

Notice of the General Office of Shanghai Municipal Government on Forwarding the Measures of the Financial Services Office, the Industrial and Commercial Bureau, the Agricultural Committee and the Economic Committee of Shanghai Municipality for the Pilot Operation of Small-sum Loan Companies in Shanghai Municipality

(No. 39 [2008] of the General Office of Shanghai Municipal Government)

The people's governments of all districts and counties, and all committees, offices and bureaus of the Shanghai Municipal Government:

The Measures of the Financial Services Office, the Industrial and Commercial Bureau, the Agricultural Committee and the Economic Committee of Shanghai Municipality for the Pilot Operation of Small-sum Loan Companies in Shanghai Municipality, which have been approved by the Municipal Government, are hereby forwarded to you for your earnest compliance and implementation.

General Office of Shanghai Municipal Government

August 29, 2008

Measures for the Pilot Operation of Small-sum Loan Companies in Shanghai Municipality

For the purpose of carrying out the spirit of the guiding opinions of the Municipal Party Committee and the Municipal Government and providing better financial services for the development of agriculture, farmers and rural economy as well as the small enterprises of this Municipality, these Measures are formulated based on the Guiding Opinions of China Banking Regulatory Commission and the People's Bank of China on the Pilot Operation of Small-sum Loan Companies (No. 23 [2008] of China Banking Regulatory Commission) and in light of the actual situations of this Municipality.

I. Requirements and Steps

For the pilot operation of small-sum loan companies, we shall stick to the guidance of the scientific view of development, promote the pilot work in a step-by-step way, set up

corresponding systems and rules, keep strict control over the access to pilot operation, clarify the duties and responsibilities, regulate the operation, take effective supervisory measures and prevent risks so as to effectively provide financial services for the development of agriculture, farmers and rural economy and small enterprises of this Municipality.

According to the unified arrangement of the Municipal Government, the pilot work of small-sum loan companies will be firstly carried out in some qualified districts or counties, about one or two small-sum loan companies in each district or county, and approve more companies when they meet the requirements. On the basis of summarizing experience, we will carry out the pilot work on a wide scale according to the actual effect and the market demand.

II. Access Conditions and Operation Requirements

1. Access Conditions

A small-sum loan company shall be a limited liability company or a joint stock limited company which is established with investments from natural persons, legal-person enterprises or other social organizations, does not absorb public deposits but operates the small-sum loan business. The principal promoter of a small-sum loan company shall be an enterprise with legal person status. For the principal promoter. Its place of registration and place of domicile shall be within a district (county) of pilot operation; it shall have a good management, a good credit and a big strength. Its net assets shall be not less than 50 million yuan, its assets-liability ration shall be not higher than 70%, having a favorable balance for three consecutive years and the total profits amounting to 15 million yuan or more (for Chongming County, such requirements may be lower). In principle, other shareholders of the small-sum loan company shall be investors of the district (county) of pilot operation.

The source of registered capital of a small-sum loan company shall be authentic and legal, and the capital shall be all paid-in money and be fully contributed once and for all. No one may make his/its contribution with borrowed money or funds entrusted by other parties. During the period of pilot operation, the initial registered capital shall not be less than 20 million yuan (10 million yuan for Chongming County) if it is a limited liability company or 50 million yuan (20 million yuan for Chongming County) if it is a joint stock limited company. A small-sum loan company may increase its registered capital one year later if it needs to do so and has good performances.

A small-sum loan company shall have a sound equity structure. It may have generally speaking not more than two principal promoters. If it has only one principal promoter, the total shares held by the single principal promoter and its affiliated parties shall not exceed 20% of the total shares of the company. If it has two, the total shares held by each principal promoter and its affiliated parties shall not exceed 15% of the total shares of the company. The shares held by a single shareholder and its affiliated parties shall not exceed 10% of the total shares of the company, and the shares held by the single shareholder shall not exceed 1%. The shares held by a principal promoter may not be transferred or pledged within three years, while those held by other shareholders may not be transferred or pledged within one year.

To be a senior manager in a small-sum loan company, one shall have the financial knowledge and work experience required for performing his duties as a senior manager.

2. Operation Requirements

(1) Sources of Funds

The major sources of funds of a small-sum loan company shall be the capital paid by the shareholders, donated capital, and the capital borrowed from not more than two banking financial institutions, which shall not exceed 50% of the net capital.

(2) Application of Funds

The scope of business of a small-sum loan company is granting loans and the corresponding consultancy services in the district (county) where it is located. When granting loans, a small-sum loan company shall adhere to the principle of "small sum and dispersiveness." We encourage small-sum loan companies to provide credit services for farmers and small enterprises in the districts (counties) where they are located and make more efforts to increase the number of clients and enlarge the coverage of services. The balance of loans granted by a small-sum loan company to a same borrower shall not exceed 5% of the net capital of the company. There shall be 50% or more of the borrowers whose balance of loans does not exceed 500,000 yuan. No small-sum loan company may grant loans to its shareholders or the affiliated parties thereof.

Small-sum loan companies shall operate under the market rules. The loan interest ceiling shall be left open but shall be lower than the ceiling rate determined by the judicial department, and

the floor rate shall be 0.9 times the base rate published by the People' s Bank of China. The specific floating extent shall be determined by small-sum loan companies according to the market rules.

(3) Internal Control of Risks

A small-sum loan company shall establish a promoter commitment system. The shareholders shall conclude a letter of commitment, undertaking that they will abide by the bylaws of the company, participate in the management of the company and assume corresponding risks.

A small-sum loan company shall set up and improve the corporate governance structure in accordance with the requirements of the Company Law, specify the power-responsibility relationship among the shareholders, directors, supervisors and managers, and work out stable and effective rules of procedure, decision-making process and an internal auditing system so as to improve the effectiveness of corporate governance.

A small-sum loan company shall set up and improve its loan management system, clarify the duties for pre-loan investigation, examination in the process of granting loans and post-loan inspection, and make effective efforts to strengthen loan management. A small-sum loan company shall set up a prudent and normative assets classification system, improve the system for preparing reserves for loan losses, and ensure that the asset loss reserves are always 100% sufficient and cover all possible risks.

A small-sum loan company shall strengthen internal control, set up and amplify the rules and regulations related to accounting procedures and truthfully record and comprehensively reflect its business activities and financing activities. In the mean time, a small-sum loan company shall set up its information disclosure system to disclose the information about its business operations and financing situations to the shareholders, the departments in charge, the banking financial institutions lending money to it, other donation institutions, and the public when necessary. Banking financial institutions which lend money to a small-sum loan company shall file the fund-raising information with the government of the district (county) where the small-sum loan company is located in a timely manner, and follow up and supervise the company' s use of the raised funds.

III. Work Mechanism and Approval Procedure

1. Work Mechanisms

A group is formed to promote the pilot operation of small-sum loan companies in Shanghai (hereinafter referred to as Promotion Group), whose head is the competent leader-in-charge of the Municipal Government, while the members consist of the Financial Services Office of Shanghai Municipality, Shanghai Branch of the People's Bank of China, Shanghai Branch of the China Banking Regulatory Bureau, the Industrial and Commercial Bureau of Shanghai Municipality, the Agricultural Committee of Shanghai Municipality, the Public Finance Bureau of Shanghai Municipality, the Public Security Bureau of Shanghai Municipality and the Legal Affairs Office of Shanghai Municipality.

The major functions of the Promotion Group are: 1. making overall arrangements for the pilot operation of small-sum loan companies; 2. determining the districts (counties) allowed to carry out the pilot operation of small-sum loan companies; 3. solving the problems encountered in the pilot operation of small-sum loan companies; and 4. guiding the district (county) governments and the relevant departments to do a good job in supervising and administering small-sum loan companies as well as dealing with the risks thereof.

The Financial Services Office of Shanghai Municipality is the department in charge of the pilot operation of small-sum loan companies in this Municipality, in addition to handling the routine work of the Promotion Group. Its major functions are: 1. accepting the applications filed by the district (county) governments for doing the pilot operation of small-sum loan companies; 2. re-examining the application materials; 3. evaluating the annual classification of small-sum loan companies; and 4. urging the district (county) governments and the relevant departments to do a good job in supervising and administering small-sum loan companies as well as dealing with the risks thereof.

The major functions of the government of a district (county) doing the pilot operation are: 1. selecting those interested in the pilot operation in this district (county) and preliminarily examining the applications for setting up small-sum loan companies; 2. exercising routine supervision over the small-sum loan companies in the district (county) and evaluating their services for the development of agriculture, farmers and rural economy and small enterprises; and 3. preventing and dealing with the risks in the pilot operation of small-sum loan companies.

2. Approval Procedures

(1) Application of the Status as a District (County) Pilot Operation and the Approval thereof

A district (county) which wishes to be involved in the pilot operation of small-sum loan companies shall submit an application form to the Financial Services Office of this Municipality. The application form shall at least cover the following contents:

- a. A brief introduction to the background information, including the economic and financial situation of the district (county), the agriculture, farmers and rural economy as well as small enterprises in the district (county), and the necessity and feasibility for setting up small-sum loan companies.
- b. A pilot operation plan, which shall detail the organization and leadership of the pilot operation; specify the department in charge of the preliminary examination of the applications for setting up small-sum loan companies, and the departments in charge of the daily supervision, service evaluation and risk handling of small-sum loan companies; state the basic information about the principal promoters that meet the relevant requirements and wish to set up small-sum loan companies as well as the basic information about other promoters and shareholders; describe the steps and arrangements for the pilot operation; and state other issues that shall be clarified.
- c. A risk handling commitment. The district (county) shall, under the principle of territorial jurisdiction, supervise the routine operations of the small-sum loan companies, make regular inspections, deal with the instable factors resulting from the violative operations of small-sum loan companies, and promise to assume the responsibility for risk prevention and handling.

After examining the application form of the district (county), the Financial Services Office shall submit it to the Promotion Group for approval. In the case of approval, the government of the district (county) shall select the principal promoters that meet the relevant requirements and plan to set up small-sum loan companies in the district (county) and submit the selected principal promoters to the Promotion Group.

(2) Application for Setting up Small-sum Loan Companies and the Approval thereof

A principal promoter singled out by the district (county) shall submit the application materials for setting up a small-sum loan company to the government of the district (county), including:

- a. an application form for setting up a small-sum loan company, which shall state the form of organization, name, registered capital, place of registration and scope of business of the

planned small-sum loan company;

b. a plan for setting up the company, which shall include the steps and time schedule for setting up the company; the registered capital, a roster of shareholders, and the amount and proportion of financial contribution of each shareholder; the draft bylaws and management rules (including the operational management rules, the financial management rules, the risk monitoring rules and the information disclosure rules) of the company; the resume of the future senior managers of the company and a photocopy of their identity certificate;

c. basic information about the shareholders: the principal promoter shall provide detailed information and materials about itself; an enterprise investor with the legal person status must provide a photocopy of its business license and an audited financial statement, and shall meet the requirements of no criminal record and no bad credit record; a natural person investor must provide a photocopy of his identity certificate, a resume and a certificate on the source of funds for purchasing shares in the company, and shall meet the requirements of full civil capacity, no criminal record and no bad credit record; any other social organization must provide evidentiary materials to prove its qualification;

d. a letter of commitment: the shareholders shall promise to purchase shares in the small-sum loan company at their own will, ensure the authenticity, accuracy, and completeness of the application materials and their willingness to abide by these Measures, the relevant provisions of the state and this Municipality and the bylaws of the company;

e. a letter of legal advice, which shall be issued by a law firm to describe the investors of the small-sum loan company and their affiliations, the establishment of the company, and whether there is any gross violation;

f. a certificate on the ownership or use right of the business site;

g. certificates issued by the public security department and the fire department, proving that the security and fire-fighting equipment in the business site meets the relevant requirements;

h. a Notice of Pre-approval of Enterprise Names issued by the administrative department for industry and commerce;

i. a capita assessment report issued by a legally established capital assessment agency; and

j. other materials required by the district (county) government.

Some of the above-mentioned materials may be submitted after preliminary examination.

The district (county) government shall finish the preliminary examination within 15 workdays after receiving the application materials submitted by the principal promoter of the small-sum loan company to be formed.

If the application is approved upon preliminary examination, the district (county) government shall submit the application materials and the preliminary examination opinions to the Promotion Group. The Promotion Group shall solicit the opinions of the relevant member entities and then submit them to the Financial Services Office within 15 workdays for a decision of approval or disapproval.

(3) Industrial and Commercial Registration

The application for setting up a small-sum loan company shall handle the registration formalities and get the business license at the administrative department for industry and commerce upon the strength of the approval document issued by the Financial Services Office. Moreover, it shall file the relevant materials with the local public security organ, Shanghai Branch of the China Banking Regulatory Commission and Shanghai Branch of the People's Bank of China within 5 workdays.

(4) Change and Termination, etc.

The change, termination of small-sum loan companies and other matters shall be analogically governed by the provisions on setting up small-sum loan companies.

IV Supervision & Administration and Risk Handling

1. Supervision & Administration

The Promotion Group shall guide the district (county) governments to do a good job in the daily supervision and administration of small-sum loan companies. The member entities of the Promotion Group shall live up to their respective duties. The Financial Services Office shall be responsible for urging the district (county) governments to do the daily supervision and administration work.

The governments of all districts (counties) of pilot operation shall pull their weight in daily supervision and administration. The district (county) governments shall specify the functional departments in charge of making continual and dynamic supervisions and on-site inspections on the risk management, internal control, assets quality, assets loss reserve sufficiency, affiliated transactions, compliance with these Measures and the bylaws of the small-sum loan companies; receiving the accounting, operation and financing information of small-sum loan companies and reporting such information to the Promotion Group in a timely manner; reporting the basic information about small-sum loan companies to the Promotion Group on a quarterly basis; and making comprehensive evaluations on the business performance, internal control and regulation compliance of small-sum loan companies and submitting the evaluation results to the Promotion Group on an annual basis.

2. Risk Handling

Small-sum loan companies shall be subject to public supervision, and may not illegally raise funds under any pretext.

Where any small-sum loan company falls under any of the following circumstances, the local district (county) government shall order it to correct; submit it to the competent department for punishment if the circumstances are particularly serious; or hold it criminally responsible if any crime is constituted:

- (1) it is set up without approval;
- (2) it is changed without approval;
- (3) the source or application of funds is against the relevant provisions;
- (4) it refuses or impedes the inspection or supervision of the competent department;
- (5) it fails to report the relevant information according to these Measures; or
- (6) other circumstances specified by the government.

The district (county) governments shall assume the responsibility for preventing and dealing with the risks in the pilot operation of small-sum loan companies.

V. Incentives

The governments of the districts (counties) of pilot operation and the relevant departments of the Municipal Government may work out corresponding incentives for the pilot operation of small-sum loan companies.

The Financial Services Office shall, together with Shanghai Branch of the China Banking Regulatory Commission and Shanghai Branch of the People's Bank of China, organize activities to give publicity to the policies governing small-sum loan companies and provide trainings about the pilot operation of small-sum loan companies.

Small-sum loan companies that operate lawfully and have a good credit will be recommended by the Promotion Group to the banking regulatory department for transforming into village and town banks.

VI. Others

1. Issues not covered in these Measures shall be governed by the Guiding Opinions and other relevant provisions.
2. The power to interpret these Measures shall remain with the Promotion Group.
3. These Measures shall come into force on the day of issuance.

Financial Services Office of Shanghai Municipality

Industrial and Commercial Bureau of Shanghai Municipality

Agricultural Committee of Shanghai Municipality

Economic Committee of Shanghai Municipality

August 27, 2008