

Capital Increase and Share Enlargement

Instruction of Hunan Trust Co. ,Ltd.

(Full Text)

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I . Explanation

In the instruction, except for other references, the words below have the following meanings:

The company, the issuer and Hunan Trust

——refers to Hunan Trust Co., Ltd

Articles of association:

——refer to the articles of association of Hunan Trust Co., Ltd

Original shareholders:

——refer to shareholders registered by the issuer before the capital increase and share enlargement

Strategic investors:

——refer to domestic and overseas corporate bodies conforming to the national shareholder and investment qualification requirements of trust companies including financial institutions, large-scale enterprise groups and listed companies, etc.

Provincial government:

——refers to Hunan provincial government

Provincial department of finance

——refers to the Provincial Department of Finance of Hunan

Yuan:

——RMB Yuan



II. Preface

The capital increase and share enlargement will be conducted according to the documents listed in the instruction. The company doesn't entrust or authorize anyone to provide information other than those listed in the instruction and to make any explanation or statement about the instruction.

III. Basic Situation of the Company

1. Summary

Hunan Trust Co., Ltd (hereinafter called "Hunan Trust") originally named as Human Trust & Investment Company, was established in 1985 with the approval of Hunan government. It was renamed Hunan Trust & Investment Co., Ltd. after the re-registration with the People's Bank of China in 2002. It obtained the new financial license issued by China Banking Regulatory Commission in October, 2008 and formally changed its name into Hunan Trust Co., Ltd., the only trust institution reserved in Hunan province, and also the only non-bank financial institution that can set foot in capital market, money market and industry market.

2. Business scope

- entrusted funds management;
- entrusted management of real-estate;
- entrusted management of securities;



- entrusted management of other property or property rights;
- investment fund business as an initiator of an investment fund or a fund management company;
- restructuring and acquisition of enterprises' assets, project financing, corporate financial management and financial consulting, etc.;
- entrusted underwriting of securities with approval of relevant departments of the State Council;
- intermediation, consultation and credit investigation, etc;
- entrusted custody and safe deposit box services;
- other businesses stipulated by relevant laws and regulations, or approved by China Banking Regulatory Commission.

3. Ownership structure

The company is co-invested by Hunan Caixin Investment Holding Co., Ltd and Hunan State-owned Asset Investment Operation Co., Ltd, with a registered capital of 500 million yuan, among which Hunan Caixin Investment Holding Co., Ltd invested 480 million yuan, with an equity proportion of 96% and Hunan State-owned Asset Investment Operation Co., Ltd invested 20 million yuan, with an equity proportion of 4%.

4. Shareholder introduction

Hunan Caixin Investment Holding Co., Ltd, a state-owned



company, was established in 2002 upon the approval of Hunan government, with a registered capital of 1,107,772,100 yuan. Hu Jun is the legal representative of Hunan Caixin Investment Holding Co., Ltd. The provincial department of finance exercises the investor authorities on behalf of the government. Hunan State-owned Asset Investment Operation Co., Ltd, also a state-owned company, was established in 1993 upon the approval of Hunan government, with a registered capital of 225,000,000 yuan, with Hu Xiaolong as the legal representative.

IV. Company Operation

1. Management philosophy

Risk control in priority, legal operation, profession and concentration, innovation and development.

2. Strategic planning

Based on Hunan, servicing China and paying attention to the world, Hunan Trust is working hard to cultivate, accumulate and renovate its resources in a more efficient, rapid and flexible way, so as to make its resources available more unique, the resource allocation method more scientific and gradually improve its competitiveness in project screening. In the foreseeable future, Hunan Trust will grow into an excellent and professional financing institution, with adequate capital, good reputation, strong business



innovation capacity, sustainable competitiveness, and unique corporate culture.

3. Management team

The supreme authority institution of the company is the shareholder meeting. The board of directors and board of supervisors are established according to *The Company Law*. Hunan Trust implements general manager responsibility system under the leadership of the board of directors. The company has a relatively complete corporate governance structure and is gradually building the organization structure with clear right and responsibility, reasonable balance, and clear reporting relationship. The company keeps on optimizing the internal control system and forms strict project approval flow and risk control mechanism. There are nomination & salary evaluation commission, trust commission, risk management and audit commission under the leadership of the board of directors; the trust business and self-run business are independently operated under the requirement of state supervision institutions.

4. Human resources

The company implements fix-term employment contracts with all employees. The recruitment is conducted according to the principles of openness, fairness and merit. Presently, the number of staff is 59, among which the percentage of below-the-age-of-40



accounts for 72%, and the staff with college education and above accounts for 71%.

The company is actively cultivating a culture of self-dependence, gratefulness and harmony, with “risk control in priority and legal operation” as the core. By guiding its staff to build legal awareness and risk awareness, Hunan Trust is continuously enhancing their professional ethics and standardizing their vocational conduct.

5. Business introduction

The company business is mainly composed of trust business and self-run business. For the Trust business, it mainly includes fund trust, property trust and property rights trust, such as unitary fund trust, assembled funds trust, employee stock ownership trust, bank credit asset transfer trust, trust-beneficiary-right transfer product, and securities investment trust, etc. As for the self-run business, it is mainly composed of business loan, financial equity investment and securities investment, etc.

6. Financial data

Project	2005	2006	2007	2008
Total asset	84,882	76,044	66,684	69,123
Net asset	73,803	65,862	56,110	60,746
Main business income	7,039	5,811	8,761	9,389
Net profit	1,600	1,315	4,405	3,646
Return on net profit	2.2%	2.0%	7.9%	6%



Note: the company conducted a series of asset restructurings from 2005 to 2008, including asset liquidating and asset replacing, so the size of total asset is decreasing, while the rate of non-performing-assets declined from 40.59% at the end of 2004 to 3.7% in 2008. Meanwhile, the company is persisting in reforms & innovations and tries hard to expand trust business, as a result, the income from trust business accounts for 72% of the gross income and the profit level is rapidly increasing.

V. Company Characteristics and Competitive Advantages

The company sticks to market-oriented operation, legal management, and standardized operation; and is equipped with the following advantages:

1. Geographical advantages and government resources

In recent years, Hunan province fully seized the opportunity of mid-china development policy and took advantage of the major historical opportunity — the construction of "two-type" experimental area. Based on the efficient promotion of “one industrialization and three bases” strategy, the local fields such as infrastructure, hi-tech industry and industrial construction, etc, enjoyed rapid development, and the needs for financing service greatly increased. As the only non-bank financial institution that can set foot in capital market, money market and industry market in Hunan province, Hunan Trust



is steadily growing by fully taking advantage of opportunities arising from the important historical period. It is becoming stronger and bigger by strengthening its core competitiveness and relying on geographical advantages and governmental resources.

2. Shareholder advantages

Hunan Caixin Investment Holding Co., Ltd, established upon the approval and investment of Hunan government, is a state-owned enterprise with construction of “local financial holding group” as its strategic target. Under the full support of Human government, the company has a favorable external environment.

After the capital increase and share enlargement of Hunan Trust, the resources from the background of new shareholders will combine with those of Hunan Trust. On one hand, the capital of Hunan Trust will rise substantially, which can meet the needs of business expansion, on the other hand, Hunan Trust can utilize the resources and channels of the new shareholders to break local geographic bottleneck, boost development and competitive power, and promote continuous growth of trust business.

3. Advantages of business ability accumulation

The company has established relative complete corporate governance structure, internal control system and risk control mechanism, complete project assessing flow, wide business



cooperative network, as well as professional and experienced management team. Instead of blindly pursuing business scale, the management team is focusing on team optimization and risk-control mechanism so as to lay a solid foundation for the future.

4. Advantages of strategic cooperation and network construction

The company keeps a close cooperative relationship with influential domestic investment institutions such as Shenzhen Fortune Venture Capital Co. Ltd, and constructs strategic cooperation with major banks, securities traders, asset management companies, etc, in the province.

VI. Profit Distribution Policy

According to articles of association, the profit after tax of the company is distributed according to the following sequence:

1. Offset the loss of the previous years;
2. Put aside 10% as statutory surplus reserve;
3. Put aside 5% as risk provision;
4. Distribute dividends according to the capital proportions of shareholders.

VII. Survey of the Capital Increase and Share Enlargement

1. Scale of capital increase and share enlargement



According to the plan of capital increase and share enlargement, the registered capital is scheduled to increase by 700 million yuan; therefore, the new registered capital will rise from 500 million yuan to 1.2 billion yuan.

After the capital increase and share enlargement, the ownership structure will be as follows: Hunan Caixin Investment Holding Co., Ltd is still the biggest controlling shareholder; the ownership proportion of new shareholders will be determined by negotiation, and the ownership proportion of overseas financial institutions shall be lower than 20% according to national stipulations.

2. Background and purpose of capital increase and share enlargement

After several times of rectifications, the trust industry in our country has gradually stepped on the track of sound progress, with a development speed much faster than that of GDP. The emerging financing and investing needs provide the trust industry with an opportunity of geometric growth. The current capital size of Hunan Trust is unable to satisfy the need of development and business expansion in other geographic areas.

Once the capital of Hunan Trust is increased to 1.2 billion yuan, on one hand, Hunan Trust will completely reach the legal



requirements of all business items, so it can significantly expand its business scope, such as engaging in entrusted overseas financial management business and investment in infrastructure for the funds of insurance industry, etc. On the other hand, excellent capital structure, together with the significant increase of trust business scale and the resource combination of old and new shareholders, will continuously increase net profit growth rate and bring rational and stable investment return to the shareholders, thus achieve the following purposes:

- Reinforce advantage complementation, enlarge operation resource and expand business scope;
- Strengthen capital power to achieve the capital scale requirements proposed by each business qualification;
- Optimize ownership structure and company management;
- Introduce advanced concepts, management experience and excellent talents.

3. Subscription price

The pricing of Hunan Trust's equity is mainly based on its net asset value and confirmed through negotiation.

4. Subscription method

Strategic investors may contribute capital in renminbi or foreign currency. Foreign currency investment is calculated according to



the exchange rate offered by the People's Bank of China on the day of capital verification.

5. Subscription procedure

The capital increase and share enlargement adopts the way of negotiation. Any present shareholder or social corporate body with investment intention can submit intention letter to Hunan Trust. The company will follow the priorities of subscription quantity, time and old shareholder to determine new investors. The specific procedures are as follows:

- The investor with investment intention shall provide the documents such as audited financial statements in recent 3 years, stamped copy of business license, company profile, etc, and fill in investment letter of intention;
- The company conducts the preliminary review on the investor's qualification according to relevant state laws and regulations.
- Both parties conduct due diligence and sign intention agreement and non-disclosure agreement as well;
- Both parties complete investigation and reach an agreement on relevant items through negotiation;
- Both parties sign the relevant agreements and make report to supervision department for approval. *Investment*



Agreement shall be signed by the company and the confirmed new shareholder. The investor shall remit the investment capital to the designated bank account within the designated period according to the *Investment Agreement*, so as to finish capital increase and share enlargement.

6. Subscription quantitative restriction

The direct or indirect investment of a single investor shall be no less than 200 million RMB, but shall not exceed 30% of the registered capital of the company after the capital increase and share enlargement.

7. Confirmation of shareholder qualification

The capital increase and share enlargement is a non-public issue but only for legal persons, the specific condition is: any corporate body at home or abroad (except for those prohibited by laws and regulations from subscription) that meets the requirements of *Company Law of the People's Republic of China*, and *Provisional Regulations of People's Bank of China on Financial Institution Investment*, and has corporation intent with the original shareholders. The detailed qualifications are as follows:

- Enterprise registered in China or overseas with the status of legal person;



- The enterprise shall have sound business operation and legal capital source;
- The net asset of the enterprise must account for over 30% of the total asset, the total percentage of investment including internal investment shall not exceed 50% of the net asset; while the investment companies, holding companies and investment funds stipulated by the state shall not be restricted by this clause; and
- The investment proportion of a single overseas financial institution shall not exceed 20%.

VIII. Application of the Financing Capital

After the completion of the capital increase and share enlargement, it is estimated to raise 700million RMB. All the collected capital will be used in the enlargement of actual capital, asset scale expansion and competitive power improvement so as to rapidly form new profit growth points and provide shareholders with maximal investment return. It will be specifically applied in:

- Expand the investment size of the company's own funds. Conduct investments within the fields permitted by laws and regulations, and focus on financial industry especially local commercial banks. At the same time, make full use of resources from new shareholders to expand investment



fields and continue to strengthen competitiveness in trust business.

- Expand the loan size of the company's own funds.
- Other business operations

Once the capital of Hunan Trust is successfully increased to 1.2 billion yuan, all the legal business standards can be achieved thus the company's business scope will be greatly expanded. According to the company's present operation status and development plan, in reference to the median values of trust industry under the condition of same capital, it is estimated that the size of annual entrusted funds will not be lower than 20billion and the capital return will be above 18% after the capital increase and share enlargement.

Besides obtaining financial income, strategic investors can also obtain important market opportunities:

- The platform of financial holding groups: because trust system has the advantages such as flexible application and bankruptcy insulation, trust products can be designed in quite a few investment fields like bank business, securities business and industrial investment. Trust products have become the joint that connects various industries. If the holding companies participate in the equity investment of Hunan Trust, it will be easier for them to preliminarily



complete the strategic layout.

- Integration of group resources: the extension of trust business has infinite possibilities, which can provide rapid and efficient platform for the integration of group resources, and has vast space for strategic layout and tax planning at the same time.

IX. Contact

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