory establishment or start of business presented by an applicant shall prevail. The acceptance of materials and procedures for examination and approval shall be conducted in accordance with provisions on implementing administrative licensing as prescribed by the CBRC.

Article 13 For applying for the preparatory establishment of a finance leasing company, an applicant shall submit the documents as follows:

- (1) an application form for preparatory establishment, which shall cover the name, registration place, registered capital, contributors and their contributions and business scope, etc. of the finance leasing company to be set up;
- (2) a feasibility study report, which shall cover the market prospect analysis, future business development programs, organizational management structures, risk control ability analysis of the company to be set up, as well as a prediction of the assets scale debts and profits, etc. for the three years after the company starts business operations;
- (3) the (draft) of the articles of association of the finance leasing company to be set up;
- (4) the basic information on contributors, including the name, legal representative, registration place, photocopy of business license, business situation of each contributor, as well as the capital contribution agreement. In case a contributor is an overseas financial institution, it shall provide an opinion letter issued by the finance supervisory institution of its registration place;

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- (5) annual audit reports audited by qualified intermediary institutions of the contributors for the recent two years; and
- (6) other documents as required by the CBRC to be submitted.

Article 14 After the preparatory establishment of a finance leasing company has been accomplished, the applicant shall apply for business start and shall submit the following documents to the CBRC:

- (1) a report on preparatory establishment work, and an application form for business start;
- (2) a capital assessment certificate issued by a qualified domestic intermediary institution, and a registration letter issued by the administrative department for industry and commerce on advance approval of finance leasing company's name;
- (3) a shareholders brochure, and the amount and proportion of their contributions;
- (4) articles of association of the finance leasing company, which shall at least cover the name, business place, nature of institution, registered capital, scope of business, organizational form, operation and management, termination and liquidation, etc. of the institution;
- (5) the name list, specific resumes and certification materials on post holding qualification of the senior managers to be appointed;
- (6) bylaws for the businesses to be operated, and risk control rules;
- (7) materials about the business place and other facilities in relation to business; and
- (8) other documents as required by the CBRC.

Article 15 A finance leasing company may, upon approval of CRBC, establish a branch. The specific requirements for the establishment of branches shall be separately provisioned by the CBRC.

Article 16 The CBRC shall carry out the post holding qualification approval system to directors and senior managers of finance leasing companies.

Article 17 A finance leasing company shall report to the CBRC for approval any of the following changes:

- (1) change of name;
- (2) change of organizational form;
- (3) adjustment of business scope;
- (4) change of registered capital;
- (5) change of stock rights;
- (6) modification of articles of association;
- (7) change of registration place or business place;
- (8) change of directors or senior managers;
- (9) merger or division; or
- (10) any other matter prescribed by the CBRC.

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Article 18 A finance leasing company may be dissolved upon approval of the CBRC under any of the following circumstances:

- (1) The business term as prescribed in its articles of association expires or any other cause for dissolution as specified by its articles of association arises;
- (2) The (general) assembly of shareholders makes a resolution on dissolution;
- (3) The dissolution is required by virtue of the merger or division of the company;
- (4) The company's business license is revoked, the company is ordered to be closed down or is canceled ; or
- (5) Any other statutory cause.

Article 19 A finance leasing company may apply to the court for bankruptcy upon approval of the CBRC under any of the following circumstances:

- (1) It can not pay its due debts, and apply for bankruptcy as initiated by itself or as required by the creditor; or
- (2) It is liquidated by virtue of dissolution or revocation, and the liquidation group finds that the assets of the finance leasing company are not enough to pay off its debts and the company should apply for bankruptcy.

Article 20 If a finance leasing company fails to pay off its due debts and its assets are not enough to pay off all the debts or it clearly lacks the solvency, the CBRC may apply for the reorganization or bankruptcy liquidation of this finance leasing company to the people's court.

Article 21 In case a finance leasing company is terminated by virtue of bankruptcy, revocation or bankruptcy announcement, liquidation shall be handled in accordance with relevant laws and regulations of the State.

Chapter III Business Scope

Article 22 A finance leasing company may, upon approval of the CBRC, engage in all or part of the following businesses in RMB or any foreign currency:

- (1) to conduct finance leasing business;
- (2) to absorb time deposits with the term of one year or longer from its shareholders;
- (3) to accept the guaranty bonds for lease from the lessee;
- (4) to transfer receivable payment for lease to commercial banks;
- (5) to issue financial bonds upon approval;
- (6) to conduct inter-bank lending;
- (7) to borrow money from financial institutions;
- (8) to borrow foreign exchanges from abroad;
- (9) to sell off and dispose of the scrap value of leased objects;
- (10) to conduct economic consultancy; and

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(11) other businesses as approved by the CBRC.

Article 23 Any finance leasing company is prohibited from absorbing deposits from any bank shareholder.

Article 24 If the business of a finance leasing company involves in any matter about foreign exchange control, it shall observe provisions on foreign exchange control of the State.

Chapter IV Business Rules

Article 25 With respect to corporate governance, a finance leasing company shall set up an organizational framework mainly composed of the (general) assembly of shareholders, the board of directors, the board of supervisors and senior managers, classify their respective duties clearly, guarantee their independent operation and effective check and balance as well as form a scientific and efficient policy-making, incentive and constraint mechanism.

Article 26 A finance leasing company shall, in accordance with the principles of full scale, prudence, effectiveness and independence, set up and perfect the rules for internal control, and submit them to the CBRC or its dispatched institution for archival filing.

Article 27 The associated transaction of a finance leasing company shall, in accordance with the commercial principle, be carried out on terms not more favorable than similar transactions conducted with non-associated parties.

Article 28 A finance leasing company shall constitute rules for managing associated transaction, which shall specifically include:

- (1) supervision over and management of associated transaction by the board of directors or the business decision-making body;
- (2) duties and personnel composition of the associated transaction control committee;
- (3) collection and management of the information about associated parties;
- (4) rules for reports, commitments, identification and confirmation of associated parties;
- (5) types, price fixing policies, examining and approving procedures and standards for associated transaction;
- (6) withdrawal system;
- (7) internal audit and supervision;
- (8) information release;
- (9) punishment measures; and
- (10) other contents as required by the CBRC.

Article 29 Any major associated transactions of a finance leasing company shall be subject to approval of the board of directors. The "major associated transaction" means a single transaction

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conducted between the finance leasing company and an associated party with transaction amount of not less than 5% of the net capital of the finance leasing company, or any transaction, after which, the trading balance of the finance leasing company and the connected party is not less than 10% of the net capital of the finance leasing company.

Article 30 When the board of directors of a finance leasing company, the operation decision-making institution of a finance leasing company without a board of directors or an associated transaction control committee votes on or makes a decision about an associated transaction, the persons related to the associated transaction shall withdraw.

Article 31 For the business of sale and rent-back, a specific subject matter is required, and the subject matter shall comply with the present Measures.

Article 32 The subject matter of the business of sale and rent-back shall be actually owned by the lessee and the lessee shall have the right to dispose of it. A finance leasing company may not accept any property under mortgage, involved in any ownership dispute or sealed or seized by the judicial organ or with any other flow as the subject matter of the business of sale and rent-back.

Article 33 A finance leasing company shall, in the business of sale and rent-back, have the price fixing basis that is reasonable and does not violate accounting standards as the reference for the purchase price of targets, and may not purchase anything of low value at high prices.

Article 34 A finance leasing company, which engages in the business of sale and rent back, shall actually obtain the ownership of corresponding targets. If the subject matter is a property whose transfer of ownership should be registered at the registration organ in accordance with any law or regulation of the State, the finance leasing company shall make corresponding registration.

Chapter V Supervision and Administration

Article 35 A finance leasing company shall conform to the following supervisory indicators:

- (1) Capital adequacy ratio. The net capital of a finance leasing company may not be below 8% of the risk weighted assets;
- (2) Finance concentration ratio to a single client. The financing balance of a finance leasing company to a single lessee may not be more than 30% of its net capital. For the calculation of the financing balance to a client, the guaranty bonds provided by the lessee when granting credits may be deducted;
- (3) Correlation degree of single clients. The financing balance of a finance leasing company to an associated party may not be more than 30% of its net capital;
- (4) Correlation degree of group clients. The financing balance of a finance leasing company to all the connected parties may not be more than 50% of its net capital; and
- (5) Inter-bank lending proportion. The capital balance of inter-bank lending of a finance

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leasing company to all the associated parties may not be more than 100% of its net capital.

The CBRC may, on the basis of the demand of supervisory work, properly adjust the aforesaid indicators.

Article 36 A finance leasing company shall make information disclosure in accordance with related accounting standards for business enterprises and the related provisions of the CBRC.

Article 37 For risk assets, a finance leasing company shall conduct the five-grade classification system.

Article 38 A finance leasing company shall, in accordance with related provisions, constitute rules for bad debt provisions, and prepare the bad debt provisions in a timely and sufficient manner, otherwise, it may not distribute profits.

Article 39 A finance leasing company shall, in accordance with the legal provisions, prepare balance sheets, profit and loss statements and other statements as required by the CBRC and report them to the CBRC. The legal representative and other direct handlers of a finance leasing company shall be responsible for the authenticity of the statements as provided.

Article 40 A finance leasing company shall, within 4 months as of the end of each accounting year, submit to the CBRC or its dispatched institution a report on associated transaction for the previous accounting year. The report shall include associated parties, trade type, trading volume and targets, trading price, price fixing methods, proceeds and losses from transactions, as well as the nature and proportion of rights and interests of associated parties in the transactions, etc.

Article 41 A finance leasing company shall set up a regular external audit system, and shall, within 4 months as of the end of each accounting year, submit to the CBRC and its dispatched institution the annual audit report as signed by its legal representative.

Article 42 If a finance leasing company goes against the related provisions in the present Measures, the CBRC may order it to make corrections within a fixed period; if it fails to do so within the fixed period, or its act seriously endangers its stable operation or damages lawful rights and interests of clients, the CBRC may, by considering the specific situations, adopt such supervisory measures as business suspension or restriction of shareholders' rights, etc. in accordance with the Banking Supervision Law of the People's Republic of China and other laws and regulations.

Article 43 If a finance leasing company has fell in or may fall in a credit crisis, which seriously damages the lawful rights and interests of clients, the CBRC may conduct the trusteeship to it or urge it to reorganize, and have the right to revoke it for the serious circumstances.

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Article 44 If a finance leasing company goes against any related provision in the present Measures, the CBRC may punish it in accordance with the Banking Supervision Law of the People's Republic of China and other laws and regulations. Where the finance leasing company is dissatisfied with the punishment decision, it may apply for administration review or lodge an administrative lawsuit to the people's court.

Chapter VI Supplementary Rules

Article 45 The CBRC shall be responsible for the interpretation of the present Measures.

Article 46 The present Measures shall go into effect as of March 1, 2007.



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