REGULATION ON THE PRC SECURITIES INDUSTRY

Overview

The Company currently conducts its business activities mainly in securities industry, futures industry and fund industry. All businesses conducted by securities companies, fund management companies and futures companies are regulated by the CSRC. The current applicable laws and regulations for the Company mainly include the Company Law, the Securities Law, the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) (which was effective on June 1, 2008), the Securities Investment Funds Law of the PRC (中華人民共和國證券投資基金法) (which was effective on June 1, 2004), the Management Rules on Securities Investment Funds Management Companies (證券投資基金管理公司管理辦法) (which was effective on October 1, 2004), the Regulations on Risk Handling of Securities Companies (證券公司風險處置條例) (which was effective on April 23, 2008), the Futures Trading Management Regulations (期貨交易管理條例) (which was effective on April 15, 2007), the Administrative Measures for Futures Companies (期貨公司管理辦法) (which was effective on April 15, 2007) and so forth. At the same time, the securities industry is also regulated and restricted by the policies, laws, regulations, rules and other regulatory documents in relation to taxation, foreign exchange and so forth.

Major Regulatory Authorities

CSRC

According to the regulations of the Securities Law and Futures Trading Regulations (期貨交易管理條例), the CSRC is responsible for supervision and management of the securities and future market of the PRC and for maintaining the order thereof, and to secure their lawful operations in accordance with the laws, regulations and the authorities of the State Council. The main duties of the CSRC include:

- To enact regulations and rules in relation to the supervision and management of the securities and futures market, and to exercise the right of examination, approval or verification according to law;

- To supervise and manage the issuance, listing, trading, registration, deposit and settlement of securities and the listing, trading, settlement, delivery of futures and related activities according to law;

- To supervise and manage the securities activities of the securities issuers, listing companies, securities companies, securities investment funds management companies, securities services organizations, stock exchanges and securities registration and settlement organizations according to law; and to supervise and manage futures business activities of market-related participants, including the futures exchanges, futures companies, other futures business institutions, non-futures companies clearing member, futures margin security depository regulating institutions, futures margin depository bank, delivery warehouse and so forth;

- To enact qualification standards and practice codes for securities business personnel and futures practitioners according to law, and to supervise the implementation;

- To supervise and inspect the disclosure of information in issuance, listing and trading of securities and information of futures trading according to law; and

- To investigate and punish for activities in violation of laws and administrative regulations in relation to supervision and management of securities market and futures market according to law.

The Securities Association of China (SAC)

The SAC is a self-regulatory organization established under the relevant regulations of the Securities Law and the Society Groups Registration and Management Regulations (社會團體登記管理條例) (which was effective on October 25,1998), and it is a non-profit society group legal entity, it is subject to the guidance and supervision of the CSRC and the Ministry of Civil Affairs of the PRC, and it regulates the securities industry by its members meeting formed by all members such as securities companies.

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 Measures for the Administration of Stock Exchange (證券交易所管理辦法) (which was effective on December 12, 2001), the main duties of a stock exchange include:

- To provide venues and facilities for trading of securities;

- To enact operating rules for the stock exchange;

- To accept listing applications and to arrange listing of securities;

- To organize and supervise trading of securities;

- To supervise its members;

- To supervise the listed companies;

- To manage and announce market information;

- To handle listing suspension of stocks and company securities, resume or termination of listing;

- To adopt measures of technical suspension or to decide for temporary suspension in unexpected incidents; and

- Other duties as assigned by the securities regulatory authorities.

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 trading of futures. The main duties of a futures exchange include:

- To provide venues and facilities for trading;

- To design contracts and to arrange listing of contracts;

- To organize and supervise trading, clearing and settlement;

- To ensure fulfillment of contracts;

- To supervise and manage its members in accordance with its articles and trading rules; and

- 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 on April 15, 2007), the main duties of a futures exchange include:

- To enact and implement the trading rules and implementing regulations of the futures exchange;

- To announce market information;

- To regulate members and its clients, specified delivery warehouse, futures margin depository bank and futures business of other participants in the futures market; and

- To investigate and punish irregularities.

Entry Requirements

Entry Requirements for Securities Companies

Establishment requirements

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 entry standards and other requirements. Establishment of securities companies must be approved by the CSRC and business license must be obtained. The relevant conditions include:

- The articles of association of the proposed securities company must comply with the laws and administrative regulations;

- The major shareholders of the proposed securities company must have sustained profitability, good reputation and no record of serious violation of law or regulation during the latest three years, and have net assets of not less than RMB200 million;

- If the proposed securities company is to operate the business of securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment activities, the minimum registered capital shall be RMB50 million; the minimum registered capital for companies operating one of the securities underwriting and sponsorship, securities proprietary, securities assets management and other securities businesses shall be RMB100 million; the minimum registered capital for companies operating two or more of the securities underwriting and sponsorship, securities proprietary, securities assets management and other securities businesses shall be RMB500 million;

- The directors, supervisors, senior management of the proposed securities company must be qualified, the practitioners must have securities practice qualification and no less than three of them shall be senior management officers with each with at least two years of experience in senior management in securities industry;

- The proposed securities company must have good risk management system and internal control system; and

- The proposed securities company must have suitable premises and facilities for operation.

The Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) (which was effective on July 1, 2002 and amended on December 28, 2007) clearly sets out the conditions and procedures for establishment of Foreign-invested Securities Companies. The accumulated (including direct holding and indirect control) shareholdings of foreign shareholders or their interest proportions in a foreign-invested securities company shall not exceed 1/3; among the domestic securities companies which are domestic shareholders, at

least one of them shall have a shareholding or an interest proportion in a foreign-invested securities company of not less than 1/3; and after the domestic securities company has been converted into a foreign-invested securities company, the shareholding proportion of at least one domestic shareholder shall be no less than 1/3. For foreign investors who lawfully hold 5% or more of the shares in a listed domestic securities company acquired by buying securities on a security exchange or who jointly hold with others by agreement and other arrangement more than 5% of the shares of a listed domestic securities company, approval from the CSRC must be obtained, and the shareholdings held (including direct holding and indirect control) by a single foreign-investor in a listed domestic securities company shall not exceed 20%. Shareholdings held (including direct holding and indirect control) by all foreign investors in a listed domestic securities company shall not exceed 25%. Establishment of a foreign-invested securities company must be approved by the CSRC and business license must be obtained. The relevant conditions include:

- The registered capital must meet the requirements of the Securities Law;
- The shareholders must have the qualifications as prescribed in the Rules, their proportions of capital and contribution patterns must comply with the Rules;
- As required by the CSRC, the number of staff with securities practice qualification shall not be less than 30, and it shall have necessary accountants, legal and computer professionals;
- It shall have good internal management and risk control systems and a system that separately manages the businesses of underwriting, brokerage and self-operation in terms of various aspects, such as organization, personnel, information, business implementation, etc., and it shall have a proper internal control technology system;
- It must have premises that meet the requirements and qualified business facilities; and
- Other prudential requirements as prescribed by the CSRC.

In addition, according to the requirements of the Working Guidelines for the Examination and Approval in Connection with the Administrative Permission of Securities Companies No. 10: Share Increase and Changes in Equity Interests 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, in the case of an enterprise with direct or indirect equity participation from a foreign investor taking an equity interest in a securities company, the percentage of the equity interest in the securities company owned indirectly by the foreign investor, as calculated based on equity penetration, may not reach 5%. A foreign investor may be exempted from such restriction if they satisfy all of the following circumstances:

(1) The foreign investor indirectly holds the securities company's equity interest by taking an equity interest in a listed company;

(2) The largest shareholder, controlling shareholder or de facto controller of the listed company is a Chinese investor;

(3) If there is a change in the equity structure of the listed company in the future and the foreign investor indirectly controls the equity interest of the securities company by taking control of the listed company, thereby violating China's open door policy, the matter shall be rectified within a time limit, and the relevant equity interest may not carry any voting rights if the matter is not rectified before the deadline; and

(4) The overseas investor may not establish any equity securities joint venture with a domestic securities company or make a strategic investment in a listed securities company during the period in which the overseas investor indirectly owns at least 5% of the equity interest of one or more domestic securities company(ies).

Business scopes

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

- Securities brokerage;
- Securities investment advisory;
- Financial consultations in relation to securities trading and securities investment activities;
- Securities underwriting and sponsorship;
- Securities proprietary;
- Securities assets management; and
- Other securities businesses.

According to 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) which was effective from December 1, 2008, securities companies which are under common control of the same entity or individual or mutual control relationship exists between them shall not operate in the same business, unless the relevant companies adopt effective measures to obviously distinguish the operating regions or the target clients and there is no competition between the companies; unless otherwise provided for by the CSRC, when the securities company is established, the CSRC approves its business scope according to the statutory provisions and grants approval to not more than four types of business to the newly established company; 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 apply 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.

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 the following business:

(1) underwriting and sponsorship of shares (including RMB ordinary shares and foreign-invested shares) and bonds (including government bonds and corporate bonds);

(2) brokerage of foreign-invested shares;

(3) brokerage and proprietary trading of bonds (including government bonds and corporate bonds); and

(4) any other business approved by the CSRC.

Material changes

According to the rules of 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 must be obtained before a securities company can establish, acquire or de-register a branch, or change of the business scope or registered capital, or change of any shareholder holding more than 5% of the shares, change of de facto controller, change of important provisions of the articles of association of the company, or any merger, division, change of incorporation, cessation, dissolution and bankruptcy.

According to Administrative License in Relation to the First Eleven Local Branch Offices Exam and Approve Some of the Securities Institutes (CSRC Notice [2011] No. 15) (關於首批授權11家派出機構審核部分證券機構行政許可事項的決定) (證監會公告[2011]15號) (which was effective on July 1, 2011) promulgated by the CSRC on June 29, 2011, the local branch offices of the CSRC in 11 provinces such as Shanghai have the examination and approval authority in the following five types of administratively approved matters:

(1) change of important provisions of the articles of association of the company;

(2) establish, acquire or de-register a branch;

(3) change of the registered capital, with the exception of the following: a listed securities company changes its registered capital; the existing shareholders of an unlisted securities company increase the registered capital without creation of shareholder(s) with more than 5% of the shareholdings and there is no change to the de facto controller, controlling shareholder(s) and the largest shareholder of the securities company;

(4) a change of shareholder(s) with more than 5% of shareholdings and de facto controller, with the exception of a change of shareholder(s) with more than 5% of shareholdings and de facto controller of a listed securities company;

(5) increase or decrease business of securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment activities, proprietary trading of securities, management of securities assets and underwriting of securities.

On September 2, 2011, CSRC promulgated Administrative License in Relation to the Second Twelve Local Branch Offices Exam and Approve Some of the Securities Institutes (CSRC Notice [2011] No. 24) (關於第二批授權12家派出機構審核部分證券機構行政許可事項的決定) (證監會公告[2011]24號) which authorized local branch offices of the CSRC in another 12 provinces to accept the above matters, and make decisions on the relevant administrative license.

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) which was effective from January 1, 2008, subject to the approval of the CSRC, securities companies may establish wholly-owned subsidiaries, and also invest jointly in the establishment of subsidiaries with other investors who meet the required conditions for shareholders of securities companies stipulated in the Securities Law. However, operation of similar businesses which have conflict of interest or competition is not allowed for securities company and its subsidiaries and for subsidiaries under common control of the same securities company. The Regulatory Requirements on Branches of Securities Companies (Provisional) (證券公司分公司監管規定(試行)) that was effective from May 13, 2008 and Rules for Further Regulation of Securities Operating Outlets (關於進一步規範證券營業網點的規定) which was effective from November 1, 2009 provide that securities companies in compliance with the regulatory requirements can establish new branches and operating outlets upon approval of the CSRC. The Securities Law and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) regulate that, approval from the securities regulatory authorities of the State Council must be obtained before a securities company can establish, acquire or de-register a branch or before merger or division; approval from the CSRC must be obtained before a securities company establish, acquire or purchase shares of any securities operating institutions outside the PRC.

Entry requirements for fund management companies

Establishment requirements

The Securities Investment Funds Law of the PRC (中華人民共和國證券投資基金法) and the Management Rules for Securities Investment Fund Management Companies (證券投資基金管理公司管理辦法) establish entry standards and other requirements for fund management companies. Establishment of a foreign-invested securities company must be approved by the CSRC and business license must be obtained. The relevant conditions include:

- The articles of association of the proposed fund management company must comply with the Securities Investment Funds Law of the PRC (中華人民共和國證券投資基金法) and the Companies Law;

- The registered capital of the proposed fund management company must not be less than RMB100 million, and it must be paid-in capital by cash, foreign shareholders shall be able to freely convert currencies for contribution;

- The major shareholders of the proposed fund management company shall have good operation performance and good social reputation in securities business, securities investment advisory, trust assets management or other financial assets management, there was no record for violation of law during the last three years, and that the registered capital shall not be less than RMB300 million;

- The proposed fund management company shall have senior management who are in compliance with laws, administrative regulations and rules of the CSRC and staff engage in research, investment, valuation and marketing business, the number of the proposed senior management and operating staff shall not be less than 15, and they shall obtain funds practice qualification;

- The proposed fund management company must have good internal control systems that are in compliance with the requirements of the CSRC for supervision, auditing and risk control; and

- The proposed fund management company must have operating premises, security facilities and other facilities in relation to fund management business in compliance with the requirements;

The Management Rules on Securities Investment Funds Management Companies (證券投資基金管理公司管理辦法) stipulates a series of regulatory conditions for foreign shareholders of Sino-foreign joint venture fund management companies, including:

- Foreign shareholders shall meet the following conditions:

  (1) It is a financial institution established and lawfully existing under the laws of its home country or region with financial asset management experience, is in sound financial conditions and on good credit standing,and has not been subject to penalty by the regulatory or judicial authority in the most recent three years;

  (2) Its home country or region has sound systems for securities laws and regulation, and the securities regulatory authority has signed a memorandum of understanding on securities regulatory cooperation,and is maintaining effective regulatory cooperation, with the CSRC or another authority recognized by the CSRC;

  (3) Its paid-up capital is not less than RMB300 million or equivalent in a freely convertible currency; and

  (4) Other conditions stipulated by the CSRC that are approved by the State Council.

- The Capital Contribution Ratio or the equity interests may not, in aggregate (including direct and indirect holdings), exceed the commitment to open up the securities industry to foreign investors made by the State.

- In respect of an overseas shareholder of a Sino-foreign equity joint venture Fund Management Company, in the event that there are requirements on record filing of overseas investment by the competent authority at the place in which such overseas shareholder is registered or in which its principal business is conducted, if such overseas shareholder submits the relevant record filing materials to the competent authority after it has obtained the approval document from the CSRC in accordance with the law, it shall at the same time provide a copy of the materials to the CSRC.

In addition, Management Rules on Securities Investment Fund Management Companies impose restriction on the number of fund management companies a shareholder may invest, that is, the number of fund management companies that an institution or institutions under the control of the same de facto controller may invest must not exceed two, of which the number of fund management companies in which such institution or institutions hold controlling interests must not exceed one.

Material changes

According to Management Rules on Securities Investment Fund Management Companies, the following material changes of fund management companies must be reported to the CSRC for approval:

- Any change of shareholders, registered capital or proportion of shareholders' contribution;

- Any change of name, address;

- Any amendment to the articles of association; and

- Any change of other material matters as stipulated by the CSRC.

Entry requirements for futures companies

Establishment requirements

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) provide for the entry standards and other requirements. Establishment of futures companies must be approved by the CSRC. The relevant conditions include:

- The minimum registered capital of the proposed futures company is RMB30 million. The registered capital shall be paid-in capital. Shareholders shall contribute by cash or non-monetary assets which are necessary for the operations of the futures company, the proportion of monetary contribution shall not be lower than 85%;

- The directors, supervisors and senior management of the proposed futures company shall be qualified for their positions; practitioners shall have futures practice qualifications; the number of staff with futures practice qualifications shall not be less than 15; and the number of senior management staff with practice qualifications shall not be less than three;

- The articles of association of the proposed futures company must comply with the requirements of laws and regulations;

- The major shareholders and de facto controller of the proposed futures company shall have sustained profitability, good reputation, and no record of serious violation of law or regulation during the last three years;

- The proposed futures company must have qualified premises and facilities for operation;

- The proposed futures company shall have sound risk management and internal control systems; and

- 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 on June 1, 2008) promulgated by CSRC on May 22, 2008, the number of futures companies that an institution may take a controlling stake and invest must not exceed two, of which the number of futures companies in which such institution holds controlling interests must not exceed one.

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 one of the situations below:

- Shareholding of one single shareholder to be increased up to 5% or above, or the accumulated shareholding of the associated shareholders is to be increased up to 5% or above; and

- Shares are to be transferred to shareholders holding 5% or above of the shares, or to associated shareholders accumulatively holding 5% or above of the shares.

Any change of registered capital of a futures company shall be examined and approved by the CSRC. If a futures company changes its legal representative, the futures company shall submit application material to its local branch office of the CSRC. If a futures company changes its address, it shall submit application material to the branch office of the CSRC at the place where it is to be moved to. If a futures company closes its business, it shall submit application material to the CSRC. For any establishment, change, dissolution, bankruptcy,

revocation of futures business license 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.

Establishment of branches

A futures company can establish operation branches; if a futures company applies to establish an operation branch, it shall submit application to the branch office of the CSRC at the place where the proposed operation branch is to be established.

Regulation on Operations

Securities

Securities and related business we currently engage in include, but not limited to, securities brokerage, securities proprietary trading, securities underwriting and sponsorship, securities investment consulting, financial advisory relating to securities trade and securities investment activities, securities assets management, direct investment business, securities investment fund distribution, provision of intermediary business for futures companies, margin financing and securities lending, and QDII-related business. Securities companies that engage in securities business in the PRC are subject to various laws and regulations. Laws and regulations and policy documents including the Securities Law (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), 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), 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) (which was effective on April 1, 1998), the Measures on Securities Issuance and Underwriting (證券發行與承銷管理辦法) (which was effective on September 19, 2006), 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) (which was effective on December 1, 2008), the Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and the 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) (which was effective on June 1, 2011), the Provisional Measures on Client Assets Management of Securities Companies (證券公司客戶資產管理業務試行辦法) (which was effective on February 1, 2004), the Management Measures on Margin Financing and Securities Lending (證券公司融資融券業務管理辦法) (which was effective on August 1, 2006), the Letter on the Relevant Work of Direct Investment Business Trials of Securities Companies (關於證券公司直接投資業務試點有關工作的函) (which was effective on April 30, 2009), the Management Measures on Sales of Securities Investment Funds (證券投資基金銷售管理辦法) (which was effective on July 1, 2004), the Provisional Measures on Provision of Futures IB Business (證券公司為期貨公司提供中間介紹業務試行辦法) (which was effective on April 20, 2007), and 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) (which was effective on July 5, 2007) regulate the operations of securities companies.

Securities brokerage

The Securities Law of the PRC and the Regulations on Supervision and Management of Securities Companies provide (i) that securities companies that engage in securities brokerage shall examine the sufficiency of the funds and securities of a client's account; (ii) a securities company may appoint a person other than those of the securities company as a securities broker; and (iii) 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. A securities company is not allowed to categorize the transaction settlement funds of the clients as its own property. Access of the trading settlement funds of the clients shall be handled by the designated commercial banks. The securities company cannot accept authorizations to engage in discretionary securities trading on its customer's account, including, for example, deciding the type, quantity and price of securities to buy or sell for its customers.

On March 13, 2009, the CSRC promulgated the Provisional Measures on Management of Securities Brokers (證券經紀人管理暫行規定) to further strengthen the supervisions on the securities brokers and to regulate the activities of securities brokers. Pursuant to these measures, securities brokers are required to pass the qualifying exam, complete professional training and register their qualification status with the SAC.

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 business license approval must be obtained from the CSRC in accordance with the regulations of the Provisional Measures so as to engage in securities investment consulting business. Institutions engage in securities investment consulting business and its investment consulting personnel provide direct or indirect paid consulting services activities (securities investment analysis, prediction or recommendation, etc.) to securities investors or clients in the following manner:

- accept the delegation of investors or clients to provide securities investment consulting services;

- organize securities investment consultation seminar, public lecture, analytical meeting, etc.;

- publish securities investment consultation articles, discussions, reports, and provide securities and futures investment consultation services through public media (radio, television, etc.); and

- provide securities investment consultation services through telecommunication equipment systems including telephone, facsimile, computer network, etc.

Institutes proposed to engage in qualified securities investment consulting shall meet the necessary conditions and obtain a business license from the CSRC; personnel proposed to engage in investment consulting business of securities and futures must obtain qualification for investment consulting in securities and join a qualified institute of securities investment consulting before engaging in the business of securities investment consulting.

Securities proprietary trading

The Securities Law (中華人民共和國證券法) and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) stipulate the categories of securities that a securities company can sell and purchase in its securities proprietary business; a securities company that engages in securities proprietary business shall use real name securities proprietary account, and shall report to the stock exchange for records within three trading days from the date when the proprietary account is opened; the scope of activities of a securities company which engages in securities proprietary business; risk control indicators such as the proportion of proprietary securities in the Net Capital of the company, the proportion of the value of one single security in the Net Capital of the company, the proportion of the amount of one single security in the total amount of issued securities, shall be in accordance with the requirements of the CSRC. The securities company must conduct its proprietary trading business in its own name and use their own funds or funds lawfully raised.

In order to urge the securities companies to reform the securities proprietary systems and to guard against the risks of securities proprietary business, the CSRC promulgated the CSRC Notice on Forwarding the "Guidelines on Proprietary Business of Securities Companies" and Strengthening the Regulation on Proprietary Business of Securities Companies (中國證券監督管理委員會關於轉發<證券公司證券自營業務指引>, 加強證券公司自營業務監管的通知) on November 11, 2005, which stipulates that securities companies must establish comprehensive securities management system for securities proprietary business, investment decision-making mechanism, operating procedures and risk control system, and shall conduct proprietary business with risks that can be measured, controlled and affordable.

On April 29, 2011, the CSRC promulgated the Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and the 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), which became effective from June 1, 2011, and further clarified the investment scopes of the securities proprietary business of securities companies. Accordingly, the following securities are allowed for the proprietary trading business of securities companies:

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

- securities which have been or may be legally listed and traded on the domestic inter-bank market, including:

  (1) Government bonds;

  (2) RMB bonds issued by international development institutions;

(3) Central bank bills;

(4) Financial bonds;

(5) Short-term financing bonds;

(6) Corporate bonds;

(7) Medium-term notes; and

(8) Enterprise bonds.

- securities issued with the approval of the CSRC or after filing with the CSRC and traded over the counters of domestic financial institutions.

A securities company may form subsidiary companies to invest in financial products other than those listed above. To form such a subsidiary company, a securities company shall be qualified for the proprietary trading business. A securities company shall not provide financing or guarantee for a subsidiary company as mentioned above.

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 must 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;

- Issuance of new shares and convertible corporate bonds by listing companies; and

- Other conditions identified by the CSRC.

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

- Registered capital of not less than RMB100 million, and the Net Capital of not less than RMB50 million;

- With 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 structuring, and shall have appropriate back-office supports such as research capabilities and marketing capabilities;

- With good sponsoring business team and reasonable professional structuring, the number of practitioners shall not be less than 35, including not 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 representative;

- Without any administrative penalties because of significant violation of laws and rules in the last three years; and

- Other conditions regulated by the CSRC.

In addition, 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) stipulates that, if the aggregate holding of a sponsoring institution and its controlling shareholder, de facto controller, important related party exceeds 7% of the issuer's shares, or an issuer holds or controls more than 7% of the shares of the sponsoring institution, the institute shall perform the duties of sponsoring with an unrelated sponsoring institute upon sponsoring the listing of securities of the issuer. Meanwhile, according to 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) promulgated by the CSRC on July 8, 2011, a direct subsidiary, direct investment fund, fund for industry and fund management of a 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 execution of the relevant agreement or the practical commencement of the relevant business.

The Management Measures on Securities Issuing and Underwriting which was effective from September 19, 2006 regulates the issuance of shares or convertible bonds in the PRC by issuers, the underwriting of securities in the PRC by the securities companies, and the investors' subscription of securities issued in the PRC. The securities company shall submit offering and underwriting plans to the CSRC prior to engaging in any underwriting activities.

Securities assets management

According to the Provisional Measures on Client Assets Managements of Securities Companies (證券公司客戶資產管理業務試行辦法), securities companies engaging in client assets managements shall apply to the CSRC for qualification on client assets managements according to the provisions of the Measures. Subject to the approval of the CSRC, a securities company may engage in handling targeted asset management businesses for single clients, handling collective asset management businesses for multiple clients and handling specific-purpose special asset management businesses for clients. A securities company engaging in client assets managements shall comply with the following conditions:

- It shall be approved by the CSRC as a comprehensive securities company;
- Its Net Capital shall not be less than RMB200 million, and it shall comply with the requirements of the CSRC on the various risk control indicators of comprehensive securities companies;
- Practitioners of clients assets managements shall have securities practice qualification, and have no record of bad behavior, and the number of staff who have three years of experience in securities proprietary, assets management or securities investment funds management shall not be less than five;
- It shall have good corporate governance structure, comprehensive internal control and risk management system, which are effectively implemented;
- It has not been subjected to administrative punishment or criminal punishment within the past one year; and
- Other conditions as specified by the CSRC.

According to the Securities Law and the Regulations on Supervision and Management of Securities Companies, securities companies which engage in securities assets management shall not do the following:

- guarantee the clients that their principal assets will not suffer loss or promise that they will receive a minimum profit;
- the assets value of one single entrustment of a client is lower than the minimum value as specified by the CSRC;
- use the assets of the client for unnecessary securities tradings;
- carry out transactions between securities proprietary accounts and assets management accounts or among different securities assets management accounts, and there is no sufficient evidence that they have been separated according to law; and

- Other activities prohibited by laws, regulations and the CSRC.

The Detailed Implementation Rules for the Targeted Asset Management Business of Securities Companies (Trial Implementation) (證券公司定向資產管理業務實施細則(試行)) and the Detailed Rules for the Implementation of the Collective Asset Management Business of Securities Companies (Trial Implementation) (證券公司集合資產管理業務實施細則(試行)), which were both promulgated by CSRC on May 31, 2008, and the Trial Rules for Fund Management Companies' Asset Management Business for Specific Clients (基金管理公司特定客戶資產管理業務試點辦法) which was promulgated by CSRC on August 25, 2011 and takes effect on October 1, 2011, set detailed regulations on the targeted asset management business and collective asset management business of securities companies.

Margin financing and securities lending (including margin and securities refinancing)

According to the Securities Law (中華人民共和國證券法) and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例), securities companies engage in margin financing and securities lending shall enter into margin financing and securities lending contracts with the client, and open client securities guarantee account at the securities registration and settlement institution under the name of the securities company, and open client capital guarantee account at designated commercial banks.

The Management Measures on Securities Companies Margin Financing and Securities Lending (證券公司融資融券業務管理辦法) promulgated by the CSRC on June 30, 2006 and amended on October 26, 2011 clearly state that approval from the CSRC must be obtained for a securities company to carry out margin financing and securities lending business; it is stipulated in the operating regulations that, among others, securities companies doing margin financing and securities lending business shall by reference to third-party custody of the client's transaction settlement funds enter into client credit funds custody agreement with their clients and commercial banks; debt guarantees and interest processing, etc., are clearly stipulated; supervision and management of securities companies engaged in margin financing and securities lending by the CSRC, the stock exchanges and securities registration and settlement institutions.

Pursuant to the recently amended Management Measures on Securities Companies Margin Financing and Securities Lending (證券公司融資融券業務管理辦法), PRC securities firms that apply for the qualification to engage in margin financing and securities lending business must satisfy of the conditions set out below:

(i) have a minimum operation history of three years in the securities brokerage business;

(ii) have a sound system of corporate governance and effective internal control in place that enable the securities firm to identify, control and prevent any potential operation risk and internal control risk;

(iii) the securities firms and their respective directors, supervisors and senior management must not have been subject to any administrative and criminal penalty for any violation of relevant laws and regulations in their operation during the past two years, and they are not subject to any investigation or rectification, orders by the CSRC for any regulatory non-compliances;

(iv) 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;

(v) clients' assets remain secured and intact with effective measures in place for clients' third-party fund depository, and client's particulars remain true and intact;

(vi) the establishment of a comprehensive complaint-feedback mechanism that ensures the timely and due solution to any disputes with clients;

(vii) the maintenance of a stable information security system, with no material incident occurred during the past year due to any management issue, and the systems designated for margin financing and securities lending business have been approved by the applicable PRC stock exchange and registrars;

(viii) an appropriate number of qualified senior management and professionals who are responsible for the margin financing and securities lending business, and the proposals and internal control system have been approved and accredited by the SAC; and

(ix) any other conditions stipulated by the CSRC.

On October 26, 2011, the CSRC promulgated the Trial Supervision and Management Measures on Margin and Securities Refinancing Business (轉融通業務監督管理試行辦法) and specified (i) the requirements for the establishment and operation of the Securities Finance Company; (ii) the responsibilities of the Securities Finance Company, which include, among others, providing funding and securities refinancing services to support the margin financing and securities lending business of PRC securities firms; (iii) the rules and regulations relating to the margin and securities refinancing business; (iv) the source of funding and securities to be used in the margin and securities refinancing business by the Securities Finance Company; and (v) that Securities Finance Company shall establish compliance and risk management system to ensure its compliance with rules and regulations relating to risk control indicators.

On November 25, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange separately 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 of 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》 which, among others, contain express rules on regulating the specific procedures for this business and the requirements for eligible securities. On the same day, according to the implementation rules, the Shanghai Stock Exchange and the Shenzhen Stock Exchange announced new notices to expand the scope of securities eligible for margin finance and securities lending business from 90 stocks to 278 stocks and 7 ETFs. The new notices will become effective on December 5, 2011.

Direct investment

According to the provisions of the Letter on the Relevant Work of Direct Investment Business Trials of Securities Companies (關於證券公司直接投資業務試點有關工作的函) and its attachment Guidelines for Direct Investment Business Trials of Securities Companies (證券公司直接投資業務試點指引), approval from the CSRC shall be obtained for a securities company to carry out direct investment business, and no objection letter allowing companies at trials to carry out direct investment business shall be obtained. Without consent of the CSRC, a securities company is not allowed to carry out direct investment business by any means. For a securities company to carry out direct investment business trials, it shall set up a subsidiary which engages in direct investment business (the "direct investment subsidiary" hereinafter) to carry out direct investments.

A securities company meeting the following requirements can apply to be a direct investment business trial company:

- It is categorized as "Group B" or above in the last classification and evaluations;
- The Net Capital in each of the last 12 months is not less than RMB1.5 billion, all of the risk control indicators continue to meet the requirements; after establishment of direct investment companies, all of the risk control indicators comply with the regulations;
- It has relatively strong capacity in investment banking, and has engaged in a minimum of five projects as the principal underwriter of shares and convertible bonds in the last three financial years; or has underwritten shares and convertible bonds with a minimum amount of RMB10 billion;
- It has a comprehensive internal control system and good risk control mechanism to control investment risks effectively; and
- It has sufficient research on and preparations for direct investment business, and has proper number of professional staff who have engaged in investment banking and assets management business to carry out direct investment business.

Subject to the approval of the CSRC, a direct investment subsidiary may engage in the following business:

- use its own funds to invest in shareholdings of domestic enterprises;
- provision of financial advisory service on equity investment to clients;
- use unemployed capital to invest in securities with low risk but high liquidity such as national debts, investment grade corporate bonds, money market fund and central bank bills, and the approved establishment of collection of asset management plan and specific asset management plan of securities companies for the purpose of cash management provided that effective control of risk and continuous liquidity is maintained; and

- other business with the consent of the CSRC.

For a securities company to carry out direct investment business trials, the following regulatory requirements shall be complied with:

- For those investing in a direct investment subsidiary with its own funds, the amount shall not exceed 15% of the Net Capital of the securities company;

- A sound internal control mechanism shall be established, risks management and compliance management shall be strengthened, conflict of interests with the direct investment subsidiary, the risks of transfer of benefits, "black box" operations and moral hazard shall be avoided; and

- Be independent with the direct investment subsidiary with respect to personnel, constitution, finance, assets, management, business operation, etc.

In addition, 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) made a series of requirements in respect to investment amount, risk control, compliance management, management of personnel, and the establishment of direct investment fund by direct investment subsidiary, and the operation and management of direct investment fund for securities companies directly engaging in investment.

Securities investment funds distribution

According to the Management Measures on Sales of Securities Investment Funds, a securities company which applies for the qualification for funds distribution business shall satisfy the following conditions:

- It shall have a department responsible for distribution of funds;

- It shall have good financial conditions, standardized and stable operations, and has not been subjected to administrative or criminal punishment during the last three years due to violation of laws or regulations;

- It shall have good corporate governance structure, comprehensive internal control and risk management system, which are effectively implemented;

- It shall have a place of business, security facilities and other facilities suitable for carrying out funds distributions business;

- It shall have safe and efficient technical facilities to handle funds offering, application and redemption, the technology systems for funds distribution business have been connected and tested with the corresponding technology systems of the fund managers, fund custodians and fund registration institutions, and the test results are in line with the standards of the state;

- Management systems for funds distributions such as comprehensive business processes, practice rules of sales personnel and emergency response measures, etc., have been established;

- One-half or more staff in a department of the company or its branches responsible for funds distributions shall have funds practice qualification, the management staff of the department have obtained the funds practice qualification, and are familiar with funds distributions, and have experience of two years or more in funds related business or experience of five years or more in securities and financial services;

- Financial risk control indicators such as Net Capital shall be in line with the relevant requirements of the CSRC;

- There was no misappropriation of client assets or other conduct which is prejudicial to the interest of clients during the last two years;

- It is not under investigation by the regulatory body for any illegal acts, and it is not in the rectification period; and

- There has not been any material changes that affected or are affecting the normal operations of the company, or litigation, arbitration and other serious matters.

Funds managers are responsible for sales of funds. Funds managers can delegate to other institutions with funds distribution qualification. Institutions without funds distribution qualification cannot accept the delegation from the funds managers for sales of funds. Securities companies can apply to the CSRC for funds distribution qualification.

On June 9, 2011, the CSRC promulgated the new 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, and the Management Measures on Sales of Securities Investment Funds with effect from July 1, 2004 was abolished on October 1, 2011.

The new Management Measures on Sales of Securities Investment Funds provides new requirements a securities company which applies for the qualification for funds distribution business shall satisfy:

- It shall have good corporate governance structure, comprehensive internal control and risk management system, which are effectively implemented;

- It shall have good financial conditions, standardized and stable operations;

- It shall have a place of business, security facilities and other facilities suitable for carrying out funds distributions business;

- It shall have safe and efficient technical facilities to handle funds offering, application and redemption which shall comply with CSRC's requirements for information management platform for funds distribution business, the technology systems for funds distribution business have been connected and tested with the corresponding technology systems of the fund managers and China Securities Depository and Clearing Company Limited, and the test results are in line with the standards of the PRC;

- It shall have formulated comprehensive fund clearance processes and fund management conforming to CSRC's requirements for funds distribution settlement fund management;

- It shall have a method system for assessing risk-bearing capacity of fund investors and risk level of fund products;

- It shall establish management systems for funds distributions such as comprehensive business processes, practice rules of salesmen and emergency response measures, etc., which conform to CSRC's requirements for internal control of fund distribution institutions;

- It shall establish internal control systems related to anti-money laundering as required by laws and regulations; and

- Other requirement promulgated by CSRC.

Provision of Futures IB Business

According to Provisional Measures on Provision of Futures IB Business (證券公司為期貨公司提供中間介紹業務試行辦法), a securities company applying for the qualification for the provision of futures IB Business to futures companies shall comply with the following conditions:

- All risk control indicators meet the required standards in the six months before application;

- The third-party custody system for client transaction settlement funds has been set up according to the regulations;

- It wholly owns or controls a futures company, or is under control of the same institution with a futures company, and that futures company has the membership qualification to be a futures exchange implementing members classification settlement system, and the risks regulatory indices thereof are continuously in compliance with the required standards in the two months before the application date;

- It has necessary operational staff, and there are at least five and two operational staff with futures practice qualification respectively in the headquarter of the company and in the operational department;

- Comprehensive systems of operational procedures, internal control, risks isolation and compliance inspection, etc., have been established according to the regulations;

- There are technology systems that meet the demands of the business; and

- Other conditions as required by the CSRC based on the developments of the market and the principle of prudential regulation.

Securities companies which engage in futures IB Business shall obtain futures IB Business qualification according to the provisions of the Measures, and shall operate carefully and uniformly manage the futures IB Business carried out by its operational department. A securities company engaged by a futures company to carry out futures IB Business shall provide the following service:

- Assist in account opening procedures;

- Provide information on the futures market and trading facilities; and

- Other services as required by the CSRC.

Securities companies cannot carry out futures trading, clearing, settlement or delivery for their clients, and they cannot 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 can only engage in the provision of futures IB Business to their wholly-owned or controlling futures companies, or futures companies with which they are under common control of the same institute. They cannot engage in the provision of futures IB Business to other futures companies. Securities companies shall have adequate business staff with futures practice qualifications and cannot employ business staff without futures practice qualifications to engage in the provision of futures IB Business. Staff engaging in futures IB Business in securities companies cannot carry out futures trading. Securities companies cannot, directly or indirectly, raise funds or provide guarantee in futures trading for clients.

QDII

According to 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), QDIIs carrying out the business of overseas securities investments shall engage domestic commercial banks to be responsible for assets custody, and they can engage overseas securities service institutions for sale and purchase of securities. Securities companies which are QDIIs can raise funds by setting up collection schemes, etc., and to use the funds raised in the overseas securities market. Applying to be a QDII shall comply with the following conditions:

- All risk control indicators shall meet the required standards; the Net Capital shall not be less than RMB800 million; the proportion of Net Capital in the net assets shall not be less than 70%; it shall have been engaging in collection of assets management scheme ("collection scheme" hereinafter) for more than one year; the value of assets under management as of the last quarter-end shall not be less than RMB2 billion or its equivalent in foreign currency.

- It shall have staff with overseas investment and management related experience in compliance with the regulations;

- It shall have sound governance structure and comprehensive internal control system, and standardized operations;

- It has not been subject to material penalty by any regulatory body in the last three years, and is not being investigated by any judiciary or regulatory body for any serious matter; and

- Other conditions as required by the CSRC based on the principle of prudential regulation.

Funds

Funds management companies engage in funds business in the PRC are also subject to regulations of various laws and regulations. Laws and regulations as well as policy documents such as the Securities Investment Funds Law of the PRC (中華人民共和國證券投資基金法), the Management Rules on Securities Investment Funds Companies (證券投資基金管理公司管理辦法) and the Administration of Securities Investment Fund Operations Procedures (證券投資基金運作管理辦法) regulate various aspects of the business of the funds companies.

Under the Securities Investment Funds Law of the PRC, offering funds for sale or raising funds by funds management companies shall be approved by the CSRC; funds management companies shall publish the prospectus, funds contracts and other relevant documents three days before offering of the funds; upon expiry of the funds raising period, if the total amount of funds raised by closed-end funds reaches 80% of the approved amount, or if the total amount of funds raised by open-ended funds exceed the approved minimum raising amount, and that the number of fund holders is in line with the requirements of the CSRC, the fund management company shall appoint authorized capital verification company to verify capital ten days after expiry of the fund-raising period, and submit the capital verification report to the CSRC within ten days after receipt of the capital verification report for records, make funds records, and shall announce the same; the close-end funds can be listed at the stock exchange for trading upon application by the funds management company and approval of the CSRC; the fund managers are responsible for the application, redemption and registration of open-end funds; sufficient cash or government bonds shall be reserved for the open-end funds to prepare for redemption payment to the fund holders.

These laws also provide for the products capable of being invested in with the funds and the prohibited usages, the disclosure obligations of fund information, the rights of fund holders and the ways to exercise such rights, which include: in the circumstance where fund holders holding 10% or above of the funds request to convene the general meeting of fund holders on the same matter, but the fund management company and the fund custodian refuse to convene, fund holders holding 10% or above of the funds has the right to convene by themselves, and report to the CSRC for records. The general meeting of fund holders can only be held when

fund holders holding 50% or above of the funds attend the meeting. The decisions made at the meeting on the matter under consideration shall be passed by more than 50% of the voting rights of the fund holders attending the meeting. However, for change of the operation mode of funds, replacement of fund managers or fund custodians, or early termination of fund contracts shall be passed by two-thirds of the voting rights of the fund holders attending the meeting. The matters decided by the general meeting of fund holders shall be reported to the CSRC for approval or records, and the same shall be announced.

In addition, our Company is one of the first four securities companies who have obtained fund evaluation license in May 2010 by SAC, based on which we can evaluate securities investment funds and release funds evaluation results in public. As to the evaluation of funds, 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), promulgated by CSRC on November 6, 2009 and came into effect on January 1, 2010) and the Rules on the Self-Regulatory Administration of Securities Investment Fund Valuation Services (Trial Implementation) (證券投資基金評價業務自律管理規則(試行)), promulgated by SAC in January 11, 2010), set rules about the conditions, operation and supervision for carrying out fund evaluation business for securities companies. Our Company is subject to such regulations and rules when engaged in fund evaluation business.

Futures

Futures companies which engage in futures business in the PRC are also subject to regulations of various laws and regulations. Laws, regulations and policy documents such as the Futures Trading Management Regulations (期貨公司交易管理條例), 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) effective from May 1, 2011 regulate various businesses of futures companies.

The Futures Trading Management Regulations clearly states, among other things, that a licensing system applies to the business of futures companies. The CSRC is responsible for issuance of licenses according to the types of business of the commodity futures and financial futures. Apart from domestic futures brokerage business, futures companies can also apply to conduct business of overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC, and to obtain the business qualification; the deposits system shall be strictly applied to futures trading. The futures company trade futures in its own name for its customers and cannot engage in proprietary trading of futures.

The Rules on Management of Client Accounts Opening in Futures Market (期貨市場客戶開戶管理規定) enacted and effective on August 27, 2009 refined the rules for opening accounts by the clients and management of client information by futures companies.

On March 23, 2011, the CSRC promulgated 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 clearly states that for futures companies to engage in futures investment consulting business, approval from the CSRC shall be obtained to be qualified to do futures investment consulting business. Staff conducting futures investment consulting business in futures companies shall obtain the practice qualification for futures investment consulting business.

Stock Index Futures

On April 21, 2010, the CSRC promulgated the Guidelines for Securities Companies Participating in Stock Index Futures Trading (證券公司參與股指期貨交易指引), which regulates the activities of securities companies participating in stock index futures trading. Securities companies that participate in the trading of stock index futures through securities proprietary business, collection assets management business, directed assets management business or amount-limited and specific assets management business shall comply with the rules of the China Financial Futures Exchange (hereinafter the "CFFE") regarding hedging. Securities companies that participate in stock index futures trading through securities proprietary business without the purpose of hedging shall get approval from the CSRC. The securities company is allowed to trade stock index futures as part of its asset management business.

On the same date, the CSRC promulgated the Guidelines for 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 provides that equity funds, hybrid funds and capital preservation funds can participate in trading of stock index futures, while bond funds and money market funds are not allowed to participate in trading of stock index futures; and the specific procedures and investment proportion limits for funds in participating in stock index futures trading.

The Guidelines for 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) enacted by the CSRC and was effective on May 4, 2011 provides, among other things, that qualified investors participating in trading of stock index futures can only engage in hedging transactions; each qualified investor can appoint not more than three domestic futures companies to conduct the stock index futures trading; qualified investors, custodians and futures companies shall, according to the relevant rules of the CFFE, ascertain the trading and clearing modes of stock index futures trading participated by qualified investors.

Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Companies

Corporate Governance

The Company Law (中國人民共和國公司法), the Securities Law (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 (Trial Implementation) (證券公

司治理準則(試行)) and other laws, regulations and regulatory documents of the PRC provides a clear basis for corporate governance. Securities companies shall have independent directors in accordance with the requirements of the CSRC. A securities company that engages in two or more businesses in securities brokerage business, securities capital management business, margin financing and securities lending business, securities underwriting and sponsoring business, its board of directors shall have a remuneration and nomination committee, an audit committee and a risk control committee to exercise the rights and perform the duties as specified in the articles of association of the company. A securities company shall have a secretary for the board of directors to be responsible for the preparation of shareholders meetings and directors meetings, preservation of documents and management of shareholders information. A securities company shall set up an organization to perform the duties of operation and management of the securities company, the name, composition, duties and rules of procedures of the organization shall be set out in the articles of association of the company, and the members of the organization shall be the senior managements of the securities company. At the same time, the above laws and regulations also provide that the directors, supervisors, senior managements of the securities company shall be honest, with good character, be familiar with securities laws and administrative regulations, and with the operating and management capabilities as required for discharging the duties, and they shall obtain the approval of the securities regulatory authorities to hold the post before taking office. A person in one of the following circumstances shall not be a director, supervisor or senior management of a securities company:

- No civil capacity or with limited capacity for civil conduct;

- Sentenced to criminal penalty because of corruption, bribery, seizure of property, misappropriation of property or damage to the socialist market economic order, and it has not been five years since the expiry of the execution period, or was deprived of political rights for crime and it has not been five years since the expiry of the execution period;

- Has been a director, factory director or manager of a liquidated company or enterprise, and was personally liable for the bankruptcy of the company or enterprise, and it has not been three years since completion of the bankruptcy or liquidation of the company or enterprise;

- Has been the legal representative of a company or enterprise of which the business license was revoked for violation of law and which was ordered to be closed, and was personally liable, and it has not been three years since the revocation of the business license of such company or enterprise;

- Has large amount of outstanding personal debts;

- A person in charge of a securities exchange or a securities registration and clearing institution, or a director, supervisor or senior management of a securities company, who was relieved of his duties due to illegal or disciplinary behaviors, and it has not been five years since the date when he was relieved of his duties; and

- A lawyer, certified public accountant or a professional of an investment advisory institution, financial consultancy institution, credit rating institution, assets evaluation institution or certification institution, whose qualification was revoked due to illegal or disciplinary behavior, and it has not been five years since the date when the qualification was revoked.

On December 1, 2006, 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) came into effect, which further refined the regulations on the qualifications of directors, supervisors and senior management.

Risk Control

The Securities Law provides for the risk control system of securities companies, which include: the state establishes the Investor Protection Fund; a securities company shall reserve for trading risk from the annual after-tax profits to cover the loss of securities trading; a securities company shall establish and enhance its internal control system, and to adopt effective isolation measures to prevent conflicts of interest between the company and its clients and among different clients; a securities company must handle its securities brokerage business, securities underwriting business, securities proprietary business and securities assets management business separately, mixed operations are prohibited; the transaction settlement funds of the clients of a securities company shall be deposited in commercial banks, a separate account shall be opened and managed for each of the clients; a securities company is not allowed to categorize the transaction settlement funds of the clients as its own property, any unit or person is not allowed to misappropriate the transaction settlement funds or securities of clients in any way.

Under the "Guidelines on 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), which was effective from August 2, 2006 and amended on October 26, 2011 by the CSRC, a securities company shall improve its business isolation system, and implement centralized management for margin financing and securities lending; a securities company shall establish decision-making and authorization systems for margin financing and securities lending; establish client choice and credit systems; develop rules and procedures for compulsory liquidation; establish technology systems for margin financing and securities lending managed by the headquarter; strengthen the risk control of margin financing and securities lending and examinations of business; establish scale monitoring and adjustment mechanism centralized in Net Capital for margin financing and securities lending.

The Regulations on Risk Handling of Securities Companies (證券公司風險處置條例) was effective on April 23, 2008; it provides that the CSRC is responsible for the organization, coordination and supervision of the risk handling of securities companies. In circumstances where the risk indicators of a securities company do not comply with the regulations, or material risk control indicators, the risk handling measures include temporary closure for rectification, custody, taking over, administrative reorganization, liquidation and restructuring; the legal liabilities of the controlling shareholders, actual controllers, directors, supervisors, senior managements of securities companies are also stipulated.

Under the Administrative Measures for Risk Control Indicators of Securities Companies (證券公司風險控制指標管理辦法) (which was effective from November 1, 2006 and was amended on June 24, 2008), a securities company shall calculate the Net Capital and reserve of risk capital, prepare Net Capital calculation sheets, risk capital reserves calculation sheets and risk control indicator supervision statements according to the regulations. The CSRC may make appropriate adjustments to the standards for risk control indicators and the calculated proportion of risk capital reserve of a particular business of different kinds of companies based on the principle of classification and according to the governance structure, the internal control and risk control of the securities companies. The CSRC and its local counterparts shall inspect the generation of the risk control data of securities companies and supervise the authenticity, accuracy and completeness of such data regularly or from time to time. They may require a securities company to engage certified public accountants with relevant securities qualifications to audit its monthly Net Capital calculation sheets, risk capital reserves calculation sheets and risk control indicators supervision statements. A securities company shall establish dynamic monitoring and amendment mechanisms for risk control indicators, and to ensure that all risk control indicators such as Net Capital are in compliance with required standards at any time.

Under the Risk Control Indicator Measures, a securities company is required to maintain a minimum level of Net Capital that varies based on its business activities. According to the Risk Control Indicator Measures, Net Capital is measured by subtracting from net assets the risk-adjusted value of the securities company's financial assets, the risk-adjusted value of its other assets, and the risk-adjusted value of its contingent liabilities, and further adding or subtracting any other adjustments determined or authorized by the CSRC. The Risk Control Indicator Measures stipulate a warning ratio and a minimum regulatory ratio for certain risk control indicators. A securities company shall comply with the following risk control indicators standards on a continuing basis:

	Warning level[(1)]	**Minimum level**
Net Capital/total risk capital reserves (%) . . .	>120.0%	>100.0%
Net Capital/net assets (%)	>48.0%	>40.0%
Net Capital/total liabilities (%)	>9.6%	>8.0%
Net assets/total liabilities (%)	>24.0%	>20.0%
Value of equity securities and derivatives held/Net Capital (%)	<80.0%	<100.0%
Value of fixed income securities held/Net Capital (%)	<400.0%	<500.0%

(1) The warning level is set by the CSRC according to the Risk Control Indicator Measures. If a risk control indicator is required to stay above a minimum level, the warning level is 120% of the minimum requirement, and if a risk control indicator is required to stay below a maximum level, the warning level is 80% of the maximum requirement.

According 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), a securities company shall calculate its risk capital reserve according to a certain standard and establish corresponding relation between the risk capital reserve and the Net Capital, when operating business and establishing branches and other activities which may incur the risk of loss of Net Capital. 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 by the CSRC on June 24, 2008 and came into effect on December 1, 2008) set different standards to calculate risk capital reserve for different businesses of a securities company and securities companies of different classifications.

In addition, the Administrative Measures for Risk Control Indicators of Securities Companies require a securities firm to comply with the following requirements when engaging in proprietary trading: (i) the cost of holding one kind of equity securities shall not exceed 30% of its Net Capital; and (ii) the market value of one kind of equity securities held by a securities company shall not exceed 5% of its total market value, excluding the situations resulted from the underwriting or other regulations by the CSRC. Meanwhile, when conducting margin financing and securities lending activities, a securities firm needs to comply with the following requirements: (i) the margin financing value for a single customer should not exceed 5% of its Net Capital; (ii) the business scale of securities lending business for a single customer should not exceed 5% of its Net Capital; and (iii) the market value it accepts for a single security-backed stock should not exceed 20% of its total market value.

Under the Regulations on Classification of Securities Companies (證券公司分類監管規定) (which was effective from May 26, 2009), the CSRC and its branches classify the securities companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D, E, on the basis of six indicators: capital adequacy, corporate governance and compliance management, dynamic risk control, safety of information system, protection of clients' rights and interests and the information disclosure. The CSRC and its branches implement different regulatory policies on different kinds of securities companies according to the classification results for securities companies.

In March 2011, the CSRC issued Questions Concerning Strengthening the Ability of the Newly Established Securities Sales Department in Providing Service to Clients and Policy of Setting Commission of Securities Trade in a Scientific Way Official Reply (關於新設證券營業部強化客戶服務能力和科學制定證券交易佣金政策有關問題的覆函), which clearly requests to strengthen the supervision on the ability of newly established sales departments of securities companies in the provision of service to their clients as well as the setting of commission in a scientific way.

Corporate Governance and Risk Control of Funds Companies

Corporate Governance

On June 15, 2006, the Governance Guidelines for Securities Investment Funds Companies (證券投資基金管理公司治理準則) enacted and promulgated by the CSRC enhance the corporate governance of securities investment funds management companies, and clearly

stipulates the duties and rights of the shareholders meeting, board of directors, supervisors or executive supervisors, managements and the inspector general. The above regulations stipulate that shareholders may make special arrangements for the exercise of some of their rights within the scope as allowed by the laws, administrative regulations and the regulations of the CSRC, and they may resolve to pass the contents of the articles of association; the articles of associations clearly state the duties of the shareholders meeting, the company shall develop procedures for the shareholders meetings; the articles of associations clearly state the duties of the board of directors, the company shall develop procedures for the board meetings and independent directors system; the articles of associations shall clearly state the duties, personnel, procedures, voting procedures, etc.; the company shall have a inspector general who is responsible for supervision and inspection of legality and compliance of the operations of the funds and the company and the internal risk control of the company, and to exercise the duties and rights as provided by the laws, administrative regulations, the CSRC and the articles of association of the company; the avoid-voting system for related party transactions; the company shall establish long-term incentive and restraint mechanisms such as equity incentives.

In order to enhance the internal control of the funds management companies, the CSRC promulgated the Guidance Opinions on Management of Investment Management Personnel of Funds Management Companies (基金管理公司投資管理人員管理指導意見) on March 17, 2009, which further provides for, among other things, the basic code of conduct of the investment management personnel of the funds management companies and the supervision and management systems for the management personnel of the funds management companies.

Risk Control

The CSRC Notice on the Relevant Issues about Risk Reserve of Funds Management Companies (中國證券監督管理委員會關於基金管理公司提取風險準備金有關問題的通知) effective from August 14, 2006 was amended by the CSRC Notice about Amending the "Notice on the Relevant Issues about Risk Reserve of Funds Management Companies" (中國證券監督管理委員會關於修改<關於基金管理公司提取風險準備金有關問題的通知>) (which was effective from November 24, 2008), provides that funds management companies shall reserve for risk funds from the income of funds management fee on a monthly basis, the proportion of the reserve shall not be less than 10% of the income of funds management fee. No reserve will be required if the balance of the risk reserve reaches 1% of the net value of the fund assets. Upon use of the risk reserve, if the balance thereof falls below 1% of the net value of the fund assets, the funds management company shall continue to reserve until the proportion of the risk reserve in the net value of the fund assets achieves 1%. Funds management companies shall establish a management system for risk reserves to regulate the procedures of reservation, transfer, use and payment, etc., of the risk reserves, the same shall be approved by the board of directors and then reported to the CSRC for records.

Corporate Governance and Risk Control of Futures Companies

Corporate Governance

The Management Measures on Futures Companies (《期貨公司管理辦法》) provides that the CSRC implements the qualification management system on the directors, supervisors,

senior managements and other futures practicing persons 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, the operations and accounting shall be independent; the shareholders meeting of a futures company shall consider and vote for the matters within their scope of duties according to the Companies Law and the articles of association of the company. The shareholders meeting shall be held at least once a year; a futures company shall have a board of directors. The board meeting shall be held at least two times a year; the circumstances which shall be noticed to all shareholders in writing by the futures companies and shall be reported to the local branch of the CSRC of the futures company are also stipulated; futures companies with the qualification for clearing business of a futures exchange under the membership classification and clearing system and wholly-owned futures companies, etc., shall have directors; a futures company shall have a board of supervisors or supervisors, and a chief risk officer as well.

The Management Measures on Qualifications of Directors, Supervisors and Senior Managements 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) enacted by the CSRC and was effective from July 4, 2007 further strengthens the management of qualifications of the directors, supervisors and senior managements of futures companies. Effective on the same date, the Management Measures on Futures Practitioners (期貨從業人員管理辦法) regulates the activities of the futures practitioners; the awarding and revocation of the practice qualification and practice rules for futures practitioners are also provided.

Risk Control

According to the Regulations on Management of Futures Trading, a futures company engages in futures brokerage and other futures business shall strictly implement the systems for separation of business and separation of capital, mixed operations are prohibited; the CSRC makes regulations on the risk regulatory indices such as the proportion of Net Capital in the net assets, the proportion of Net Capital in the business scale of domestic futures brokerage and overseas futures brokerage etc., and the ratio of current assets and current liabilities of the futures companies; the CSRC makes requirements on the operating conditions, risk management, internal control, depositories, related party transactions etc. of the futures companies and their branches; a futures company shall set up risk management department or positions to manage and control the operating risks of the futures company. A futures company shall set up compliance department or positions to review and examine the operating and management activities of the futures company; 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.

The Guidance on Further Strengthen 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 enacted by the CSRC and was effective on July 3, 2009 provides guidelines for the futures companies to strengthen the establishment and management of information systems, and to control the technology operating risks of the industry effectively.

In order to enhance the long-term mechanism for protection of futures investors, the CSRC promulgated the Regulations on the Relevant Matters about 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) on March 15, 2010, which provides that futures companies shall contribute to the Futures Investors Protection Fund, and the specific proportion and rules for contribution to the Futures Investors Protection Fund by the Futures Companies.

The Regulations on Management of Information Publications of Futures Companies (期貨公司信息公示管理規定) effective from November 16, 2009 provides that the basic information, information about the senior management and the staff, information about the shareholders, information about the credit records, etc., of the futures companies and its subsidiaries shall be published to the public.

On April 12, 2011, the CSRC enacted and promulgated the Regulations on Classification and Supervision of Futures Companies (期貨公司分類監管規定), which provides that the CSRC shall establish the Evaluation Committee for Classification and Supervision of Futures Companies to determine the classes of the futures companies according to the evaluation indicators.

Regulation on Anti-money Laundering

The Anti-money Laundering Law of the PRC (中華人民共和國反洗錢法) effective on January 1, 2007 provides for the duties of the relevant financial regulatory authorities in anti-money laundering, which includes participation in enactments of rules and regulations on anti-money laundering of the financial institutions under their supervisions, and require the financial institutions to establish comprehensive anti-money laundering internal control systems.

In order to promote the implementation of the Anti-money Laundering Law of the PRC, the PBOC promulgated the Provisions on Anti-money Laundering of Financial Institutions (金融機構反洗錢規定), which was effective on January 1, 2007. According to these regulations, financial institutions shall establish internal anti-money laundering procedures, and shall establish independent anti-money laundering department or appoint the relevant departments to implement the anti-money laundering procedures.

According to 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 was enacted by The People's Bank of China, China Banking Regulatory Commission, the CSRC, China Insurance Regulatory Commission and was effective on August 1, 2007, financial institutions shall establish client identification systems, and shall record the identities of all clients and the information about each of the transactions, and shall preserve the retail trading documents and books.

According to the Administrative Measures for the Financial Institutions' Report of Large-sum Transactions and Doubtful Transactions (金融機構大額交易和可疑交易報告管理辦法) which was enacted by The People's Bank of China and was effective on March 1, 2007 once a suspicious transaction or a transaction involving a large amount of money is found, the financial institutions shall report the relevant transaction to the PBOC or the Administration of Foreign Exchange (if applicable). When necessary, financial institutions shall cooperate with the government authorities in anti-money laundering actions and assets freezing in accordance with the appropriate procedures. According to the Anti-money Laundering Law of the PRC, the PBOC supervises and conducts on-site inspections on the compliance with the anti-money laundering regulations by the financial institutions, and will impose penalties for any violating activities.

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 was enacted by the CSRC and was effective on October 1, 2010, further provides for the anti-money laundering regulations for the Securities and Futures Industry, as well as the anti-money responsibilities of the institutions engage in sales of funds in funds selling business, securities and futures institutions shall establish and enhance internal control systems for anti-money laundering.

Exchange Control

The State Administration of Foreign Exchange ("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 regulates the exchange control for investments in overseas securities by funds management companies and securities companies. It is stipulated that for securities operating institutions which have the qualification to engage in foreign exchange business to conduct investments in overseas securities, they 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 currency for investments in overseas securities, domestic investors are not allowed to purchase the relevant products issued by securities operating institutions with foreign currencies; a securities company shall, within seven working days after establishment of each product, report to the SAFE the situations such as the actual size and source of funds of the product, a securities operating institution shall, within seven working days after the end of each month, report to the SAFE the aggregate data on overseas securities investments by that institution, a domestic custodian shall, within seven working days after the end of each month, report to the SAFE the relevant data for investments in overseas securities by the securities operating institutions under the custody. 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 was effective from September 29, 2009 provides that the state adopts a quota management system on the investments in domestic securities by the qualified foreign investors. The SAFE approves the investment amount of the individual qualified investors; the investment amount applied for by an individual qualified investor shall not be less than the equivalent of US$50 million each time, and the aggregate total amount shall not exceed the equivalent of US$1 billion. The SAFE has the right to adjust. A qualified investor is not allowed to apply to increase the investment amount within one year after approval of the investment amount last time. The lock-up period for the investment principal amount of the qualified investors such as pension funds, insurance funds, mutual funds, charity funds, endowment funds, governments and monetary authorities, and the open-end China funds established by the qualified investors is three months; the lock-up period for the investment principal amount of other qualified investors is one year; a custodian shall, within five working days after opening of the foreign currency account and RMB special account of the qualified investors, report to the local foreign exchange bureau for records, and submit the formal custody agreement to the SAFE, and to collect the "Foreign Exchange Registration Certificate" (外匯登記證) for the qualified investors. 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) also specifies the account management, foreign exchange management, statistics and supervision management of the qualified investors.

Regulation on the Listed Companies

Our A Shares were listed on the Shanghai Stock Exchange in 2007, therefore our Company shall comply with the Securities Law and the listing rules of the Shanghai Stock Exchange. The listing rules of the Shanghai Stock Exchange regulate the listing matters and the information disclosures by the listed companies (including our Company), with the aim to maintain the order of the stock market and to protect the interests of the investors. As the A Shares of our Company are listed on the Shanghai Stock Exchange, the various obligations as provided by the Shanghai Stock Exchange must be complied with, including:

- Publication of annual, interim and quarterly reports;
- Disclosure of all information that may have an important impact on the affairs of our Company;
- Publication of announcements in relation to certain affairs of our Company; and
- Appointment of a secretary for the board of directors of our Company to be responsible for matters including certain administrative affairs and disclosure of information of our Company.

Our Company is also subject to various laws of the PRC regulating the securities market. The CSRC is responsible for drafting the securities market regulatory rules and regulations to regulate the securities companies, to manage the Chinese listed companies in issuing securities to the public, and to manage securities trading. For example, it is prohibited for a listed company to use inside information in securities issuing or trading. Companies whose securities are listed in both China and overseas also have to comply with the laws and regulations of China and the regulations of the relevant country in relation to management of securities market, and shall disclose important information to the investors.

HONG KONG REGULATORY OVERVIEW

Securities and Futures Commission

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

Securities and Futures Ordinance

The SFO is the primary 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, trading services, margin financing, asset management, credit rating services and intermediaries conducting regulated activities. Part V of the SFO particularly deals with licensing and registration matters.

Types of Regulated Activities

The SFO promulgates a single licensing regime where a person needs only one licence[1] to carry on different types of regulated activity as defined in Schedule 5 to the SFO for which it is licensed provided that the individual is fit and proper to do so.

The SFO prescribes 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;
Type 9:	asset management; and
Type 10:	providing credit rating services.

[1] Note registration is relevant to registered institutions which are in general banking entities – as terms used in this overview do not cover registered institutions it may not be appropriate to use terms such as registration

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

Group Companies	Licensed to carry out the following regulated activities:
HFT Investment Management (HK) Limited	Type 4 and Type 9
Hai Tong Asset Management (HK) Limited	Type 4, Type 5 and Type 9
Hai Tong Capital (HK) Limited	Type 6
Haitong International Asset Management Limited	Type 4, Type 5 and Type 9
Haitong International Capital Limited	Type 6
Haitong International Consultants Limited	Type 1, Type 4 and Type 9
Haitong International Futures Limited	Type 2 and Type 5
Haitong International Investment Managers Limited	Type 1, Type 4 and Type 9
Haitong International Investment Services Limited	Type 1
Haitong International Research Limited	Type 4
Haitong International Securities Company Limited	Type 1, Type 3 and Type 4

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 to carry on that 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 actively markets (whether by itself or another person on his behalf and whether in Hong Kong or from a place outside of Hong Kong) 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 will also be 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 separately be licensed under the SFO as a licensed representative accredited to his principal.

For each regulated activity conducted by a licensed corporation, it must appoint at least 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/she 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.

In considering whether an applicant is a fit and proper person to be licensed under the SFO, the SFC will have regard to:

(a) the financial status or solvency of the applicant;

(b) the educational or other qualifications or experience of the applicant having regard to the nature of the functions to be performed;

(c) the ability of the applicant to carry on the regulated activity competently, honestly and fairly;

(d) the reputation, character, reliability and financial integrity of the applicant and, where the applicant is a corporation, any officer of the applicant; and

(e) any decisions made by competent authority or regulatory organization whether in Hong Kong or elsewhere in respect of the applicant.

In considering the fitness and properness of a corporate applicant, the SFC will also take into account, among other things:

(a) whether the applicant has established effective internal control procedures and risk management systems to ensure compliance with all applicable regulatory requirements;

(b) the state of affairs of any other business which the applicant carries on or proposes to carry on; and

(c) any information in the possession of the SFC relating to:

- any substantial shareholder or officer of the applicant;
- any person who is or is to be employed by, or associated with, the applicant for the purposes of the regulated activity in question;
- any person who will be acting for or on behalf of the applicant in relation to the regulated activity in question; and
- any other corporation in the same group of companies as the applicant, and any substantial shareholder or officer of any such intra-group company.

Continuing Obligations of Licensed Corporations

Licensed corporations, licensed representatives and responsible officers must remain fit and proper 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 continuing 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;
- issue 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;
- payment of annual fees and submission of annual returns to the SFC, within one month after each anniversary date of the license;

- 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 customer acceptance, customer due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training, in accordance with the requirements under the Prevention of Money Laundering and Terrorist Financing Guidance Note 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 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 that is subject to the licensing condition that it shall not hold client assets; or (iv) licensed for Type 6 regulated activity that is subject to both the licensing condition that it shall not hold client assets and the no sponsor work licensing condition.

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 that 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 that is an approved introducing agent, a trader or a futures non-clearing dealer; 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 that is not an approved introducing agent, a trader or a futures non-clearing dealer; (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 that 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 Terrorist Financing

Licensed corporations are also required to comply with applicable anti-money laundering laws and regulations in Hong Kong, as well as the Prevention of Money Laundering and Terrorist Financing Guidance Note ("Guidance Note") issued by the SFC.

The Guidance Note sets out the steps that a licensed corporation and its representatives should implement to discourage and identify any money laundering or terrorist financing activities. Under the Guidance Note, licensed corporations should, among other things:

- develop customer acceptance policies and procedures to identify the types of customers that are likely to pose a higher than average risk of money laundering and terrorist financing;

- take all reasonable steps to establish the true and full identity of each customer, and of each customer's financial situation and investment objectives;

- ensure compliance with all applicable record keeping requirements and maintain such records that are sufficient to permit reconstruction of individual transactions; and

- conduct ongoing 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 concerned with money laundering and terrorist financing in Hong Kong.

(1) 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 offence under the DTROP if a person deals with any property knowing or having reasonable grounds to believe it to represent the proceeds of drug 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 offence under the DTROP.

(2) 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 offence to cover the proceeds of all indictable offences in addition to drug trafficking.

(3) 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 offence 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 offence under the UNATMO.