

---

## REGULATORY OVERVIEW

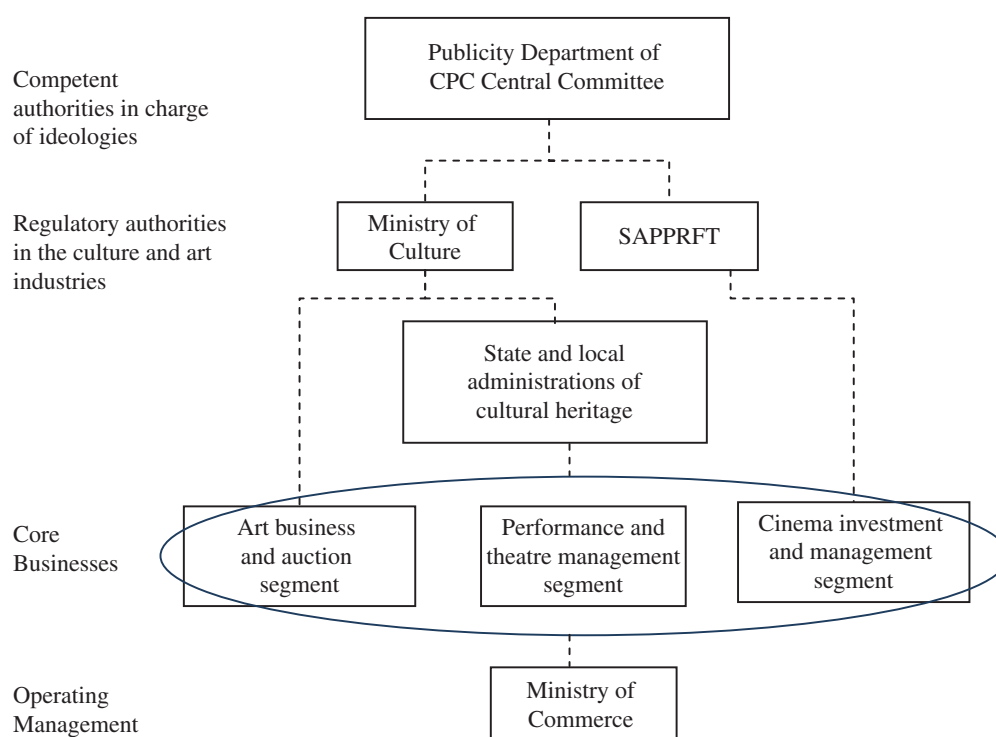
---

### BUSINESS OF THE COMPANY UNDER THE SUPERVISION OF THE CHINESE GOVERNMENT

Our business including, art business and auction segment, performance and theatre management segment, cinema investment and management segment are subject to the supervision by the competent authorities of the Chinese Government and governed by relevant PRC laws and regulations.

#### 1. Competent Authorities in the Industry

The regulatory system for the Company's core business is outlined as follows:



##### *(1) Publicity Department of CPC Central Committee*

The Publicity Department of CPC Central Committee is a comprehensive functional department in charge of ideological related matters. The functions of the Department relating to the culture and art industries include: drawing up guidelines for the development on propaganda, ideological and cultural fronts, guiding propaganda and cultural mechanisms to formulate policies and regulations, and coordinating the relationships among different departments under the propaganda and cultural mechanisms in accordance with the centralized work planning of the Communist Party of China.

---

## REGULATORY OVERVIEW

---

### *(2) Ministry of Culture*

As a functional department under the State Council in charge of national culture & art affairs, the Ministry of Culture has such major responsibilities as to exercise industrial supervision over culture & art-related commercial activities and guide the supervision of private organizations engaged in performance activities; draw up and lay down guidelines, policies, laws and regulations and development plans and promote institutional reforms in the culture & art industry; be responsible for the administrative examination and approval of cultural and artistic performances; administer public cultural services and major national cultural activities and promote the development of arts in different forms; foster Sino-foreign cultural communication and cooperation and improve China's external publicity work; sign cultural cooperation agreements with foreign countries on behalf of China, and organize and implement major cultural communication activities.

Local cultural bureaus or commissions are established by local governments to administer the affairs of the culture & art industry and exercise the examination and approval power for affairs of relevant cultural industries.

### *(3) Administrations of Cultural Heritage*

Administrations of cultural heritage at all levels are responsible for regular review and verification of all cultural relics companies as well as the auction activities and practitioners of enterprises qualified for undertaking cultural relics auctions. The State Administration of Cultural Heritage is in charge of the annual review of the qualification of all cultural relics auction enterprises in China, while competent authorities of cultural heritage at provincial level (usually provincial administrations of cultural heritage) are responsible for the preliminary review of the qualification of cultural relics auction enterprises located within their respective jurisdictions. In addition, competent authorities of cultural heritage at provincial level should, prior to the auctions, also examine and verify the cultural relics to be purchased and sold by cultural relics companies or to be put up for auction by auction houses located within their respective jurisdictions and then determine whether the purchase and sale or auction of such cultural relics are allowed.

The authentication bodies for imported and exported cultural relics set up by provincial competent authorities shall, in accordance with relevant laws and regulations, examine and verify any cultural relics for which export declarations have been lodged, and shall examine privately and publicly-owned cultural relics imported or exported through ports located within their respective jurisdictions and cultural relics involved in legal cases. For the import and export of cultural relics, relevant accreditation formalities shall be handled.

---

## REGULATORY OVERVIEW

---

### ***(4) Ministry of Commerce***

The Ministry of Commerce is responsible for organizing the formulation of relevant policies and regulations for the auction industry, guiding all regions to work out their respective development plans for the auction sector, setting up mechanisms for supervision and verification, industry statistics and credit management in the auction industry in accordance with relevant laws; promoting and managing the use of foreign capital in the auction industry; and providing business guidance to self-regulatory organizations in the auction sector.

The competent authorities of commerce at the provincial level are responsible for formulating and implementing their respective development plans for the auction industry and submitting the plans to the Ministry of Commerce for record; setting up local mechanisms for supervision over and verification of auction companies and practitioners and industry statistics and credit management in the auction industry; verifying and approving the establishment of auction companies and their branches; and managing and guiding local self-regulatory organizations in the auction industry.

### ***(5) State Administration of Press, Publication, Radio, Film and Television (SAPPRFT)***

The Film Administration under the SAPPRFT is responsible for performing various management functions in China's film industry, including drawing up policies and regulations for the medium and long-term development of China's film industry; managing the production, distribution and screening of movies; encouraging a balanced development of various movie types and mapping out a well-laid annual production plan; organizing the scrutiny of all types of movie and issuing or revoking movie production or screening licenses; undertaking the examination and approval work for the establishment or dissolution of movie producers and trans-regional distributors and exhibitors; managing movie production technologies; being responsible for international cooperation and exchange activities such as Sino-foreign cooperation in movie production and import & export of movies; and guiding the collection and management of special funds for movies.

Competent authorities of radio, film and television at local levels are responsible for administrative management of the radio, film and television industry in their respective regions and exercising the administrative examination and approval power granted by the SAPPRFT.

Apart from the aforesaid competent authorities, the China Association of Performing Arts (CAPA), the China Association of Auctioneers (CAA), and the China Film Distribution and Exhibition Association (CFDEA) also play important roles in the radio, film and television industry. The CAPA, under the guidance, supervision and management of the Ministry of Culture, performs liaison, coordination and service-related functions in the performance industry, and aims to safeguard the lawful rights and interests of its

---

## REGULATORY OVERVIEW

---

members and improve self-regulation of the industry. The CAA, under the guidance of the Ministry of Culture, guides and serves the auction industry by implementing credit management mechanisms for domestic auction houses, organizing the examination and accreditation of auctioneers' qualification, formulating rules governing the auction industry and undertaking other work relating to the industry's self-regulatory management; the CFDEA, under the guidance of the SAPPRT, undertakes all work in relation to the film industry's self-regulation through industry coordination, negotiation and supervision.

### 2. Major Regulations and Policies

#### (1) *Art Business and Auction Segment*

***The Auction Law of the People's Republic of China, the Measures for the Administration of Auctions, the Circular on Carrying out Management on Approval Certificate Code of Auction Business, the Auction Data Management Standards (for trial implementation), the General Auction Rules governing China's Auction Industry, and the Notice on Issues about Strengthening and Regulating the Collection of Individual Income Tax on the Individual Income Arising from Auctions***

No auction house shall engage in any auction business before receiving an auction business license. Commercial departments at local levels shall grant an enterprise that fulfills relevant requirements with the *Approval Certificate of Auction Business*, which shall be reviewed every three years and renewed at the expiration of its validity period. If any articles or property rights are prohibited for sale by laws or regulations, or their ownership or right of disposition is in dispute, or they are goods under the Customs control for which Customs formalities have not been completed, then the auction of such articles and property rights is prohibited. An auction house shall have the right to verify itself or require the consignor to specify in writing the sources and defects of the auction objects. Where an auctioneer and consignor have declared, prior to the auction sale, that they cannot guarantee the authentication or quality of an auction object, they shall be free from any warranty liability for the defects of the object. In the case that an auction house needs to exhibit the auction objects before the auction sale, it shall exhibit such objects for at least two days except for fresh goods or other perishable goods. After a transaction is concluded, the vendee and the auctioneer shall execute a written confirmation. The auctioneer shall keep the data recording the auction process in a file for no less than five years, counting from the date of expiration of the contract for authorization of auction. The individual income tax payable on the auction income of an individual shall be withheld and remitted by the auction house.

***The Several Provisions on Strengthening Supervision and Management of Auctioneers (for temporary implementation) and the Supplemental Provisions on the Management of Auctioneer Registration***

The Ministry of Commerce and the China Association of Auctioneers shall conduct trial management on the certification of auctioneers' qualification. All auctioneers shall hold an *Auctioneer Qualification Certificate of the People's Republic of China* and be

---

## REGULATORY OVERVIEW

---

registered. An auctioneer shall be registered as the auctioneer of only one auction house and shall not work as a part-time auctioneer in any other auction companies. The *Auctioneer Qualification Certificate of the PRC* shall be reviewed annually and shall not be lent to any other individuals or entities for use. Within the one-year validity of the Certificate, an auctioneer shall not change the auction house in which he/she is registered more than once.

***The Provisions of the Supreme People’s Court on Auctioning or Selling off Property by the People’s Courts in Civil Execution and the Several Provisions of the Supreme People’s Court on the Evaluation, Auction and Sale Authorized by the People’s Courts***

Auction shall be the first-chosen method in a people’s court’s disposition of any property that has been sealed up, seized or frozen. The people’s court shall compile a list of authorized appraisal agencies and auction houses, and then select an appraisal agency from the list in an open and random manner and entrust the selected agency with the appraisal of the said property. The auction of such property shall be announced in advance and a reserve price shall be set. In the event that the property is not sold at two consecutive auctions, the people’s court may directly evaluate the price of the property for repayment of any relevant debts.

***The Law of the People’s Republic of China on Protection of Cultural Relics, the Regulations for the Implementation of the Law of the People’s Republic of China on Protection of Cultural Relics, the Circular on Relevant Matters concerning the Application for and Issuance of Auction License of Cultural Relics, the Measures for Annual Examination of Qualification of Cultural Relics Auction Enterprises, the Regulations for Cultural Relics and Artwork Auction and the Conventions on the Self Regulation of the Cultural Relics and Artwork Auction Enterprises in China***

Auction enterprises engaged in the auction of cultural relics shall, in accordance with the laws, apply for and obtain the *License for Auction of Cultural Relics* issued by the state and provincial authorities for cultural relics. The annual examination system has been set in place for the qualification of cultural relics auction houses which shall not auction counterfeit items intentionally, rent or lend their qualification, participate in operations beyond their business scope or engage in operational authentication business, etc. No auction house engaging in auction of cultural relics may conduct business activities of purchasing or selling cultural relics or set up cultural relics stores. Cultural relics authorised for auction shall be identified and permitted by the administrative department for cultural relics in the residence of the auctioneer in accordance with the laws before they are put up for auction. Cultural relics for auction by auction houses shall, prior to their auction, be subject to examination and verification by the administrative department for cultural relics under the people’s government of relevant province, autonomous region or municipality directly under the Central Government and the matter shall be reported to the administrative department for cultural relics under the State Council for the record.

---

## REGULATORY OVERVIEW

---

Enterprises can only start to run artwork business upon the approval of provincial administrative department for cultural relics for opening cultural relics stores, which are not allowed to engage in cultural relics auctions or establish enterprises that operate cultural relics auctions.

Cultural relics stores and auction houses shall keep records of the auctioneer, the client, the vendee and the hammer price of the cultural relics they purchase and sell or auction and submit the records to the administrative department for cultural relics that originally examined and verified the relics for the record.

### *Anti-Money Laundering Law*

A financial institution established within the territory of the People's Republic of China or a special non-financial institution that has the anti-money laundering obligation shall adopt relevant preventive and supervisory measures, establish and improve its client identity identification system to preserve the clients' identity materials and transactional records and a reporting system of large or doubtful transactions, and perform its anti-money laundering obligations. The scope of the special non-financial institutions that has the anti-money laundering obligation, the anti-money laundering obligations thereof, as well as the supervising and administrative measures on special non-financial institutions shall be regulated mainly by the administrative department of anti-money laundering of the State Council, in collaboration with other relevant departments of the State Council.

### *The Administrative Measures for the Entry-Exit Examination and Verification of Cultural Relics and the National Standard for the Examination and Verification for the Exit of Cultural Relics*

Cultural relics to be taken out of the country shall be subject to examination and verification by competent authority for the entry and exit of cultural relics designated by the administrative department for cultural relics under the State Council. Temporary entry of cultural relics into the country shall be declared to the Customs, and shall be subject to examination and verification by competent authority for the entry and exit of cultural relics and be registered with it. Before leaving the country, the cultural relics that have entered the country temporarily shall be examined, verified and inspected by the examination and verification authority for the entry and exit of cultural relics that originally examined, verified and registered them; and if all is in order, the administrative department for cultural relics under the State Council shall issue an exit permit for these cultural relics and the Customs shall let them leave the country on the strength of the permit.

---

## REGULATORY OVERVIEW

---

### *The Measures for the Administration of Artwork Business*

Entities engaging in artworks business shall report to the cultural administrative department at or above the county level of their residence upon receipt of business license. Import and export operations of artworks shall be subject to verification, approval and management by the Ministry of Culture. Artwork operation entities shall be able to provide certificates of the legal source of their artworks and prices of such artworks shall be marked clearly.

### *Trust Law, Management Methods for Collective Capital Trust Plans of Trust Companies, Securities Law, Regulations for Administration & Supervision of Securities Companies, Management Methods for Customer Asset Management Business of Securities Companies and Implementation Rules for Targeted Asset Management Business of Securities Companies*

A trust company must satisfy the following conditions in order to set up a collective capital trust plan: (i) the appointer should be a qualified investor; (ii) the appointer should be the sole beneficiary of the trust; (iii) the number of natural persons in an individual trust plan shall not exceed 50, while the number of qualified institutional investors is not restricted; (iv) the minimum term of trust is one year; (v) there are clear investment directions and strategies for the trusted funds, which should comply with the industrial policies of the state and other relevant regulations; (vi) the benefits from the trust is divided into equal trust units; (vii) a trust contract shall set forth the trustee's remuneration, and other than the reasonable remuneration, the trust companies must not make profit for themselves or others directly or indirectly with the trusted properties on whatever grounds; and (viii) any other requirements prescribed by China Banking Regulatory Commission.

A securities company engaging in the targeted asset management business should possess the qualifications for securities assets management business, establish a sound risk management and internal control system and standardize its business activities. A securities company shall by no means make such commitments as absolutely no loss for the principal of customers' assets or minimum income. Directors, supervisors, employees and their spouses should not become the customers of the Company's targeted asset management business. The minimum net assets trusted by an individual customer to a securities company engaging in the targeted asset management business shall be in compliance with the provisions of the China Securities Regulatory Commission. A securities company engaging in the targeted asset management business shall, in accordance with the laws, administrative regulations and the provisions of the China Securities Regulatory Commission. It must enter into targeted asset management contracts with the customers and the asset custody institutions, which set forth the rights and obligations of the customers, securities companies and the asset custody institutions. A targeted asset management contract shall contain the essential clauses required by the Securities Association of China.

---

## REGULATORY OVERVIEW

---

### *(2) Performance and Theatre Management Segment*

#### ***The Regulations on the Administration of Commercial Performance, the Detailed Rules for the Implementation of the Regulation on the Administration of Commercial Performance and the Regulation on the Safety Management of Large-scale Public Events***

To establish a business entity that manages performance venues, the applicant shall go through registration formalities at the appropriate administration for industry and commerce, get a business license and handle approval formalities in accordance with relevant laws and regulations on fire fighting, sanitary control, etc. A business entity that manages performance venues shall, within 20 days after it obtains its business license, be filed with the competent authority for culture under the local people's government for record. To host commercial performances, the applicant shall apply to the competent authority of culture under the people's government at county (district) level in the place where the performances will be held. In the meantime, the business entity that manages performance venues shall verify the approval documents obtained by the host entity before providing any performance venue therefor, and shall not provide performance venues for any unapproved commercial performances. To establish a performance brokerage institution, the applicant shall apply to the competent authorities of culture under the people's government of relevant province, autonomous region or municipality directly under the Central Government and may be granted a commercial performance license upon approval by the said authorities. To establish an artistic performance organization, the applicant shall apply to the competent authorities of culture under the people's governments at county (district) level and obtain approval therefrom.

Business entities that manage performance venues shall ensure that the buildings and facilities of the performance venues conform to the national safety standards and fire safety requirements, and check the status of fire fighting facilities regularly and maintain and upgrade them in a timely manner. They shall also formulate a security scheme and a fire-control and emergency-evacuation plan. Any entities that intend to hold commercial performances in a performance venue shall verify the examination records made by the business entity on fire fighting facilities, the security scheme and the fire-control and emergency-evacuation plan, and shall sign a safety responsibility agreement with the business entity providing the performance venue on the prevention and handling of safety accidents that may arise during the performances.

#### ***The Provisions on the Administration of Foreign-related Culture & Art Performances and Exhibitions***

The Ministry of Culture applies a qualification recognition system to organizers of foreign-related culture & art performances and exhibitions. The application for commercial and profit-making culture & art performances and exhibitions (commodities fairs) jointly held by China and foreign countries shall be made by institutions, venues or groups which are deemed to be qualified for hosting commercial and profit-making



---

## REGULATORY OVERVIEW

---

foreign-related culture & art performances and exhibitions (commodities fairs) by administrative cultural departments, and then shall be submitted to the Ministry of Culture for examination and approval through cultural departments (bureaus) in the place where such performances and exhibitions will be held, or through ministries/commissions under the central or state organs, People's Liberation Army mechanisms or national people's associations affiliated to the said departments (bureaus). A contract may be signed with the foreign parties after the project has been approved by the Ministry of Culture and such contract shall be submitted to the Ministry for the record.

### *(3) Cinema Investment and Management Segment*

***The Regulations on the Administration of Movies, the Interim Provisions on Operation Qualification Access for Movie Enterprises and supplementary provisions thereof, the Interim Provisions on Operation Qualification Access for Movie Production, Distribution and Projection and supplementary provisions thereof, the Circular on the Rules (for Trial Implementation) for the Implementation of Reforming the Distribution and Projection Mechanism of Movies, the Interim Provisions on Foreign-funded Cinemas and supplementary provisions thereof, the Circular on the Application and Approval Procedures of Establishing Cinema Circuits and the Opinions on Further Deepening the Reform of the Mechanism of Cinema Circuit Enterprises***

In accordance with the above regulations, the country has formulated a complete series of rules and regulations covering such aspects as movie censorship, distribution and projection, import and export and the construction of cinema circuits, regulating the following matters:

#### *Movie censorship*

The country implements a movie censorship system. Movie production units shall report to the examining authority for movies for record subsequent to the examination of movies in compliance with relevant regulations. The production units shall submit the movies to the examining authority for movies for examination upon completion; movie import business units shall report to the examining authority for movies for examination after going through formalities for the temporary importation of movies. Movies that have passed the examination will be issued with the *License of Film Public Projection* by SAPPRFT.

#### *Movie distribution and projection*

To set up movie distribution units, applications shall be submitted to the administrative department for movies of the people's government of local province, autonomous region and municipality; applications shall be presented to the administrative department of radio, film and television under the State Council in order to establish movie distribution units that cross province, autonomous region and municipality directly

---

## REGULATORY OVERVIEW

---

under the Central Government. The *Business License for Movie Distribution* will be delivered upon approval. Companies with the *Business License for Movie Distribution* shall be subject to the annual assessment by SAPPRFT. To set up movie projection units, applications shall be made to the administrative department for movies of the municipal people's government of local county or community. The *Business License for Movie Projection* will be issued upon approval.

Movies can be distributed and exhibited only after a *License for Film Public Projection* issued by SAPPRFT has been obtained. Hours of exhibiting domestic movie in a year by exhibiting units shall be no less than two-thirds of the total hours of movie projection of the year.

One cinema can join one circuit only. For a cinema circuit formed by way of entering into contracts, the term of the contract shall be at least 3 years. Upon expiry of the contracts, the theatres may reconsider their decision. The cinemas are allowed to purchase copies of the films on their own.

### *Import and export of movies*

The movie import business is operated by business units for importing movies designated by SAPPRFT. Imported movies for public projection shall be sent to the examining authority for movies for examination prior to their entrance into the country. Distribution companies with the right to distribute imported movies nationally granted by the SAPPRFT shall take charge of the national distribution business of imported movies.

### *Construction of cinema circuits*

Whether the application for the establishment of cinema circuits will be examined and approved by the administrative authorities for movies at the provincial level or by the SAPPRFT depends on whether the cinema circuits to be set up are trans-provincial or not. The country permits movie cinema circuit companies to integrate in a way either tight or loose and encourages them to re-organize in compliance with the top-down management principle based on trans-provincial cinema circuits. To merge different cinema circuits by administrative regions is not allowed. The integration of cinema circuits shall be examined and approved by the SAPPRFT. In principle, cinemas joining cinema circuits shall remain in the same cinema circuit for no less than two years. Foreign investors are forbidden to establish cinema circuit companies.

### ***The Measures for the Administration of the Distribution and Projection of Digital Movies (for Trial Implementation) and supplementary regulations thereof and the Circular on Further Regulating the Distribution and Projection in Urban Professional Digital Cinemas (Halls)***

Technical facilities and devices applied in the distribution and projection of digital movies shall comply with the requirements stipulated in the *Interim Technical Requirements for the Projection of Digital Movies* (GFJZ [2004] No. 1036) or the *Interim*

---

## REGULATORY OVERVIEW

---

*Technical Requirements for Mobil Projection System of Digital Movies* (GFJZ [2005] No. 532). Projection units with a *Business License for Movie Projection* shall report to the administrative department for movies of the municipal people's government of local county or community for record when intending to begin the projection business of digital movies.

***The Measures for the Administration of the State Special Film Sector Development Fund, the Circular on Refunding the Special Film Sector Fund for Domestic Films Projection, the Circular on Encouraging Cinemas to Present Domestic Digital Movies, the Circular on the Reimbursement of the State Special Film Sector Fund for Newly-built Cinemas, the Supplementary Circular on the "Reimbursement Policy for Newly-built Cinemas", the Circular on the Subsidies for Cinemas to Install Digital Projection Devices of 2K and 1.3K, the Measures for Financing the Renovation of Urban Cinemas with the Special State Film Sector Fund and the Circular on Distributing Subsidies for the Creation and Production of High-tech Domestic Films***

The country supports the development of film industry by collecting 5% of the cinema box office income from urban cinemas at county level or above to finance the special movie fund and will rebate the special movie fund to the cinemas at certain times according to the projection of domestic movie in these cinemas.

The Special State Film Sector Development Fund Administrative Committee adopts a preferential policy of one-year's reimbursement of the Special State Film Sector Development Fund for cinemas whose annual revenue from the projection of domestic digital movies reach the stipulated percentage of their total revenue; implements a preferential policy of reimbursing the Special State Film Sector Development Fund to newly-built cinemas during certain periods; distributes an allowance to cinemas that have equipped themselves with digital projection devices of 2K and 1.3K before December 31, 2012; grants one-off financial aid for renovations of urban cinemas satisfying requirements; allocates subsidies for the creation and production of high-tech domestic movies.

***Opinions on Management of Commercial Pre-paid Card issued by the People's Bank of China, the Ministry of Supervision, the Ministry of Finance, the Ministry of Commerce, the State Administration of Taxation, the State Administration for Industry and Commerce and the National Bureau of Corruption***

Card issuer shall register the actual names of enterprises or individuals who purchased commercial pre-paid cards bearing names or anonymous commercial pre-paid cards with RMB10,000 by one time lump sum payment. Payment for purchase of cards with the amount over RMB5,000 by an enterprise or card with the amount over RMB50,000 by an individual shall be made bank transfer only, where the card issuer shall register, for each transaction, account names of transferor and transferee, account number and the amount of bank transfer. Face value of each anonymous commercial prepaid card shall not exceed RMB1,000 and the face value of each commercial pre-paid card bearing name shall not exceed RMB5,000. No validity period shall be imposed on commercial pre-paid cards bearing names while the validity period of anonymous commercial prepaid cards shall be not less than three years. For the expired prepaid card with outstanding balance, the card issuers should provide card activation and replacement services to card holders.

---

## REGULATORY OVERVIEW

---

### HONG KONG REGULATORY ENVIRONMENT

#### Regulatory Authority

There is no special administrative authority in Hong Kong, the main function of which is to supervise and regulate the auction activities in Hong Kong.

#### Major Applicable Ordinances

##### *General Regulations in Relation to Auction*

###### *Mock Auction Ordinance (CAP. 255) (the “MAO”)*

The main purpose of the MAO is to prohibit certain practices relating to sales purporting to be sales by auction. According to MAO, any person who promotes or conducts, or assists in the promotion or conduct of, a mock auction at which one or more lots are sold or offered for sale shall be guilty of an offence and shall be liable on conviction on indictment to a fine of \$20,000 and to imprisonment for five years. The Mock Auctions Ordinance (Cap. 255 of the Laws of Hong Kong) (“**Ordinance**”) is relevant to us as it provides a legal framework for auctions conducted in Hong Kong, but it does not affect us, as we do not engage in “mock auctions” as defined in the Ordinance.

###### *Sale of Goods Ordinance (CAP. 26) (the “SGO”)*

The SGO governs the formation, effects and performance of a contract, as well as remedies for breach of the contract. In our art auction business segment, if we conclude a contract with a buyer to sell the artwork we own, such a contract is in general subject to the SGO. If we sell artworks consigned to us at auctions, such sales are subject to Section 60-Auction sale of Part VI Supplementary of the SGO. Section 60 provides that:

- (a) where goods are put up for sale by an auction in lots, each lot is deemed to be a subject of a sale contract;
- (b) a sale by auction is complete when the auctioneer announces its completion by the fall of the hammer, or in other customary manner. Until such announcement is made, any bidder may retract his bid;
- (c) where a sale by auction is not subject to a right to bid on behalf of the seller, it is illegal for the seller to bid himself or have any person to bid on his behalf, or for the auctioneer to knowingly take any bid from the seller or any such person;
- (d) a sale by auction may be subject to a reserve or upset price, and a right to bid may be expressly reserved by or on behalf of the seller.

---

## REGULATORY OVERVIEW

---

### *Anti-money Laundering and Counter-terrorist Financing*

#### *(1) Legislations*

As a member of Financial Action Task Force (the “**FATF**”), Hong Kong implements recommendations promulgated by the FATF on anti-money laundering and counter-terrorist financing. Given that antiques, precious stones and other good for auction may be used as tools for money laundering or terrorist financing activities from time to time. Below is a brief introduction of the principal legislation in Hong Kong in relation to anti-money laundering and counter-terrorist financing.

##### (i) Drug Trafficking (Recovery of Proceeds) Ordinance (CAP. 405) (the “**DTROP**”)

Among other things, 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.. Under the DTROP, a person constitutes an offence if, knowing or having reasonable grounds to believe that any person’s proceeds of drug trafficking, he deals with that property. It’s also provides that a person shall report to authorized officer when he knowing or having reasonable grounds to believe that any property, directly or indirectly, represents proceeds of drug trafficking. Failure of making such report also constitutes an offence.

##### (ii) Organized and Serious Crimes Ordinance (CAP. 455) (the “**OSCO**”)

Among other things, the OSCO empowers officers of the Police and the Customs and Excise Department to investigate organize 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 offence to cover the proceeds of all indictable offences in addition to drug trafficking.

##### (iii) United Nations (Anti-Terrorism Measures) Ordinance (CAP. 575) (the “**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.

---

## REGULATORY OVERVIEW

---

(iv) Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (CAP. 615) (the “AMLO”)

Among other things, the AMLO contains requirements for customer due diligence and record-keeping. It also provides regulatory authorities with the powers to supervise compliance with the requirements under the AMLO. Besides, the regulatory authorities are empowered to (i) ensure that proper safeguard exist to prevent contravention of specified provisions in the AMLO and (ii) mitigate money laundering and terrorist financing risks.

(2) *Practice Guideline*

Except for the legislation above, the Hong Kong Narcotics Division, Security Bureau also provides Anti-Money Laundering and Counter-Terrorist Financing Guideline for accountants, estate agents, precious metals and precious stones dealers and trust and company service providers. The Guide provides practical guidance to assist entities 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 Guide, among other things:

- Failing to report knowledge or suspicion of crime proceeds or terrorist property is a criminal offence. If a person goes on to deal with such property knowing or having reasonable grounds to believe that the property is crime proceeds, then he/she may have committed the offence of money laundering.
- Companies should always conduct customer due diligence, maintain proper records of transactions and have in place a proper internal control system.
- Conducting on-going monitoring of following activities of client: incommensurate background of buyer; high value transactions conducted in cash but not in other popular and safe methods of payment; unusual payment method; unusual buying behavior/pattern; unusual behavior of the person or persons conducting the transactions; request for over/under-invoicing of purchases.

(3) *PRC anti-money laundering laws*

“Article 3 of the Anti-Money Laundering Law” as promulgated on October 31, 2006 and which came into force on January 1, 2007 provides for the anti-money laundering obligations of financial institutions and special non-financial institutions. It states as follows:

A financial institution established within the territory of the People’s Republic of China or a special non-financial institution that has an anti-money laundering obligation shall adopt preventative and supervisory measures, establish and improve its client identity identification system to preserve the clients’ identity materials and transactional records and a reporting system of large and doubtful transactions, and perform its anti-money laundering obligations.

---

## REGULATORY OVERVIEW

---

However, the Anti-Money Laundering Law does not clearly define the scope of affected special non-financial institutions, their anti-money laundering obligations and the related supervision and management. Article 35 states that “The scope of the special non-financial institutions that have the anti-money laundering obligation, the specific anti-money laundering obligations thereof as well as the specific supervisory and administrative measures on special non-financial institutions” shall be decided by the administrative department of anti-money laundering of the State Council, in collaboration with other relevant departments of the State Council. Nevertheless, until now the relevant authorities have not enacted or implemented detailed rules applicable to special non-financial institutions.

In order to reinforce internal control and prevent risks, the Issuer and its subsidiary Poly Auction Beijing have, as advised, pursuant to the laws and regulations of the Anti-Money Laundering Law, subsequently established an anti-money laundering system.

For the detailed information of regulatory and Shareholders’ approval for the Reorganization, please see the sections headed “Our History and Reorganization” and “Appendix VII – Statutory and General Information”. Our PRC legal advisors confirmed that we have obtained all the necessary approvals from the relevant PRC government authorities with respect to the Reorganization and completed all the necessary filing procedures in compliance with the relevant PRC laws and regulations.

As advised by our PRC legal advisors, as at the Latest Practicable Date, there were no material litigation or arbitration proceedings pending relating to the artwork authentication and valuation services provided by us.

As advised by our PRC legal advisors, during the Track Record Period and up to the Latest Practicable Date, we have complied with all relevant PRC laws and regulations in all material aspects for our business operations in the PRC.