

## In-depth Credit Report

Subject: Sample Company  
Report Number: CN20070808  
Date Presented: 2007-08-08  
Date of the order: 2007-08-01  
Type: Regular

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## In-depth Credit Report

### 【Basic Information】

#### 1. Registration information

Company:	Sample Company
Registration Number:	4403011021314
Legal Representative:	Heping Sun
Registered Address:	No.1314, Longyang Road, Longgang District, Shenzhen, Guangdong, China.
Physical Address:	No.1314, Longyang Road, Longgang District, Shenzhen, Guangdong
Registered Capital:	RMB 10 million
Company Type:	Limited liability company
Date incorporated:	1987-01-01
Fields of Operation:	Processing control system, multi-media communication system; Research, produce communication devices, microwave communication devices.
Granted period of operation:	1987-01-01~2040-01-01
Business Status:	Active
Place of Registration:	Shenzhen Municipal Administration for Industry and Commerce
Import/Export License:	Granted in December 1996 by the Ministry of Foreign Trade and Economic Cooperation, PRC
Annual Evaluation:	2006 (A) passed

#### 2. Contact Information:

Company Address:	No.1314, Longyang Road, Longgang District, Shengzhen, Guangdong
Postal Code:	518656
Telephone:	+86 755 28782878
Fax:	+86 755 28762876

### 【Relevant Information】

#### 1. Shareholders

Name:	Shenzhen Yongsheng investment Co., Ltd.
Type:	Corporation
Amount of Investment:	6 million RMB

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Percentage: 60%  
Form of investment: Cash  
Actual percentage in position: 100%

Name: Heping, SUN  
Type: Individual  
Amount of Investment: 4 million RMB  
Percentage: 40%  
Form of investment: Cash  
Actual percentage in position: 100%

## 2. Branches

Name: Eastern China Branch  
Address: 8 Dongchang Street, Shanghai  
Manager: Guoqiang, Liu  
Phone: +86 21 68453555

Name: Northern China Branch  
Address: 11 Fudong Street, Taiyuan, Shanxi  
Manager: Xiang, Li  
Phone: +86 351 7241995

## 3. Investment

Shareholding Company: Shengzhou network technology Co., Ltd.  
Form of Investment: Cash  
Total Stake: 100 thousand RMB  
Percentage: 10%

## 【Changes in Registration Information】

### 1. Changes

Sequence : 1  
Item: Capital  
Date: 2001-01-01  
Before Change: 5.9 million RMB  
After Change: 7 million RMB

Sequence: 2  
Item: Capital  
Date: 2002-01-01  
Before Change: 7 million RMB

After Change: 10 million RMB

## 【Management】

### 1. Legal person

Name: Heping, SUN  
Gender: Male  
Age: 52  
Education: College  
Level of Responsibility: Overall responsibility  
Operation Experience:

- Over ten years
- Over three years
- Below three years

Expertise:

- Business management
- Technology
- Sales

Reasons of Promotion:

- Founder
- Appointed by the higher authority
- Hiring
- Inheritance

Brief CV: 1977-87 Local government officer;  
1987-present, current position

### 2. Chief Operating Officer

Name: Xiang, Hua  
Gender: Male  
Age: 32  
Education: M.S.  
Level of Responsibility: Administration

## 【Operation Information】

### 1. Employees

Total Personnel: 260  
Including: Management 15  
Technician 35

### 2. Factory & Offices

Location: Longgang District, Shenzhen  
Occupied Area: 5000 M<sup>2</sup>  
Transportation: ● Convenient

# Creditworld

Subject: Sample company

No.: CN20080808

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- Ownership:
- Subject to certain constrains
  - Owned by the company
  - Rented
  - Owned by shareholder
  - Owned by higher-level administration in charge
- Mortgage:
- Full
  - Part
  - No
  - N/A

### 3. Purchase

Components Purchased: Computer CMOS, Router, Display, etc.

Major Supplier: 1.American Qualcomm Company  
2.BenQ Corporation

Payment Terms: 1. L/C, 60-day credit  
2. 30-45 days credit

Payment Record: 1. 85% paid to terms, 15% deferred (within one year)  
2. 70% paid to terms, 30% deferred (within one year)

*2007-08-04, Confirmed by Ms. Wang from Finance Division of the Sample Company*

### 4. Domestic Sales

Products: Mobile communication Equipments, Cell-phone products, multimedia products, Closed Circuit TV set, etc.

Percentage of Total Sales: 55.6%

Major Customers: China Telecom, China Netcom, China Mobile, China Unicom,

Payment Term: 30-60 days credit, T/T

### 5. Foreign sales

Percentage of Total Sales: 44.4%

Major Customers: Egypt Telecom, Pakistan Telecom

Sale Terms: L/C, 60-day credit

*2007-08-04, Confirmed by Ms. Wang from Finance Division of the Sample Company.*

### 6. Operation Analysis

In 2006, the subject Company made a total revenue of 25 million (RMB), which is a 6.7% increase from previous year; however, the profit, which is 807 thousand in total, decreased 32.4% compared to 2005.

Generally speaking, the market rendered more challenge than opportunity to the

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company. Their marketing effort was not as successful as they anticipated due to slash of investments in fixed assets among most major tele-communication companies in China. However, we believe that the third generation of mobile phone standards and technology (3G) will be implemented in the Chinese Telecom market between 2007 and 2008. Because of this, there will be vast investments among major telecom companies in the next a few years, which will send the domestic sales of this Company to a new high.

The subject company continues to promote its strategy of becoming more internationalized and has received some significant achievements. Foreign sales now counts for 44.4% of the total sales, which shows a 8.7% increase compared to this past year. More importantly, majority of the increase in revenue comes from foreign sales. The company continues to strength its relationship with the customers in Southeast Asia. Meanwhile, a new marketing focus is North Africa. They have already got orders from Egypt, Morocco, etc. However, the company significantly slashed its price in the new market, which resulted in lower profit margin in foreign sales.

In addition, the Company conducted a series of tests and assessments on the compatibility of TD-SCDMA equipments with its major product providers. Products of the Company perform much better in compatibility, fault-tolerance and speed than products from its competitors. On top of that, the Company is on the short-list of providers for TD-SCDMA peripherals.

Although investments on traditional switches from telecom companies in China had been on a steady declining trend in 2006, the Company managed to increase its shares in this old market. At the same time, they followed trend during this technology transition, and promoted solution in “intelligenization of the existing land-line network”.

## **7. Operating Risk**

Investments in system products, especially in China, are prone to be subject to influences of macro-level factors such as government policy.

The Company has extended its business to more than 10 countries and regions. Difference in political system, law and regulation, tax, demand and culture among these countries constantly challenge the Company’s operating capability.

With the increase in the company’s foreign business operation, we anticipate continuing imbalance of payments in foreign currency. In addition, revalued Chinese Yuan (RMB) will bring more competition and risk in foreign currency exchange.

In our opinion, the Company’s long-term debt will likely face interest rate risk.

## **【Trademark and Patents】**

### **1. Registered Trademark**

Registration & Application #: 6534897

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International Classification #: 38

Trademark: United

**2. Patents**

Name of the Patent: \* \* \* \* \*

Application #: \*\*\*\*3038.5

Name of the Patent: \* \* \* \* \*

Application #: \*\*\*\*6507.X

Name of the Patent: \* \* \* \* \*

Application #: \*\*\*\*87675.8

Sources: Trademark Office, State Administration For Industry & Commerce of the P.R.C  
State Intellectual Property Office of the P.R.C

**【Bank Account】**

**1. Bank Account**

Bank: Longgang Branch of China Everbright Bank  
 Bank Address: 7 Yuhang Street, Longgang District, Shenzhen  
 Account Number: 76801887621916  
 Account for Foreign Currency: 07241995428298  
 Comments: Subject Company has good credit record with no history of delinquencies in payments by far. .

**2. Loans**

Loan Provider: Longgang Branch of China Everbright Bank  
 Mortgage:
 

- Real estate
- Equipment and vehicles
- Securities
- Others

 Guarantor: Guaranteed by Shenzhou Economic Construction Investment Company  
 Payment of Loan: Subject Company has cleared its CNY 2 million of current loans.

**【Financial Report】**

**1. Balance Sheet**

**(in RMB)**

	<b>12/31/2006</b>	<b>12/31/2005</b>
Current assets	20,555,907	17,936,176
Including: Cash & Bank	4,311,060	5,573,132
Accounts receivable	12,329,628	8,167,495

**Creditworld**  
 Subject: Sample company  
 No.: CN20080808

Inventory	3,915,219	4,195,549
Total fixed assets	3,061,494	2,506,912
Long-term investment	100,681	85,459
Intangible and deferred assets	152,859	160,264
Other long-term assets	2,046,008	1,090,320
<b>Total assets</b>	<b>25,916,949</b>	<b>21,779,131</b>
Current liabilities	2,146,625	3,787,321
Including: Short-term loans	500,000	250,000
Accounts payable	4,749,099	5,025,663
Long-term liabilities	5,816,067	4,328,092
Total liabilities	10,711,791	10,141,076
Total shareholder's equity	15,205,158	11,638,055
<b>Total liabilities and shareholders' equity</b>	<b>25,916,949</b>	<b>21,779,131</b>

**2. Income statement**

(in RMB)

	2006	2005
Principal operating income	23,031,684	21,575,920
Minus: Cost of sales	15,171,797	15,944,797
Selling expense	1,140,108	1,023,126
General and administrative expense	1,010,206	1,137,066
Financial expense	4,709,108	1,984,846
Gross profit/loss	1,000,465	1,486,085
Minus: Income tax	125,624	158,545
Net profits	874,841	1,327,540

**3. Cash flow statement**

(in RMB)

	2006	2005
Net cash from operating activities	1,554,986	177,305
Net cash used in investing activities	2,163,563	984,270
Net cash from financing activities	945,273	1,195,498
Cash and cash equivalents at beginning of year	694,850	306,317
Cash and cash equivalents at end of year	1,031,546	694,850

*Data source:* **Government**  
*Audit institution:* **Huaxia audit office**

**4. Key Ratios:**

2006    Industry average\*    2005    Industry average

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Subject: Sample company

No.: CN20080808

Current ratio	9.6	<b>3.65</b>	4.7	<b>3.70</b>
Quick ratio	7.8	<b>4.49</b>	3.6	<b>3.50</b>
Turnover of accounts receivable	1.9	<b>2.26</b>	2.6	<b>2.10</b>
Turnover of accounts receivable (days)	192.7	<b>156.5</b>	136.3	<b>171.4</b>
Liabilities/assets ratio	41.33%	<b>63.21%</b>	46.56%	<b>69.32%</b>
Liabilities/equities	70.45%	<b>36.51%</b>	87.14%	<b>41.36%</b>
Turnover/total assets ratio	3.38%	<b>2.39%</b>	6.10%	<b>4.21%</b>
Profit margin	3.80%	<b>2.43%</b>	6.15%	<b>4.60%</b>
Turnover of inventory	5.9	<b>2.63</b>	5.1	<b>2.25</b>

\* Calculated using data on similar companies from our database.

## 5. Financial Analysis

The company's effort to expand its foreign operation and business has not only brought down gross profit margin but also increased costs, especially administrative costs, which affected its profit margin. Another outcome of its foreign business expansion is the increase in inventory and relaxed policy in receivables. These two factors lead to limited cash flow.

When compared with other companies in the same industry, although the Subject Company has lower profit margin, most of its financial indicators are better than the industry average. This leads us to the conclusion that the subject company has considerable financial competitiveness among its peer.

### 【Credit Situation】

#### 1. Business Credit

Business Partner: BenQ Technologies, Taiwan  
Components Provided: Computer Chip  
Interviewee: Ms. Gong  
Position of the Interviewee: V.P. in Financial Department at BenQ  
Date Interviewed: 2007-08-05  
Comments from the Interviewee: Prompt Payment

#### 2. Positive Feedback on Credit History

Institute: State Administration For Industry & Commerce of the P.R.C  
Contents: "Certificate of good credit and contract Abidance"  
Date: 2006-01-01

#### 3. Remarks

Institute: Social Security Office, City of ShenZhen

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Contents: Late payment in Social Security Fee, 200 thousand RMB in total  
Date: 2006-07-07  
Follow-Up: Paid in full

## 【Industry Review】

### 1. General Information

The telecom industry in China maintained its smooth increase in 2006. According to the statistics from Ministry of Information Industry of the P.R.C., total revenue of the telecom industry was 648.4 billion (RMB) in 2006, which was 11.7% more than 2005. Meanwhile, investment in this industry was 218.7 billion (RMB), which showed an increase of 7.5% compared to 2005. Led by the mobile and data services, the whole telecom industry developed very well. To meet the needs in network built-up generated by the upcoming implementation of 3G technology, major providers increased investments in data transmission. At the same time, investments in CDMA and PHS, which most domestic producers have production advantages, have declined. Since government policies have been trying to promote independent intellectual property rights, we believe that TD-SCDMA will play a significant role in Chinese telecom industry in the very near future, although current investment on this technology is still far from enough.

After significant growth in 2004 and 2005 globally, telecom industry has entered a period of adjustment and low-rate growth since 2006. Based on data from Gartner, total revenue of the global telecom industry is 1,663.3 billion U.S. dollars. 33.42 billion U.S. dollars are made by telecom equipment producers, and the total revenue from this sector will increase to 35.37 billion U.S. dollars for the year of 2007. As for the regional markets, West Europe, North America and Asia Pacific account for ¾ of the global telecom market. However, new markets in Middle East and Africa will bring more opportunities in growth.

### 2. Competition in the industry

In recent years, the Chinese central government has been promoting the increase of domestic demand, implementing proactive fiscal policies and sound monetary policies, improving infrastructures, expediting the development of information technologies and information industry, promoting the informationization of the Chinese Economy and Society, increasing export and foreign direct investment, and accelerating the reform in structures, all of which have provided Chinese telecom industry a perfect environment for fast growth. Right now, China is not only a huge market for telecom companies, but also a provider of telecom technologies and new products. The competitiveness index of the Chinese telecom industry has been increasing at annualized growth rate of 7.9% from 0.44 in 1997 to 0.81 in 2004. It's the second most competitive electronic industry in China, just behind home appliance industry. At the same time, domestic companies in this industry shows much higher growth rate (56% in 2005) than companies with foreign direct investment (44% in 2005).

However, most domestic companies in this industry suffer from poor Research & Development. Core technologies and many components of their products are supplied by

foreign companies, which places them at lower level of global production chain. This reduces competitiveness of the industry.

### 3. Industry Outlook

During the period of the 11th Five-Year Development Guidelines, we should see dramatic changes in the tele-communication industry. On one hand, technological revolution will bring changes in network format and standard; on the other hand, the industry itself will have further development and changes. These two factors will affect the competition in the mobile communication industry.

A duopoly system emerges in China after years of reform in the mobile communication industry. However, during the 11th Five-Year Development period, the mobile communication market will gradually become more open to both domestic and foreign operators. Thus we should be expecting a market with more competitors and more intensive competition.

Equipment distributors, Terminal equipment distributors and System Integrators will face significant changes in their own industries during the 11th Five-Year period. This will change their relationship with the Mobile communication operators and in turn change the whole tele-communication market.

Also, we should anticipate revolutionary changes in the whole industrial chain. Key to this potential change is the fact that equipment distributors for this industry will become integrated equipment distributors who provide a complete solution to tele-communication operators.

## 【Comprehensive Comment】

### 1. Summary

The subject company has great operating record, credit history, social reputation, healthy fiscal and financial record. In addition, we interviewed many companies (mainly equipment distributors) and banks that have business relationship with the subject company, and checked its record at local court. No delinquencies were found. Its equipment providers have also provided positive feedbacks on its payment history.

Further more, the subject company has great business relationships with major operators and equipment distributors. Considering the fact that tele-communication equipment manufacturing industry will enter a period of fast growth in the next a few years and become more mature, we believe that the subject company will have a turn-around in profit as well as operating efficiency. More balanced structure of domestic and international operations will also help improve its operating record and cost structure gradually.

### 2. Trend & Prospect

To conclude, the subject has considerable market share and influence, it is in healthy financial situation and has good operating capability. Its major product will have a good market share in the near future. However, the subject company is relatively small and its profitability is subject to changes in the industry. Risk for creditor is also high in the short run. We suggest

that companies do business with the subject company under standard credit and cooperation conditions.

**3. Credit Rating      BB**

**4. Suggested Line of Credit**

Based on our analysis of the current conditions of Subject Company, a 1.5 million (RMB) line of credit to subject company could be considered within 3 to 6 months.

——End of the Report——

Appendix:

**1. Credit Rating Terminology:**

<b>AAA</b>	Lowest Risk	Transaction can be made under very relaxed terms.
<b>AA</b>	Low Risk	Transaction can be made under relatively relaxed terms.
<b>A</b>	Risk lower than average	Transactions can be made under regular credit condition.
<b>BBB</b>	Average Risk	Transaction can be made under constant monitoring.
<b>BB</b>	Higher than average risk	Avoid credit business; be cautious of transactions of large amount.
<b>B</b>	Considerable risk	Transaction needs guarantor.
<b>C</b>	Huge risk	Transactions should be based on cash only.
<b>D</b>	Absolute risk	No transaction is suggested.

When rating the credit situation of the subject company, we take all aspects of the subject company into consideration, including firm size, background, history of its development, and its relative fiscal and operation record compared to companies in the same industry. We also consider credit situation of the subject company and the outlook of the whole industry.

**2. Notes on the suggested line of credit:**

Our rating can be the basis upon which our customer can evaluate the credit condition of and the potential line of credit can be offered to the subject company. The ranking of credit is based on the following five factors, each of which has different weight:

- ✓ Ownership of the company/background of the management personnel (20%)
- ✓ Fundamentals of operation and its competitiveness (20%)
- ✓ Outlook of the industry (15%)
- ✓ Fiscal and financial situation (30%)
- ✓ Credit rating from outside of the company, i.e. from its business partners (15%)

**3. N/A indicates no relevant information can be found.**