
REGULATORY ENVIRONMENT

REGULATORY ENVIRONMENT OF THE PRC

Overview

The Company operates in China and our securities business, futures business and investees are subject to the applicable regulations of China in the areas of industry entry, business regulation, corporate governance and risk control. Moreover, our operations are also subject to other regulations of China in general, including laws, rules, regulations and other statutory documents in respect of foreign exchange control and anti-money laundering.

Major Regulatory Authorities

The operation of the Company is mainly supervised and regulated by the following Chinese government authorities:

CSRC

Pursuant to the latest revised Securities Law of the People's Republic of China (中華人民共和國證券法) ("Securities Law") which was effective from January 1, 2006, the CSRC is responsible for supervision and management of the securities markets and maintaining the order thereof so as to secure their lawful operations. The main duties of the CSRC are as follows:

- to formulate the rules and regulations in relation to the supervision and management of the securities markets and to exercise the right of examination and approval;
- to supervise and regulate the issuance, listing, trading, registration, deposit and settlement of securities;
- to supervise and regulate the securities business of issuers, listing companies, securities companies, securities investment funds management companies, securities services entities, stock exchanges and securities registration and settlement entities;
- to determine the qualification and code of conduct of securities business personnel and to supervise their implementation;
- to supervise and examine the disclosure of information in relation to issuance, listing and trading of securities;
- to regulate and supervise the activities of the Securities Association of China;
- to investigate and punish for activities in violation of the laws and administrative rules in relation to the supervision and management of the securities markets; and
- to perform other duties stipulated in the applicable laws and administrative rules.

SAC

The SAC is a self-regulatory organization established under the Securities Law and is a non-profit legal entity. The SAC is subject to the guidance and supervision of the CSRC. The SAC regulates the securities industry through its general meeting of members which are mainly securities companies. Its main duties are as follows:

- to educate and procure its members to comply with the securities laws and administrative rules;

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- to protect the legal interests of its members and reflect their proposals and requests to the securities supervision and management authorities;
- to compile information of securities activities for members' reference;
- to formulate the rules of the SAC for members' compliance and to organize training programs and seminars for the practitioners of its members;
- to mediate disputes arising from securities business between members and between members and their clients;
- to organize the study of the development, operation and other matters of the securities industry for its members;
- to monitor and investigate the conduct of members and take disciplinary actions against the violation of laws, administrative rules or its articles of association; and
- to perform other duties stipulated in the articles of association of the SAC.

Pursuant to the Futures Trading Management Regulations (期貨交易管理條例), which was promulgated on March 6, 2007 and amended on October 24, 2012, the CSRC is responsible for the supervision and management of the futures market and performs the following duties:

- to formulate the rules and regulations in relation to the supervision and management of the futures markets and to exercise the right of examination and approval;
- to supervise and regulate the listing, trading, settlement, delivery of futures and related activities;
- to supervise and regulate the futures business of market participants, including the futures exchanges, futures companies, other futures business entities, non-futures companies clearing houses, futures margin deposit supervisory entities, futures margin depository banks and settlement houses;
- to determine the qualification and code of conduct of futures practitioners and to supervise their implementation;
- to supervise and examine the disclosure of information of futures trading;
- to regulate and supervise the activities of the China Futures Association;
- to investigate and punish for activities in violation of the laws and administrative rules in relation to the supervision and management of the futures markets;
- to liaise and cooperate with its international counterparts in relation to the supervision and management of the futures markets; and
- to perform other duties stipulated in the applicable laws and administrative rules.

CFA

The CFA is a legal self-regulatory entity of the futures industry. The CFA performs the following duties pursuant to the Futures Trading Management Regulations (期貨交易管理條例):

- to educate and procure its members to observe the laws, regulations and policies in relation to futures;

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- to formulate self-regulatory rules and supervise and investigate the compliance of its members and to take disciplinary actions against the violation of its articles of association and self-regulatory rules;
- to accredit, manage and de-register the qualifications of futures practitioners;
- to deal with complaints in relation to the futures business and to mediate disputes between members and between members and their clients;
- to protect the legal interests of its members and reflect their proposals and requests to the futures supervision and management authorities of the State Council;
- to organize professional training and seminars for the futures practitioners;
- to organize the study of the development, operation and other matters of the futures industry for its members; and
- to perform other duties stipulated in the articles of association of the CFA.

Stock Exchange

Under the Securities Law, a stock exchange is a self-regulatory legal entity which provides venues and facilities for centralized trading of securities and organizes and supervises trading of securities. According to the Securities Law and the Measures for the Administration of Stock Exchange (證券交易所管理辦法), which was effective from December 12, 2001, the main duties of a stock exchange are as follows:

- to provide venues and facilities for the trading of securities;
- to formulate the rules of stock exchange;
- to accept applications for and to arrange the listing of securities;
- to organize and supervise the trading of securities;
- to supervise its members;
- to supervise the listed companies;
- to establish securities registration and settlement facilities;
- to manage the disclosure of market information;
- to handle suspension of listing, resumption of listing and delisting of shares and corporate bonds;
- to adopt remedial measures in case of emergency, including technical suspension and temporary suspension of trading; and
- to perform other duties permitted by the CSRC.

Futures Exchange

Under the Futures Trading Management Regulations (期貨交易管理條例), a futures exchange is a self-regulatory legal entity which provides venues and facilities for centralized trading of futures and organizes and supervises the trading of futures. The main duties of a futures exchange are as follows:

- to provide venues, facilities and services for trading;

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- to standardized futures trading contracts and to arrange the listing of futures trading contracts;
- to organize and supervise the trading, clearing and settlement of futures;
- to ensure the completion of contracts;
- to supervise its members in accordance with its articles of association and trading rules; and
- to perform other duties as specified by the futures supervision and management authorities of the State Council.

According to the Measures for the Administration of Futures Exchange (期貨交易所管理辦法), which was effective from April 15, 2007, a futures exchange shall also fulfill the duties as follows:

- to enact and implement the trading rules and implementing regulations of the futures exchange;
- to announce market information;
- to regulate members and their clients, specified settlement houses, futures margin depository banks and the futures businesses of other participants in the futures market; and
- to investigate and punish irregularities.

Other Industry Self-regulatory Authorities

Other industry self-regulatory authorities primarily include China Securities Depository and Clearing Corporation Limited, China Securities Investor Protection Fund Corporation Limited, China Futures Margin Monitoring Center Co., Ltd. and China Securities Finance Corporation Limited.

Major Applicable Laws and Regulations and Regulatory Documents

The securities law and regulation system of the PRC is divided into three levels:

Laws

Laws are stipulated by the National People's Congress or its Standing Committee. Under the securities law system, securities laws have supreme legal authority besides the PRC Constitution (中華人民共和國憲法) (the "Constitution"). The current securities laws in effect include the Securities Law of the People's Republic of China (中華人民共和國證券法) (the "Securities Law"), (effective from January 1, 2006), the Company Law of the People's Republic of China (中華人民共和國公司法) (the "Company Law"), (effective from January 1, 2006) and the Securities Investment Funds Law of the People's Republic of China (中華人民共和國證券投資基金法) (the "Securities Investment Funds Law"), (approved on October 28, 2003, amended on December 28, 2012 and effective from June 1, 2013).

- The Securities Law stipulates requirements on issuing and trading of securities, disclosure of listing information, acquisition of listed companies, prohibited trading, stock exchange, securities companies and securities service organizations, securities depository and clearing companies, securities associations and securities supervision and management authorities, and the liabilities for violation of the law.

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- The Company Law stipulates requirements on the establishment, merger, division and change in capital of companies, corporate governance and establishment of organization, transfer of equity of companies, issue of shares of companies with limited liabilities, qualifications and obligations of the directors, supervisors, senior management of companies, and the liabilities for violation of law.
- The Securities Investment Funds Law stipulates requirements on fund managers, fund custodians, fundraising, operation and information disclosure, the rights of fund holders and the means of holding, and the liabilities for violation of the law.

Administrative Regulations

Administrative regulations are stipulated by the State Council, the supreme administrative authority of the PRC, in accordance with the Constitution and relevant laws. The legal effect is subordinate to the laws. In particular, the Regulations on Management of Futures Trading (期貨交易管理條例) (promulgated on March 6, 2007 and amended on October 24, 2012) are a comprehensive amendment to the Provisional Regulations on Management of Futures Trading (期貨交易管理暫行條例) (promulgated on June 2, 1999). The regulations stipulate control measures on trading of commodity futures and financial futures and secure the legal interest of the futures trading parties and interest of the public. The regulations also set out standardized control measures and requirements for launch of trading products to the markets, qualification of principal entity, trading types, trading rules, information disclosure and risk prevention. The Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) (effective from June 1, 2008) and the Regulations on Risk Handling of Securities Companies (證券公司風險處置條例), which were promulgated on April 23, 2008, aim to safeguard the legal interest of the investors and set out detailed requirements for the regulation and supervision of securities companies.

Departmental regulations and regulatory documents

Departmental regulations and regulatory documents are formulated by the PRC securities regulatory authorities in accordance with the laws and administrative rules. The legal effect of these departmental regulations and regulatory documents is subordinate to the laws and administrative rules. They regulate aspects such as industry management, corporate governance, business operation, risk prevention and information disclosure.

Regulations in respects of industry management mainly include:

- the Tentative Provisions for the Examination and Approval of the Scope of Business of Securities Companies (證券公司業務範圍審批暫行規定) (effective from December 1, 2008);
- the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) (promulgated on June 1, 2002 and amended on December 28, 2007 and October 11, 2012);
- the Provisional Regulatory Requirements on Establishment of Subsidiaries of Securities Companies (證券公司設立子公司試行規定) (effective from January 1, 2008 and amended on October 11, 2012);
- the Supervisory Provisions on Branches of Securities Companies (證券公司分支機構監管規定) (effective from March 15, 2013);

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- the Administrative Measures for Futures Companies (期貨公司管理辦法) (effective from April 15, 2007);
- the Management Measures on Qualifications of Securities Practitioners (證券業從業人員資格管理辦法) (effective from February 1, 2003);
- the Regulatory Measures on Qualifications of Directors, Supervisors and Senior Management of Securities Companies (證券公司董事、監事和高級管理人員任職資格監管辦法) (promulgated on October 20, 2006 and amended on October 19, 2012);
- the Management Measures on Futures Practitioners (期貨從業人員管理辦法) (effective from July 4, 2007); and
- the Management Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (期貨公司董事、監事和高級管理人員任職資格管理辦法) (effective from July 4, 2007).

Regulations in respects of corporate governance mainly include:

- the Rules for Governance of Securities Companies (證券公司治理準則) (promulgated on December 11, 2012 and effective from January 1, 2013);
- the Provisional Regulatory Requirements on Compliance Management of Securities Companies (證券公司合規管理試行規定) (effective from August 1, 2008);
- the Guidance for the Internal Control of Securities Companies (證券公司內部控制指引) (effective from December 15, 2003); and
- the Guidance for the Internal Control of Margin Financing and Securities Lending of Securities Companies (證券公司融資融券業務內部控制指引) (promulgated on June 30, 2006 and amended on October 26, 2011).

Regulations in respects of business operation mainly include:

- the Provisional Administrative Measures of Securities Brokers (證券經紀人管理暫行規定) (effective from April 13, 2009);
- the Management Measures on Securities Issuance and Underwriting (證券發行與承銷管理辦法) (passed on September 11, 2006 and amended on May 18, 2012);
- the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法) (passed on August 14, 2008 and amended on May 13, 2009);
- the Administrative Measures on Client Asset Management of Securities Companies (證券公司客戶資產管理業務管理辦法) (effective from October 18, 2012);
- the Administrative Measures on Asset Securitization of Securities Companies (證券公司資產證券化業務管理規定) (effective from March 15, 2013);
- the Management Measures on Sales of Securities Investment Funds (證券投資基金銷售管理辦法) (effective from October 1, 2011, further amended on February 17, 2013 and implemented from June 1, 2013);
- the Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and Relevant Matters (關於證券公司證券自營業務投資範圍及有關事項的規定) (promulgated on April 29, 2011 and amended on November 16, 2012);

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- the Provisional Measures on Management of Investment Consultations on Securities and Futures (證券、期貨投資諮詢管理暫行辦法) (effective from April 1, 1998);
- the Tentative Provisions on the Securities Investment Advisor Business (證券投資顧問業務暫行規定) (effective from January 1, 2011);
- the Tentative Measures on the Administration of Evaluation Businesses of Securities Investment Funds (證券投資基金評價業務管理暫行辦法) (effective from January 1, 2010);
- the Management Measures on Margin Financing and Securities Lending of the Securities Companies (證券公司融資融券業務管理辦法) (promulgated on June 30, 2006 and amended on October 26, 2011);
- the Provisional Measures on the Supervision and Management of Refinancing Business (轉融通業務監督管理試行辦法) (effective from October 26, 2011);
- the Guidelines on Securities Companies Participating in Stock Index Futures Trading (證券公司參與股指期貨交易指引) (effective from April 21, 2010);
- the Provisional Measures on Securities Companies Providing Intermediary Business for Futures Companies (證券公司為期貨公司提供中間介紹業務試行辦法) (effective from April 20, 2007);
- the Guidelines on Supervision and Administration of Direct Investment Business of Securities Companies (證券公司直接投資業務監管指引) (effective from July 8, 2011);
- the Provisional Measures on Management of Investing in Overseas Securities by Qualified Domestic Institutional Investors (合格境內機構投資者境外證券投資管理試行辦法) (effective from July 5, 2007); and
- the Tentative Provisions on Public Securities Investment Fund Management Business Operated by Asset Management Institutions (資產管理機構開展公募證券投資基金管理業務暫行規定) (promulgated on February 18, 2013 and effective from June 1, 2013).

Regulations in respects of risk prevention mainly include:

- the Regulations on Classification of Securities Companies (證券公司分類監管規定) (promulgated on May 26, 2009 and amended on May 14, 2010);
- the Administrative Measures for Risk Control Indicators of Securities Companies (證券公司風險控制指標管理辦法) (promulgated on July 5, 2006 and amended on June 24, 2008);
- the Regulations on Calculation Standard for Risk Capital Reserve of Securities Companies (關於證券公司風險資本準備計算標準的規定) (promulgated on June 24, 2008 and amended on April 11, 2012 and November 16, 2012); and
- the Administrative Measures on Risk Supervision Standards of Futures Companies (期貨公司風險監管指標管理辦法) (promulgated on April 18, 2007, amended on February 21, 2013 and effective from July 1, 2013).

Regulations in respects of information disclosure mainly include:

- the Notice on the Relevant Issues Regarding the Information Disclosure of Securities Companies (關於證券公司信息公示有關事項的通知) (effective from July 25, 2006);

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- the Rules on the Content and Format of Annual Reports of Securities Companies (證券公司年度報告內容與格式準則) (effective from January 14, 2008); and
- the Regulations on Management of Information Publication of Futures Companies (期貨公司信息公示管理規定) (effective from November 16, 2009).

Industry Entry Requirements

Industry Entry Requirements for Securities Companies

(1) Establishment

The Securities Law and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) stipulate the authorized business scope of securities companies, establish industry entry standards and other requirements. Establishment of securities companies shall be approved by the CSRC and business license shall be obtained subject to the following conditions:

- its articles of association shall comply with the laws and administrative rules;
- the major shareholders shall have sustainable profitability, good reputation and no record of major violation of laws or regulations during the latest three years and shall have net assets of not less than RMB200 million;
- it shall have the registered capital required by the Securities Law. For a securities company operating the securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment, the minimum registered capital shall be RMB50 million; for companies operating one of the securities underwriting and sponsorship, proprietary securities trading, securities assets management or other securities businesses, the minimum registered capital shall be RMB100 million; for companies operating two or more of the securities underwriting and sponsorship, proprietary securities trading, securities assets management and other security businesses, the minimum registered capital shall be RMB500 million;
- its directors, supervisors, senior management shall have the qualification while other personnel involved in securities business shall have the proper professional qualifications, and no less than three of them shall have been serving as senior management officers for not less than two years in the securities industry;
- it shall have effective risk management system and internal control system;
- it shall have proper premises and facilities for operation; and
- other conditions stipulated by laws, administrative rules and the CSRC that are approved by the State Council.

The Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) explicitly sets out the conditions and procedures for establishment of foreign-invested securities companies. The aggregate direct and indirect shareholdings of foreign shareholders or their interests in a foreign-invested securities company shall not exceed 49%. At least one of the domestic shareholders shall have a shareholding or an interest in a foreign-invested securities company of not less than 49%. If a domestic securities company converts into a foreign-invested securities company, at least one of the domestic shareholders shall have a shareholding in the foreign-invested securities company of no less than 49%. Foreign investors may hold shares in a listed domestic securities

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company through legal securities trading on the security exchange or by establishing a strategic partnership with a listed domestic securities company and holding their shares subject to the approval of the CSRC. The approved business scope of the listed domestic securities company shall remain unchanged. If the controlling shareholder of a listed domestic securities company is a domestic shareholder, the listed domestic securities company shall be exempted from the shareholding requirement of a single domestic shareholder of not less than 49%. Foreign investors who lawfully hold 5% or more of the shares in a listed domestic securities company through securities trading on a security exchange or who jointly hold 5% or more of the shares in a listed domestic securities company with others by agreement and other arrangement shall be approved by the CSRC. The direct and indirect shareholdings of a foreign investor in a listed domestic securities company shall not exceed 20%. The aggregate direct and indirect shareholdings of all foreign investors in a listed domestic securities company shall not exceed 25%.

A foreign-invested securities company shall fulfill the following conditions:

- it shall have the registered capital as required by the Securities Law;
- its shareholders shall have the qualifications as prescribed in the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則), and their shareholdings and capital contribution shall comply with the Rules;
- it shall have not less than 30 personnel who are qualified to participate in securities business as required by the CSRC and shall have qualified accountants, legal counsels and IT technicians;
- it shall have effective centralized internal management and risk control systems and individual systems for the management of organization, personnel, information and operation of underwriting, brokerage and proprietary trading. It shall also have a proper internal control system;
- it shall have the required premises and facilities for operation; and
- other prudent requirements by the CSRC.

In addition, according to the Guidelines on Administrative Approval for Securities Companies No.10—Increase and Change in Equity Interest of Securities Companies (證券公司行政許可審核工作指引第10號 — 證券公司增資擴股和股權變更) promulgated on June 17, 2011, if an enterprise that is directly or indirectly owned by a foreign investor invests in a securities company, the equity interest of the foreign investor in the securities company shall not be more than 5%. The indirect equity interests of a foreign investor in a securities company shall be exempted from such restriction if all the following conditions are satisfied:

- The foreign investor indirectly holds equity interest in the securities company through a listed company;
- The largest shareholder, controlling shareholder or de facto controller of the listed company is a Chinese investor;
- If there is a change in the equity structure of the listed company resulting in the violation of the indirect shareholding requirement of a foreign investor in the securities company through the listed company, the matter shall be rectified within a specified period. The relevant equity interest shall carry no voting right after the period if the matter is not rectified; and

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- The foreign investor shall be prohibited from establishing any joint venture securities company with a domestic securities company or make strategic investment in a listed securities company as long as the foreign investor indirectly owns not less than 5% of the equity interest in one or more domestic securities companies.

(2) Business Scopes

According to the Securities Law, upon approval of the CSRC, a securities company can engage in some or all of the following businesses:

- securities brokerage;
- securities investment consultation;
- financial advisory in relation to securities trading and securities investment activities;
- securities underwriting and sponsorship;
- proprietary securities trading;
- securities assets management; and
- other securities businesses.

According to the Tentative Provisions for the Examination and Approval of the Scope of Business of Securities Companies (證券公司業務範圍審批暫行規定), securities companies which are under common control of the same entity or under individual or mutual control of each other shall not engage in the same business, unless the relevant companies adopt effective measures to clearly define their respective operating regions or target clients and there shall be no competition between the companies. Unless otherwise provided for by the CSRC, the business scope of the securities company is subject to the approval of the CSRC according to the statutory provisions upon its establishment and no more than four types of business of such company shall be approved. The securities company shall obtain approval from the CSRC for any change of the business scope while the number of additional types of business to be applied for shall not exceed two. Subject to the approval by the CSRC, securities company may operate the business not clearly stated in the Securities Law, the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) and the rules and regulations of the CSRC.

In addition, the securities company shall obtain an independent licence and approval for the provision of margin financing and securities lending service and sales of securities investment funds.

According to the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則), foreign-invested securities companies may carry out the following business:

- underwriting and sponsorship of shares (including RMB ordinary shares and foreign-invested shares) and bonds (including government bonds and corporate bonds);
- brokerage of foreign-invested shares;
- brokerage and proprietary trading of bonds (including government bonds and corporate bonds); and
- any other businesses approved by the CSRC.

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(3) Material Changes

According to the requirements of the Securities Law and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例), approval from the CSRC shall be obtained for the establishment, acquisition or de-registration of a branch under a securities company, or change of the business scope or registered capital, or change of any shareholder holding more than 5% of the shares, or change of de facto controller, or change of important provisions of the articles of association of the company, or any merger, division, change of incorporation, cessation, dissolution and bankruptcy.

The CSRC has gradually authorized its local branches to review and approve some kind of applications for material changes by securities companies. In October 2012, according to the Decision of the State Council in Relation to the Cancellation and Adjustment of the Sixth Group of Items Requiring Administrative Approval effective from September 23, 2012, the authority of reviewing and approving the following material changes of securities companies was formally entrusted with the CSRC's local branches:

- change of important provisions of the articles of association of the company;
- establishment, acquisition or de-registration of a branch;
- some items regarding change of the registered capital, including the review and approval of the qualification of substantial shareholders or the controller de facto, or the change of controller de facto, controlling shareholder or the shareholder with largest shareholding of an unlisted securities company in connection with increase of its registered capital, and approval of decrease of registered capital by an unlisted securities company;
- a change of shareholder(s) with more than 5% of shareholdings and de facto controller of an unlisted securities company; and
- increase or decrease in the business of securities brokerage, securities investment consultation and financial advisory in relation to securities trading and securities investment, proprietary securities trading, securities assets management and securities underwriting.

(4) Establishment of Subsidiaries and Branches

According to the Provisional Regulatory Requirements on Establishment of Subsidiaries of Securities Companies (證券公司設立子公司試行規定), subject to the approval of the CSRC, securities companies may establish wholly-owned subsidiaries and invest jointly in the establishment of subsidiaries with other investors who meet the requirements for shareholders of securities companies stipulated in the Securities Law. However, operation of similar businesses which have a conflict of interest or competition is not allowed for a securities company and its subsidiaries and for subsidiaries under common control of the same securities company.

The Regulatory Requirements on Branches of Securities Companies (證券公司分支機構監管規定) provide that branches shall refer to branches established by the securities companies in the PRC for business operation. Approval from securities regulatory bureaus authorized by the CSRC must be obtained for the establishment, acquisition and de-registration of branches of securities companies. Application documents for the establishment and acquisition of branches by the securities companies shall be submitted to the securities regulatory bureaus where the securities companies are located. Application documents for the de-registration of branches shall be submitted to the securities

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regulatory bureaus where the branches are located. According to the Regulatory Requirements on Branches of Securities Companies (證券公司分支機構監管規定), securities companies shall meet the following requirements in order to establish branches: have sound governance structure and effective internal management, capable of controlling the risks of branches which are already established or to be established; risk control indicators have been in compliance with relevant rules for the most recent year and those indicators will remain compliant after the additional branches are established; not being subject to administrative or criminal penalties for any material breach of rules or regulations for the most recent two years, no material regulatory measures was imposed for the most recent year, no current investigation for any branch-related activities based on alleged material breach of rules or regulations; have secure and stable information technology system, no material information technology accident had occurred during the most recent year; existing branches are under good management.

Entry Requirements for Futures Companies

(1) Establishment

The Futures Trading Management Regulations (期貨交易管理條例) and the Administrative Measures for Futures Companies (期貨公司管理辦法) set out the industry entry standards for futures companies. Establishment of futures companies shall be approved by the CSRC subject to the following conditions:

- the minimum registered capital is RMB30 million;
- directors, supervisors and senior management shall be qualified for their positions while practitioners shall have futures practice qualifications;
- the articles of association of the company shall comply with the requirements of laws and administrative rules;
- major shareholders and the de facto controller shall have sustained profitability, good reputation, and no record of material violation of law or regulation in the last three years;
- premises and operation facilities shall be up to standard;
- risk management and internal control system shall be satisfactory; and
- other conditions as stipulated by the CSRC.

According to the Provisions on Issues Relating to the Regulation of Controlling Interests and Equity Interests in Futures Companies (關於規範控股、參股期貨公司有關問題的規定), which was effective from June 1, 2008, an entity shall not hold controlling interests and equity interests in more than two futures companies and shall not hold controlling interests in more than one futures company.

(2) Material Changes

According to the Administrative Measures for Futures Companies (期貨公司管理辦法), approval of the CSRC shall be obtained for change of shareholdings in any of the situations below:

- shareholding of an individual shareholder to be increased to 5% or above, or the aggregate shareholding of an associated shareholder to be increased to 5% or above;
- shares to be transferred to shareholders holding 5% or above of the shares, or to associated shareholders holding 5% or above of the shares in aggregate.

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According to the Decision of the State Council in Relation to the Cancellation and Adjustment of the Sixth Group of Items Requiring Administrative Approval (國務院關於第六批取消和調整行政審批項目的決定) effective from September 23, 2012, no approval is required for changes of shareholdings of more than 5% in futures companies which do not involve any shareholder whose shareholding is increased to more than 5% and result in any change of controlling shareholders and the largest shareholder.

Any change of registered capital of a futures company shall be reviewed and approved by the CSRC. If a futures company changes its legal representative, the futures company shall submit an application to the local branch office of the CSRC. If a futures company changes its address, it shall submit an application to the branch office of the CSRC at the place where it is to be relocated. If a futures company closes its business, it shall submit an application to the CSRC. For any establishment, change, dissolution, bankruptcy, revocation of the futures business licence of a futures company or the establishment, change or termination of its operation branches, the futures company shall announce the same on the press or media as designated by the CSRC.

(3) Establishment of Operation Branches

According to the Administrative Measures for Futures Companies (期貨公司管理辦法), the Administrative Regulations for Operation Branches of Futures Companies (期貨營業部管理規定 (試行)) and the Regulations on the Relevant Issues on Further Regulating the Establishment of Operation Branches of Futures Companies (關於進一步規範期貨營業部設立有關問題的規定), if a futures company applies for the establishment of an operation branch, it shall comply with relevant conditions and submit an application to the branch office of the CSRC at the place where the proposed operation branch is to be established.

Market Entry Requirements for Direct Investment Company

(1) Establishment

According to the provisions of the Guidelines on Supervision and Administration of Direct Investment Business of Securities Companies (證券公司直接投資業務監管指引) and the Guidelines on the Provisional Guideline for Direct Investment Business of Securities Companies (證券公司直接投資業務試點指引), a securities company shall meet the following requirements in order to establish a direct investment subsidiary:

- The articles of association of the company shall clearly set out the right to establish direct investment subsidiaries in its major provisions in regard to investment;
- It has relatively strong capital and risk management under a sound Net Capital replenishment system. It is categorized as “Grade B of Group B” or above in the last classification and evaluation and the Net Capital in each of the last 12 months is not less than RMB1.5 billion. Sensibility analysis and pressure tests on the Net Capital indicator are conducted to ensure that all of the risk control indicators continue to meet the requirements after the establishment of the direct investment subsidiary;
- The business complies with the laws and regulations without material violation where rectification is required;
- The amount invested in the direct investment subsidiary, direct investment fund, industry fund and fund management organ shall not exceed 15% of the Net Capital of the company. Reduction shall be made to the Net Capital based on relevant regulations;

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- Be independent from the direct investment subsidiary with respect to personnel, institution, finance, assets, management, business operation. No interference shall be allowed for the investment decision of the direct investment subsidiary;
- It has a comprehensive internal control system and good risk control mechanisms to control risks and compliance effectively, avoiding a conflict of interest with the direct investment subsidiary and the risk of transfer of benefits;
- The website of the company shall disclose the policies for carrying out the direct investment business and the detailed arrangements to avoid a conflict of interest with the direct investment subsidiary. A report mailbox and a complaint hotline shall be set up;
- The company and its relevant departments may, upon approval from the CSRC, conduct direct investment business on behalf of the direct investment subsidiary or by any other means;
- A direct investment subsidiary, direct investment fund, industry fund and fund management institution of the company which is the counseling institute, financial advisor, sponsoring institute or main underwriter of a to-be-listed company shall not invest in the said company after the signing of the relevant agreement or the commencement of the relevant business; and
- Reinforced personnel management shall be carried out to prevent personnel from investment banks and other practitioners from engaging in unauthorized direct investment business. Sponsor representatives of the company and other personnel from investment banks shall guarantee their due diligence in writing. No inappropriate requirements shall be made to the issuer. Personnel should not take advantage of their positions for the benefit of themselves or others.

A securities company that holds controlling interests in other security companies is allowed to establish only one direct investment subsidiary under its parent company.

(2) Scope of Business

Pursuant to the Guidelines on Supervision and Administration of Direct Investment Business of Securities Companies (證券公司直接投資業務監管指引), a direct investment subsidiary is restricted to engage in the following business:

- investment in the shareholdings of domestic enterprises with its own funds;
- provision of financial advisory service on equity investment to clients;
- establishment of direct investment fund to raise and manage capital from clients for equity investment;
- investment in securities with low risk but high liquidity by using idle capital, such as MOF bonds, investment grade corporate bonds, money market funds and central bank bills, and securities investment funds, collective asset management plans or targeted asset management plans for the purpose of cash management provided that effective control of risk and continuous liquidity are maintained; and
- other businesses as approved by the CSRC.

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Regulation on Operations

The securities and related business we currently engage in includes, but is not limited to, securities brokerage, proprietary securities trading, securities underwriting and sponsorship, asset management, securities investment consulting, financial advisory relating to securities trading and securities investment activities, margin financing and securities lending, agency sale of financial products, futures brokerage, futures investment consulting, stock index futures, provision of futures intermediary business, securities investment fund distribution. In addition, we may launch public securities investment fund management business soon pursuant to relevant provisions of the CSRC.

Securities Brokerage

The Securities Law and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) provide that a securities company engaging in securities brokerage business may appoint a person other than those of the securities company as a securities broker to solicit clients and provide client services on behalf of the company. For a securities company that engages in the business of securities brokerage, the trading settlement funds of its client shall be deposited in a designated commercial bank, and a separate account shall be opened and managed for each of the clients. The securities company shall not accept authorization to engage in discretionary securities trading on its client's account.

The Provisional Administrative Measures of Securities Brokers (證券經紀人管理暫行規定), which was effective from April 13, 2009, provides detailed requirements for the qualification and activities of securities brokers.

Proprietary Securities Trading

The Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) states that securities companies engaging in proprietary securities trading shall be limited to the trading of publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authorities of the State Council. A securities company that engages in proprietary securities trading business shall register under the name of the proprietary securities account. The securities company shall conduct its proprietary trading business in its own name and with its own funds or funds lawfully raised. Its risk control indicators such as the proportion of the total value of proprietary securities to the Net Capital of the company, the proportion of the value of a single security to the Net Capital of the company, the proportion of the amount of a single security to the total amount of issued securities, shall comply with the requirements of the CSRC.

The Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and Relevant Matters (關於證券公司證券自營業務投資範圍及有關事項的規定) and its annex, the List of Investment Products of Proprietary Trading Business of Securities Companies (證券公司證券自營投資品種清單), further clarify the investment scopes of the proprietary securities business of securities companies. The trading of the following securities is permitted for the securities company that engages in proprietary securities business:

- securities which have been or may be legally listed, traded and transferred on a domestic stock exchange;

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- securities which have been listed and transferred on the national SME share-transfer system;
- private placement bonds which have been or may be legally listed and transferred on qualified regional equity trading markets, and shares which have been listed and transferred on qualified regional equity trading markets;
- securities which have been or may be legally traded on the domestic interbank market; and
- securities issued with the approval of the national financial regulatory department or its authorized bodies or after filing with the national financial regulatory department or its authorized bodies and traded over the counter at domestic financial institutions.

A securities company may establish subsidiaries to invest in financial products other than those listed in the List of Investment Products of Proprietary Trading Business of Securities Companies (證券公司證券自營投資品種清單). To establish such a subsidiary, a securities company shall be qualified for the proprietary trading business and obtain an approval from the branch of the CSRC where the company is located on the condition that no financing or guarantee shall be provided for such subsidiary.

A securities company which is qualified to engage in proprietary securities trading business is allowed to conduct trading of financial derivative products, whereas a securities company without the qualification for proprietary securities trading business is only allowed to conduct trading of financial derivative products for the purpose of hedging exposure.

Securities Underwriting and Sponsoring

According to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法), securities companies shall satisfy relevant conditions and apply for the sponsoring institution qualification from the CSRC in accordance with the regulations, so as to engage in securities issuance, listing and sponsoring business. Sponsoring institutions should designate an individual, who has obtained sponsor representative qualification, to be responsible for sponsorship duties, so as to discharge sponsorship responsibilities. Issuers should employ securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for the following matters:

- initial public offering and listing;
- issue of new shares or convertible corporate bonds of a listing company; and
- other matters as approved by the CSRC.

To apply for sponsoring institution qualification, securities companies shall meet the following conditions:

- have registered capital of not less than RMB100 million, and Net Capital of not less than RMB50 million;
- have comprehensive corporate governance and internal control systems, and the risk control indicators shall be in compliance with the relevant provisions;
- the sponsoring business department shall have comprehensive business procedures, internal risk assessment and control systems and reasonable internal structure, and shall

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provide appropriate back-office support such as research capabilities and marketing capabilities;

- have excellent sponsoring business team and reasonable professional composition, the number of practitioners shall not be less than 35, including no less than 20 staff who have been working in sponsoring-related business in the last three years;
- no less than four personnel are qualified to be sponsor representatives;
- without any administrative penalties due to significant violation of laws and regulations in the last three years; and
- other conditions as set out by the CSRC.

If the aggregate equity interests held by a sponsoring institution and its controlling shareholder, de facto controller and important related party exceed 7% of the issuer's shares, or an issuer holds or controls more than 7% of the shares of the sponsoring institution, the institution shall perform the duties of sponsoring with an unrelated sponsoring institution upon sponsoring the listing of securities of the issuer, and such unrelated sponsoring institution shall be the major sponsoring institution.

The Management Measures on Securities Issuance and Underwriting (證券發行與承銷管理辦法) regulate the issuance of shares or convertible bonds in China by issuers, or underwriting of securities in China by the securities companies in various aspects including the quotation and pricing, sale of securities, underwriting of securities, and information disclosure. The securities company shall submit offering and underwriting plans to the CSRC prior to engaging in any underwriting activities.

Asset Management

The asset management business of securities companies is subject to the following laws and regulations: the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例), the Administrative Measures on Client Asset Management of Securities Companies (證券公司客戶資產管理業務管理辦法), which was effective from October 18, 2012, the Implementation Rules for the Targeted Asset Management Business of Securities Companies (證券公司定向資產管理業務實施細則), which was effective from October 18, 2012, the Implementation Rules of the Integrated Asset Management Business of Securities Companies (證券公司集合資產管理業務實施細則), which was effective from October 18, 2012, the Notice in relation to Strengthening Supervision on Asset Management Business of Securities Companies (關於加強證券公司資產管理業務監管的通知), which was effective from March 14, 2013, and the Administrative Measures on Asset Securitization of Securities Companies (證券公司資產證券化業務管理規定), which was implemented from March 15, 2013.

According to the Administrative Measures on Client Asset Management of Securities Companies (證券公司客戶資產管理業務管理辦法), securities companies engaging in client asset management shall have the relevant qualifications and shall apply to the CSRC for approval. Securities companies may undertake private asset management business for individual clients, collective asset management business for general clients and special asset management business for selected clients. Private asset management contracts shall be entered into with individual clients for private asset management and the assets shall be managed under a designated account. Collective asset management business shall be conducted under restrictive collective asset management plans and nonrestrictive collective asset management plans. Special asset management contracts shall be entered into with the

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client to specify the investment objectives catering to the requirements and asset structure of each individual client. Special asset management services shall be provided through a designated account or a collective asset management plan. Securities companies that have obtained the approval to conduct asset management business may undertake private asset management business. Approval of the CSRC is required for each special asset management business.

Upon implementation of the Notice in relation to Strengthening Supervision on Asset Management Business of Securities Companies (關於加強證券公司資產管理業務監管的通知) on June 1, 2013, securities companies are no longer able to formulate any collective investment management plan for over 200 new investors pursuant to the Administrative Measures on Client Asset Management of Securities Companies (證券公司客戶資產管理業務管理辦法). The Administrative Measures on Asset Securitization of Securities Companies (證券公司資產證券化業務管理規定) allow securities companies which are qualified for securities asset management to apply for establishing special projects and issuing asset-backed securities.

Securities Investment Consulting

According to the Provisional Measures on Management of Investment Consultations on Securities and Futures (證券、期貨投資諮詢管理暫行辦法), a firm which engages in securities investment consulting business shall obtain the necessary qualifications and a business licence from the CSRC. Practitioners of securities investment consulting shall obtain the relevant qualifications and provide securities investment consulting services under a qualified securities investment consulting institution.

According to the Tentative Provisions on the Securities Investment Advisor Business (證券投資顧問業務暫行規定), securities investment advisory business is the basis of the securities investment consulting business. A securities company and its investment advisors shall provide securities investment advisory services in good faith and shall not jeopardize the interests of clients by acting in favor of the company and its associates, investment advisors and their related parties, or other clients.

Margin Financing and Securities Lending

The Management Measures on Margin Financing and Securities Lending of the Securities Companies (證券公司融資融券業務管理辦法) clearly stipulates that approval shall be obtained from the CSRC for a securities company to engage in margin financing and securities lending businesses.

Securities companies that apply for the qualification to engage in margin financing and securities lending businesses must satisfy the conditions set out below:

- have a minimum operation history of three years in the securities brokerage business;
- have a sound system of corporate governance and effective internal control in place that enables the securities company to identify, control and prevent any potential operation risks and internal control risks;
- the securities companies and their respective directors, supervisors and senior management must not have been subject to any administrative and criminal penalties for any violation of relevant laws and regulations in their operation during the past two years, and may not be subject to any investigation or rectification, orders by the CSRC for any regulatory non-compliance;

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- have a sound financial position, with each of their risk control indicators in compliance with the relevant requirements for the most recent two years and their registered capital and Net Capital also in compliance with the requirements subsequent to the commencement of conducting the margin financing and securities lending business;
- clients' assets remain secured and intact with effective measures in place for clients' third-party fund depository, and clients' particulars remain true and intact;
- establishment of a comprehensive compliant-feedback mechanism that ensures the timely and due solution to any disputes with clients;
- maintain a stable information security system, with no material incidents occurring during the past year due to any management issues, and the systems designed for margin financing and securities lending business have been approved by applicable stock exchanges and registrars;
- have an appropriate number of senior management and professionals who are to be responsible for the margin financing and securities lending business, and the proposals and internal control system have been approved and accredited by the Securities Association of China; and
- any other conditions stipulated by the CSRC.

Securities companies engaging in margin financing and securities lending business shall open accounts in their own name at securities registrars, such as a special securities lending account, margin guarantee account, margin settlement account and margin capital settlement account. Such securities companies shall also open accounts at commercial banks, such as a special margin financing account and margin capital guarantee account. Securities companies shall, with reference to third-party custody of the clients' transaction settlement funds, enter into a margin custody agreement with their clients and commercial banks. The capital and securities provided by securities companies to their clients are limited to those in the special margin financing account and special securities lending account.

On November 25, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange announced the Implementation Rules of Shanghai Stock Exchange on Margin Financing and Securities Lending (上海證券交易所融資融券交易實施細則) and the Implementation Rules on Shenzhen Stock Exchange on Margin Financing and Securities Lending (深圳證券交易所融資融券交易實施細則) respectively. Such implementation rules specify the procedures for the launch of margin financing and securities lending business and underlying securities at Shanghai Stock Exchange and Shenzhen Stock Exchange.

On October 26, 2011, the CSRC promulgated the Provisional Measures on the Supervision and Management of Refinancing Business (轉融通業務監督管理試行辦法), which was effective from the same day. The measures regulate refinancing business in various aspects, including securities financing companies, rules on refinancing business, sources of capital and securities, deposit of interests and supervision and management.

Futures Brokerage, Futures Investment Consulting and Asset Management of Futures Companies

The Futures Trading Management Regulations (期貨交易管理條例) sets out a licensing system that applies to the business of futures companies. The CSRC is responsible for the issuance of licenses

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according to the types of business of commodity futures and financial futures. Apart from domestic futures brokerage business, futures companies may also apply for the business qualification to conduct business of overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC. Futures trading shall strictly comply with the deposits system. The futures company shall trade futures in its own name for its clients, who shall be solely liable to the transaction results, and shall not engage, directly or indirectly, in proprietary trading of futures. Eligible overseas institutions may trade designated types of futures in the Futures Exchanges.

The Rules on Management of Client Accounts Opening in Futures Market (期貨市場客戶開戶管理規定), promulgated by the CSRC on August 27, 2009 and amended on February 2, 2012, specifies the rules for opening accounts by the clients and management of clients' information by futures companies.

The Provisional Measures on Futures Investment Consulting Business by Futures Companies (期貨公司期貨投資諮詢業務試行辦法), which was effective from May 1, 2011, clearly states that futures companies shall obtain approval from the CSRC in order to be qualified to engage in futures investment consulting business. Staff conducting futures investment consulting business in futures companies shall obtain the practice qualification for futures investment consulting business.

The Measures on Pilot Asset Management Business of Futures Companies (期貨公司資產管理業務試點辦法), which became effective from September 1, 2012, explicitly stipulate that futures companies may only engage in pilot asset management business upon fulfillment of the relevant requirements and application for asset management business qualification from CSRC. Futures companies may provide asset management services to a single client or a group of targeted clients.

Stock Index Futures

The Guidelines on Securities Companies Participating in Stock Index Futures Trading (證券公司參與股指期貨交易指引) regulates the activities of securities companies participating in stock index futures trading. Securities companies that participate in the trading of stock index futures through proprietary securities business, collective asset management business, targeted asset management business and limited and specific asset management business shall comply with the rules of the China Financial Futures Exchange (“CFFE”) regarding hedging and a series of requirements. Securities companies that participate in stock index futures trading through proprietary securities business without the purpose of hedging shall obtain approval from the CSRC. Unless otherwise provided by the CSRC, special asset management business of securities companies shall not be involved in the trading of stock index futures.

The Guidelines on Securities Investment Funds Participating in Stock Index Futures Trading (證券投資基金參與股指期貨交易指引), which was effective from April 21, 2010, provides that equity funds, hybrid funds and capital preservation funds may participate in trading of stock index futures, while bond funds and money market funds are not allowed to participate in the trading of stock index futures. Saved for the special funds stipulated or approved by the CSRC, securities investment funds shall comply with the specific procedures and investment proportion limits when participating in stock index futures trading.

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The Guidelines on Qualified Foreign Institutional Investors Participating in Transaction of Stock Index Futures (合格境外機構投資者參與股指期貨交易指引), which was effective from May 4, 2011, provides that qualified investors participating in the trading of stock index futures shall only engage in hedging transactions and shall comply with the relevant requirements of the CFFE. Qualified investors participating in the trading of stock index futures shall open accounts, apply for hedging transactions and handle other matters according to the relevant requirements of the CFFE. Qualified investors, custodians and futures companies shall determine the trading and clearing modes of stock index futures trading participated by qualified investors in accordance with the relevant requirements of the CFFE.

Provision of Futures Intermediary Business (Provision of Intermediary Business to Futures Companies by Securities Companies)

According to the Provisional Measures on Provision of Intermediary Business to Futures Companies by Securities Companies (證券公司為期貨公司提供中間介紹業務試行辦法) and the Decision of the State Council in Relation to the Cancellation and Adjustment of the Sixth Group of Items Requiring Administrative Approval (國務院關於第六批取消和調整行政審批項目的決定), a securities company providing futures intermediary business to futures companies shall operate in a due and cautious manner through standardized departmental management of its futures intermediary business. Securities companies shall only engage in the provision of futures intermediary business to their wholly-owned or controlling futures companies, or futures companies with which they are under common control of the same entity. The provision of futures intermediary business to other futures companies is not allowed. Securities companies and futures companies shall be independent from each other and have separate accounts, staff and places of business. Securities companies shall not carry out futures trading, clearing, settlement or delivery for their clients, and they shall not receive or pay futures deposits for futures companies or clients, to save, withdraw or transfer futures deposits for clients with the securities capital accounts. Securities companies shall employ adequate qualified practitioners. Staff without the relevant futures practitioner qualifications shall not be allowed to participate in the futures intermediary business. Staff participating in the futures intermediary business in securities companies shall not take part in futures trading. Securities companies shall not, directly or indirectly, raise funds or provide guarantees for futures trading clients.

Agency Sale of Financial Product

According to the Administrative Provisions on the Agency Sale of Financial Products by Securities Companies (證券公司代銷金融產品管理規定) promulgated by the CSRC on November 12, 2012 and effective from the same day, a securities company shall be qualified for the agency sale of financial products and obtain an approval from the branch of the CSRC where the company is located in order to carry out the distribution of financial products. The branches of a securities company shall not carry out the distribution of financial products without permission. A securities company shall assess the eligibility of the client before promoting the financial products. The information given on the financial products shall be comprehensive, fair and accurate. Staff of a securities company who conduct the distribution of financial products shall have securities practice qualification.

Securities Investment Fund Distribution

According to the Management Measures on Sales of Securities Investment Funds (證券投資基金銷售管理辦法), which was effective from October 1, 2011, fund managers may engage in the sale of fund products they offer. Securities companies, commercial banks, securities investment

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consultants and independent fund distribution entities which apply for the qualification for fund distribution business from the CSRC shall satisfy the relevant conditions. Fund distribution entities may engage commercial banks or payment entities for the clearing of fund distribution business. Any person who is not appointed by fund distribution entities shall not take part in the fund distribution business. Staff participating in the fund distribution business such as promoters and maintenance technicians of information management platforms shall obtain qualification of fund distribution business. Fund distribution entities shall set up a comprehensive management system of fund holder accounts and capital accounts, an optimal system of fund depository and withdrawal procedures and authorization for fund holders, and a monitoring system for fund distribution. The Management Measures on Sales of Securities Investment Funds (證券投資基金銷售管理辦法) was amended on February 17, 2013 and will be effective on June 1, 2013. Futures companies and insurance institutions are included as fund distribution entities while branches of fund distribution entities are allowed to enter into sales agreements with fund managers directly.

Public Securities Investment Fund Management Business

According to the Tentative Provisions on Public Securities Investment Fund Management Business Operated by Asset Management Institutions (資產管理機構開展公募證券投資基金管理業務暫行規定) promulgated on February 18, 2013 by the CSRC, qualified securities companies may apply to the CSRC for launching fund management business from June 1, 2013 for approval. The Fund Management Qualification Certificate (基金管理資格證書) will be issued by the CSRC to qualified securities companies for carrying out fund management business.

Securities companies which carry out fund management business shall establish a specialized fund business department and formulate separate procedures for fund investment decision and relevant preventive systems in order to avoid transfer of benefits and conflict of interest. The securities companies shall also set up administration systems for fair trade and connected transaction and enhance their monitoring systems for fair trade and unusual transactions to ensure fair management of various assets and prevent insider trading. Securities companies which carry out fund management business shall also comply with the Securities Investment Funds Law, relevant laws and regulations and the requirements of the CSRC.

Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Companies

(1) Corporate Governance

Securities companies shall comply with the corporate governance requirements regarding the composition, operation, convening and voting procedures of shareholders' meeting, the board of directors and the supervisory committee as set out in the Company Law of the People's Republic of China (中華人民共和國公司法), the Securities Law of the People's Republic of China (中華人民共和國證券法), the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例), the Rules for Governance of Securities Companies (證券公司治理準則), the Guidance for the Internal Control of Securities Companies (證券公司內部控制指引) and the Notice on the Preparation for Internal Control Evaluation of Securities Companies (關於做好證券公司內部控制評審工作的通知) (promulgated on October 8, 2001).

Securities companies shall appoint independent directors. A securities company that engages in two or more businesses in securities brokerage, assets management, margin financing and securities

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lending, securities underwriting and sponsoring shall have a remuneration and nomination committee, an audit committee and a risk control committee under its board of directors to perform the duties and exercise the rights as specified in the articles of association of the company. The persons in charge of the remuneration and nomination committee and the audit committee shall be independent directors. A cumulative voting system is recommended for the election of directors (including independent directors) and supervisors of securities companies.

The Regulatory Measures on Qualifications of Directors, Supervisors and Senior Management of Securities Companies (證券公司董事、監事和高級管理人員任職資格監管辦法), which were adopted on October 20, 2006 and amended on October 19, 2012, specify the regulations on the qualifications of directors, supervisors and senior management. Each shall obtain the approval from the CSRC to hold the post before taking office. Out-of-office auditing shall be carried out in the event of resignation of the legal representative, senior management and persons in charge of branches according to the regulations of the CSRC.

(2) Risk Control

The Securities Law stipulates the following requirements for the risk control system of securities companies. The Investor Protection Fund shall be set up by the Chinese government. A securities company shall make provision for trading risk from the annual profits (after tax) to cover the loss of securities trading. It shall establish and enhance its internal control system, and adopt effective isolation measures to prevent conflicts of interest between the company and its clients and among different clients. Its securities brokerage business, securities underwriting business, proprietary securities business and securities assets management business shall be independent from one another, while mixed operations shall be prohibited. The transaction settlement funds of its clients shall be deposited in commercial banks and a separate account shall be opened and managed for each of the clients. It shall not categorize the transaction settlement funds or securities of the clients as its own property, and misappropriation of the transaction settlement funds or securities of clients by any unit or person through any means shall be prohibited.

The Regulations on Risk Handling of Securities Companies (證券公司風險處置條例) provide that the CSRC is responsible for the organization, coordination and supervision of risk handling in securities companies. In the event that the risk indicators of a securities company do not comply with the regulations or material risk arises, the CSRC shall adopt risk handling measures, including temporary closure for rectification, custody, takeover, administrative reorganization, bankruptcy, liquidation and restructuring.

Pursuant to the Regulations on Classification of Securities Companies (證券公司分類監管規定), the CSRC classifies the securities companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the evaluation results of risk control capability, competitiveness and compliance of securities companies in China. The CSRC provides different standards for risk control indicators and ratios of risk capital reserve for different types of securities companies. The CSRC also takes into account the classification when determining resources allocation, inspection frequency and licence approval for new business and branch. China Securities Investor Protection Fund Corporation Limited determines the revenue contribution of the securities companies to the Investor Protection Fund based on their classification.

Pursuant to the Administrative Measures for Risk Control Indicators of Securities Companies (證券公司風險控制指標管理辦法) (the “Measures for Risk Control Indicators”), a securities company shall

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prepare financial statements of its Net Capital and reserve of risk capital and risk control indicators, along with the calculation of the Net Capital and provisions of risk. Pursuant to the Measures for Risk Control Indicators, a securities company is required to maintain a minimum level of Net Capital that varies based on its business activities. For a securities company which engages in securities brokerage business, its Net Capital shall not be less than RMB20 million; for a securities company which engages in the business of securities underwriting and sponsorship, proprietary securities trading, assets management or other securities business, its Net Capital shall not be less than RMB50 million; for a securities company which engages in securities brokerage business as well as the business of securities underwriting and sponsoring, proprietary securities trading, securities assets management or other securities business, its Net Capital shall not be less than RMB100 million; and for a securities company which engages in two or more businesses of securities underwriting and sponsorship, proprietary securities trading, assets management and other securities business, its Net Capital shall not be less than RMB200 million. The Measures for Risk Control Indicators stipulates a warning ratio and a minimum regulatory ratio for risk control indicators that securities companies are required to comply with. The CSRC may make appropriate adjustments to the standards for risk control indicators and the ratio of risk capital reserve of a particular business according to the governance structure, the internal control and risk control of the securities companies.

The Regulations on Calculation Standard for Risk Capital Reserve of Securities Companies (關於證券公司風險資本準備計算標準的規定), which were promulgated on June 24, 2008 and amended on April 11, 2012 and November 16, 2012, stipulate different standards to calculate risk capital reserve for different businesses of a securities company and securities companies of different classifications.

Corporate Governance and Risk Control of Futures Companies

(1) Corporate Governance

The Administrative Measures for Futures Companies (期貨公司管理辦法) provide that the CSRC implements the qualification management system on the directors, supervisors, senior management and other futures practitioners of the futures companies and other futures operating institutions. The business, personnel, assets, finance and place of business of a futures company shall be strictly separated from those of its controlling shareholders and have independent operations and accounting.

The Management Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (期貨公司董事、監事和高級管理人員任職資格管理辦法), which were effective from July 4, 2007, further strengthen the management qualifications of the directors, supervisors and senior management of futures companies.

(2) Risk Control

According to the Futures Trading Management Regulations (期貨交易管理條例), a futures company engaging in futures brokerage and other futures business shall strictly implement the systems for separation of business and capital, while mixed operations are prohibited. The CSRC formulated regulations on the risk regulatory indicators such as the proportion of Net Capital to net assets, the proportion of Net Capital to the business scale of domestic futures brokerage and overseas futures brokerage, and the ratio of current assets and current liabilities of the futures companies. The CSRC also set out requirements on the operating conditions, risk management, internal control, depositories, related party transactions of the futures companies and their branches. A futures company shall set up risk management department or positions to manage and control its operating risks. It shall also set up

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compliance department or positions to review and examine its operation and management. A futures company is not allowed to operate and manage its business department through joint venture or cooperation with others, and the business department is not allowed to be contracted, leased or delegated to others for operation and management.

Pursuant to the Regulations on Classification and Supervision of Futures Companies (期貨公司分類監管規定), which was effective from April 12, 2011, the CSRC shall establish the Evaluation Committee for Classification and Supervision of Futures Companies to determine the classification of the futures companies according to the evaluation indicators. The Guidance on Further Strengthening the Management of Information Technologies of Futures Companies (關於進一步加強期貨公司信息技術管理工作的指導意見), which was effective from July 3, 2009, sets out requirements for the futures companies to control the technological and operating risks of the industry. The Regulations on the Relevant Matters regarding the Contribution of Futures Investors Protection Fund by the Futures Exchanges and Futures Companies (關於期貨交易所、期貨公司繳納期貨投資者保障基金有關事項的規定), which were effective from March 15, 2010, provide that futures companies shall contribute to the Futures Investors Protection Fund, and set out the specific proportion and rules for contribution to the Futures Investors Protection Fund by the Futures Companies.

The Regulations on Management of Information Publication of Futures Companies (期貨公司信息公示管理規定), which were effective from November 16, 2009, provide that the basic information, particulars about senior management, staff and shareholders and credit records of a futures company and its subsidiaries, shall be published to the public as well as other information the CSRC requires.

Corporate Governance and Risk Control of Direct Investment Company

(1) Corporate Governance

Pursuant to the Guidelines on Supervision and Administration of Direct Investment Business of Securities Companies (證券公司直接投資業務監管指引), the management and staff of a direct investment subsidiary shall not receive remuneration from a securities company. Management and professionals of the securities company who do not take part in investment banking or external experts may also serve as the directors (including chairman of the board), supervisors (including chairman of the supervisory committee) and members of the investment committee. At least half of the members of the investment committee shall come from the direct investment subsidiary and no more than one-third of the members shall come from the securities company. Members of the investment committee who come from the securities company shall be limited to staff responsible for risk control, compliance management and audit, and shall not be management and professionals who take part in investment banking. The securities company and direct investment subsidiary shall establish an internal control system for staff of the securities company who also serve as the directors (including chairman of the board), supervisors (including chairman of the supervisory committee) and members of the investment committee to tackle any possible conflict of interests.

(2) Risk Control

Pursuant to the Circular on Promoting Standardized Development of Equity Investment Enterprises (關於促進股權投資企業規範發展的通知) issued by the NDRC on December 23, 2011, the usage of funds of an equity investment enterprise shall comply with the provisions of the articles of

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association or the partnership agreement of such equity investment enterprise. The investments shall be diversified properly to lower investment risks. Equity investment enterprises shall not provide guarantees for enterprises other than their respective investees. When investing in an affiliated party, an equity investment enterprise shall adopt a voting mechanism that requires the affiliated party to abstain from voting on such investment decision and such mechanism shall be stipulated in the articles of association or partnership agreement, entrusted management agreement or entrusted custody agreement of the equity investment enterprise.

Other Regulations

Exchange Control

The SAFE promulgated the Notice of SAFE on the Relevant Issues Concerning Foreign Exchange Administration of Foreign Investment by Funds Management Companies and Securities Companies (國家外匯管理局關於基金管理公司和證券公司境外證券投資外匯管理有關問題的通知) on September 29, 2009, which was effective from the same day, to regulate the exchange control for investments in overseas securities by securities companies. Securities operating institutions which have the qualification to engage in foreign exchange business to conduct investments in overseas securities shall apply to the SAFE for investment quotas. The SAFE adopts the method of quota balance in managing the investment quotas. The net amount remitted by a securities operating institution shall not exceed the approved investment quota. A securities institution is not allowed to transfer or sell its investment quota to other institutions in any form. A securities operating institution may raise foreign exchange funds from the domestic investors, or it may raise capital in RMB from the domestic investors to purchase foreign currencies for investments in overseas securities. Domestic investors are not allowed to purchase the relevant products issued by securities operating institutions with foreign cash. Securities operating institutions and domestic custodians shall discharge their declaration responsibilities in accordance with the relevant provisions of the declaration of international balance of payment statistics.

The Provisions on Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors (合格境外機構投資者境內證券投資外匯管理規定) which were effective from September 29, 2009 and revised on December 7, 2012, provide that the Chinese government shall adopt a quota management system on the investments in domestic securities by the qualified foreign investors. The SAFE approves the investment quota of the individual qualified investors and such quota may be adjusted. A qualified investor is not allowed to apply for a further increase in the investment quota within one year after approval of the investment quota.

Information Disclosure

The Notice on the Relevant Issues Regarding the Information Disclosure of Securities Companies (關於證券公司信息公示有關事項的通知), which was issued on July 25, 2006, sets out the requirements on the information disclosure by securities companies, including ways to disclose information.

On April 3, 2009, the CSRC issued and implemented the Provisions on Strengthening the Supervision and Administration of Listed Securities Companies (關於加強上市證券公司監管的規定), which were amended on June 30, 2010, to further regulate the information disclosure of regular reports and ad hoc reports by listed securities companies. Listed securities companies are also required to establish a sound information management system in accordance with the characteristics of the

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securities industry in China, their practices and general regulations regarding information disclosure by listed companies.

Anti-money Laundering

Securities companies shall comply with the requirements related to anti-money laundering stipulated in the Anti-money Laundering Law of the People's Republic of China (中華人民共和國反洗錢法), the Provisions on Anti-money Laundering of Financial Institutions (金融機構反洗錢規定), which were promulgated by the PBOC and were effective from January 1, 2007, and the Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法), which were jointly promulgated by the PBOC, the CBRC, the CSRC and the CIRC and were effective from August 1, 2007.

The Measures on the Anti-money Laundering by Securities and Futures Industry (證券期貨業反洗錢工作實施辦法), which were enacted by the CSRC and were effective from October 1, 2010, further regulate the anti-money laundering regulations for the securities and futures industry, as well as the anti-money responsibilities of the institutions engaging in sales of funds in their business operation. Securities and futures entities shall also establish and enhance internal control systems for anti-money laundering.

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Introduction

The Securities and Futures Ordinance is the principal legislation regulating the securities and futures industry in Hong Kong, including the regulation of securities, futures and leveraged foreign exchange markets, the offering of investments to the public in Hong Kong, intermediaries and their conduct of regulated activities. In particular, Part V of the SFO deals with licensing and registration matters.

The SFO is administered by the SFC which is the statutory regulatory body that governs the securities and futures markets and non-bank retail leveraged foreign exchange market in Hong Kong.

Types of Regulated Activities

The SFO provides a single licensing regime under which a person needs only one license to carry on the different types of regulated activities as specified in Schedule 5 of the SFO. There are ten types of regulated activities, namely:

- Type 1: dealing in securities;
- Type 2: dealing in futures contracts;
- Type 3: leveraged foreign exchange trading;
- Type 4: advising on securities;
- Type 5: advising on futures contracts;
- Type 6: advising on corporate finance;
- Type 7: providing automated trading services;
- Type 8: securities margin financing;

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Type 9: asset management; and

Type 10: providing credit rating services.

As of the Latest Practicable Date, the following Group companies are licensed under the SFO to carry out the regulated activities as stated below:

<u>Group Companies</u>	<u>Types of Regulated Activities</u>
Galaxy International Futures	Type 2
Galaxy International Securities	Type 1, Type 4 and Type 6
Galaxy International Asset Management	Type 4 and Type 9

Overview of Licensing Requirements

Under the SFO, any person who:

- (a) carries on a business in a regulated activity; or
- (b) holds itself out as carrying on a business in a regulated activity,

must be licensed under the relevant provisions of the SFO for carrying on such regulated activity, unless one of the exceptions under the SFO applies. It is a serious offense for a person to conduct any regulated activity without the appropriate license.

Further, if a person (whether by itself or another person on his behalf, and whether in Hong Kong or from a place outside of Hong Kong) actively markets to the public in Hong Kong any services that it provides and such services, if provided in Hong Kong, would constitute a regulated activity, then that person is also subject to the licensing requirements under the SFO.

In addition to the licensing requirements on corporations, any individual who:

- (a) performs any regulated function in relation to a regulated activity carried on as a business;
or
- (b) holds himself out as performing such regulated function,

must be licensed separately under the SFO as a licensed representative accredited to his principal.

For each regulated activity conducted by a licensed corporation, it must appoint no less than two responsible officers, at least one of whom must be an executive director, to supervise the business of the regulated activity. A responsible officer is an individual approved by the SFC to supervise the regulated activity or activities of the licensed corporation to which he is accredited. In addition, every director of the licensed corporation who actively participates in or is responsible for directly supervising the licensed corporation's regulated activity or activities must apply to the SFC to become a responsible officer.

Fit and Proper Requirement

Persons applying for licenses under the SFO must satisfy and continue to satisfy after the grant of such licenses by the SFC that they are fit and proper persons to be so licensed. In simple terms, a fit and proper person means one who is financially sound, competent, honest, reputable and reliable.

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On-going Obligations of Licensed Corporations

Licensed corporations, licensed representatives and responsible officers must remain fit and proper as defined under the SFO at all times. They are required to comply with all applicable provisions of the SFO and its subsidiary rules and regulations as well as the codes and guidelines issued by the SFC.

Outlined below are some of the key on-going obligations of a licensed corporation:

- maintenance of minimum paid-up share capital and liquid capital, and submission of financial returns to the SFC, in accordance with the requirements under the Securities and Futures (Financial Resources) Rules (as discussed in more detail below);
- maintenance of segregated account(s), and custody and handling of client securities in accordance with the requirements under the Securities and Futures (Client Securities) Rules;
- maintenance of segregated account(s), and holding and payment of client money in accordance with the requirements under the Securities and Futures (Client Money) Rules;
- issuance of contract notes, statements of account and receipts, in accordance with the requirements under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules;
- record keeping requirements prescribed under the Securities and Futures (Keeping of Records) Rules;
- submission of audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules;
- maintenance of insurance against specific risks for specified amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules;
- notification to the SFC of certain changes and events, in accordance with the requirements under Securities and Futures (Licensing and Registration) (Information) Rules;
- implementation of appropriate policies and procedures relating to client acceptance, client due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training, in accordance with the requirements under the Guideline on Anti-Money Laundering and Counter-Terrorist Financing (the “Guideline”) issued by the SFC (as discussed in more detail below); and
- business conduct requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC, and other applicable codes and guidelines issued by the SFC.

Securities and Futures (Financial Resources) Rules (“Financial Resources Rules”)

Subject to certain exemptions described below, a licensed corporation is required to maintain minimum paid-up share capital of:

- HK\$5,000,000—in the case of (i) a corporation licensed for Type 1 regulated activity that does not provide securities margin financing; (ii) a corporation licensed for Type 2 or Type 7 regulated activity; (iii) a corporation licensed for Type 3 regulated activity that is an approved introducing agent; (iv) a corporation licensed for Type 4, Type 5, Type 9 or

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Type 10 regulated activity that is not subject to the licensing condition that it shall not hold client assets; or (v) a corporation licensed for Type 6 regulated activity that is subject to the no sponsor work licensing condition (but is not subject to the licensing condition that it shall not hold client assets);

- HK\$10,000,000—in the case of (i) a corporation licensed for Type 1 regulated activity that provides securities margin financing; (ii) a corporation licensed for Type 8 regulated activity; or (iii) a corporation licensed for Type 6 regulated activity that is not subject to the no sponsor work licensing condition; or
- HK\$30,000,000—in the case of a corporation licensed for Type 3 regulated activity that is not an approved introducing agent.

There is no minimum paid-up share capital requirement if the corporation is (i) licensed for Type 1 regulated activity and is an approved introducing agent or a trader; (ii) licensed for Type 2 regulated activity and is an approved introducing agent, a trader or a futures non-clearing dealer; (iii) licensed for Type 4, Type 5, Type 9 or Type 10 regulated activity which is subject to the licensing condition that it shall not hold client assets; or (iv) licensed for Type 6 regulated activity which is subject to both licensing conditions that it shall not hold client assets or engage in sponsor work.

Pursuant to the Financial Resources Rules, a licensed corporation shall also maintain minimum liquid capital of the higher of the amount of (a) and (b) below:

(a) the amount of:

- HK\$100,000—in the case of a corporation licensed for Type 4, Type 5, Type 6, Type 9 or Type 10 regulated activity which is subject to the licensing condition that it shall not hold client assets;
- HK\$500,000—in the case of (i) a corporation licensed for Type 1 regulated activity that is an approved introducing agent or trader; or (ii) a corporation licensed for Type 2 regulated activity that is an approved introducing agent, a futures non-clearing dealer or a trader; or
- HK\$3,000,000—in the case of (i) a corporation licensed for Type 1 regulated activity that is not an approved introducing agent or a trader; (ii) a corporation licensed for Type 2 regulated activity that is not an approved introducing agent, a futures non-clearing dealer or a trader; (iii) a corporation licensed for Type 3 regulated activity that is an approved introducing agent; (iv) a corporation licensed for Type 4, Type 5, Type 6, Type 9 or Type 10 regulated activity which is not subject to the licensing condition that it shall not hold client assets; or (v) a corporation licensed for Type 7 or Type 8 regulated activity; or
- HK\$15,000,000—in the case of a corporation licensed for Type 3 regulated activity that is not an approved introducing agent; and

(b) its variable required liquid capital, as defined in the Financial Resources Rules.

If the licensed corporation is licensed for more than one type of regulated activity, the minimum paid-up share capital and liquid capital that the corporation should maintain shall be the highest amount required among those regulated activities.

Anti-money Laundering and Counter-terrorist Financing

Licensed corporations are required to comply with the applicable anti-money laundering and counter-terrorist financing laws and regulations in Hong Kong as well as the Guideline.

The Guideline provides practical guidance to assist licensed corporations and their senior management in designing and implementing their own anti-money laundering and counter-terrorist financing policies, procedures and controls in order to meet the relevant legal and regulatory requirements in Hong Kong. Under the Guideline, licensed corporations should, among other things:

- assess the risks of any new products and services before they are introduced and ensure that appropriate additional measures and controls are implemented to mitigate and manage the associated money laundering and terrorist financing risks;
- identify the client and verify the client's identity using reliable, independent source documents, data or information, and take steps from time to time to ensure that the client information are up-to-date and relevant;
- conduct on-going monitoring of activities of the clients to ensure that they are consistent with the nature of business, the risk profile and source of funds, as well as identify transactions that are complex, large or unusual, or patters of transaction that have no apparent economic or lawful purpose;
- maintain a database of names and particulars of terrorist suspects and designated parties which consolidates the various lists that have been made known to it, as well as comprehensive on-going screening of the client database; and
- conduct on-going monitoring for identification of suspicious transactions and ensure compliance with their legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department to monitor and investigate suspected money laundering.

We set out below a brief summary of the principal legislation in Hong Kong that are concerned with money laundering and terrorist financing.

(1) Anti-money Laundering and Counter-terrorist Financing (Financial Institution) Ordinance (Chapter 615 of the Laws of Hong Kong) ("AMLO")

Among other things, the AMLO imposes requirements relating to client due diligence and record-keeping and provides regulatory authorities with the powers to supervise compliance with the requirements under the AMLO. In addition, the regulatory authorities are empowered to (i) ensure that proper safeguards exist to prevent contravention of specified provisions in the AMLO and (ii) mitigate money laundering and terrorist financing risks.

(2) Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) ("DTROP")

Among other things, the DTROP contains provisions for the investigation of assets suspected to be derived from drug trafficking activities, the freezing of assets on arrest and the confiscation of the proceeds from drug trafficking activities. It is an offense under the DTROP if a person deals with any property knowing or having reasonable grounds to believe it to represent the proceeds of drug

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trafficking. The DTROP requires a person to report to an authorized officer if he/she knows or suspects that any property (directly or indirectly) represents the proceeds of drug trafficking or is intended to be used or was used in connection with drug trafficking, and failure to make such disclosure constitutes an offense under the DTROP.

(3) Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) (“OSCO”)

Among other things, the OSCO empowers officers of the Police and the Customs and Excise Department to investigate organized crime and triad activities, and it gives the courts jurisdiction to confiscate the proceeds of organized and serious crimes, to issue restraint orders and charging orders in relation to the property of defendants of specified offences. The OSCO extends the money laundering offense to cover the proceeds of all indictable offences in addition to drug trafficking.

(4) United Nations (Anti-terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong) (“UNATMO”)

Among other things, the UNATMO provides that it would be a criminal offense to: (i) provide or collect funds (by any means, directly or indirectly) with the intention or knowledge that the funds will be used to commit, in whole or in part, one or more terrorist acts; or (ii) make any funds or financial (or related) services available, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate. The UNATMO also requires a person to report his knowledge or suspicion of terrorist property to an authorized officer, and failure to make such disclosure constitutes an offense under the UNATMO.