

The China Stock Exchange – IPO Overview¹

1. Regulatory Background

1.1 Overview of Regulatory

In China, there are two public stock exchange markets, i.e., Shanghai Stock Exchange (the “SSE”) and Shenzhen Stock Exchange (the “SZSE”). As of December 2012, 954 companies were listed on the SSE with a total market capitalization of RMB15,869.844 billion². As of May 30, 2013, 1,537 companies were listed on the SZSE with a total market capitalization of RMB 8,101.91374 billion³.

Both the SSE and SZSE operate the Main Board while the SZSE also runs the Small & Medium Size Enterprise Board (“SME”) and the ChiNext Board. The Main Board is designed for large scale companies which intend to solicit large amounts of public funds. SME adopts the same listing requirements as the Main Board while targeting companies with a smaller scale for equity flow. The ChiNext Board provides an important platform, with less stringent listing criteria, for those enterprises engaged in independent innovation businesses and other growing venture enterprises to solicit public funds. The Stock Exchange of Mainland China is operated by SSE and SZSE, as membership institutions, and is directly governed by the China Securities Regulatory Commission (“CSRC”).

1.2 Regulatory Entities

CSRC is in ultimate charge of regulating the issuance, listing, trading, registration, depository and clearance of securities, and ensures that the operation of the stock market is in compliance with laws and regulations.

SSE and SZSE provide a platform for the public trading of securities and oversee the trading of securities.

1.3 Required Approvals

Any initial public offering (“IPO”) in China (including listings on the Main Board, SME and ChiNext Board) requires the approval of the Listing Committee of the CSRC.

2. Listing Criteria

2.1 Suitability of Listing Applicant

¹ For the purpose of this overview, China does not include Hong Kong, Macao and Taiwan.

² <http://www.sse.com.cn/aboutus/sseintroduction/introduction/>

³ <http://www.szse.cn/main/en/MarketStatistics/MarketOverview/>

A company seeking a listing on the Stock Exchange through an IPO must meet the mandatory conditions under relevant laws and regulations with respect to the form of its corporation, its lawful operation in its history, its financial status, the independence of its business, etc.

2.2 Track Record Requirement

Companies seeking a listing on the SSE or the SZSE must meet a minimum of three (3) years track record requirement.

Main Board and SME

For listings on the Main Board and SME, an applicant must meet the following conditions:

- positive net profits for the last three (3) fiscal years, and cumulative net profits for the last three (3) fiscal years that exceed RMB 30 million;
- cumulative net cash flows for the last three (3) fiscal years derived from its business operation that exceed RMB 50 million or cumulative business revenues for the last three (3) fiscal years that exceed RMB 300 million;
- the total value of its stocks before the offering is no less than RMB 30 million;
- the proportion of its intangible assets (deducting land use rights, water-surface farming right, mining right and other rights) at the end of its most recent fiscal period in its net assets that does not exceed 20%; and
- it did not suffer any unrecovered losses at the end of its most recent fiscal period.

ChiNext Board

A new applicant for listing on the ChiNext Board shall either (i) have generated profits for the latest two (2) consecutive years, in a cumulative amount of not less than RMB10 million or (ii) have generated profits for the immediately preceding year, with a net profit of not less than RMB 5 million and an operating income for the immediately preceding year of not less than RMB 50 Million, the annual growth rate for the latest two years of not less than 30%. Moreover, the ending net profit for the latest fiscal period is not less than RMB 20 million, there are no unrecovered losses, and the total value of its stocks after the offering is no less than RMB 30 million

2.3 Minimum Market Capitalization

The total share capital for a Main Board and SME applicant before the share offering shall be no less than RMB 30 million, while for a ChiNext Board applicant, the total amount of share capital after the listing shall not be less than RMB 30 million.

2.4 Sufficiency of Working Capital

There is no specific working capital requirement for an IPO applicant in China. However, a listed company must publicize its interim and annual financial statements.

2.5 Eligibility for Electronic Settlement

A listing applicant's shares must be eligible for deposit, clearance and settlement through the electronic platform organized and supervised by China Securities Depository and Clearing Corporation Limited.

3. Overseas Companies

As of today, companies which are incorporated outside China cannot apply for listing on the SSE or the SZSE. However, the Chinese authority is considering setting up an international board which will allow overseas companies to directly list on the Main Board of the Stock Exchange.

4. Shareholding Requirements

4.1 Public float

The shares offered to the public shall not be less than 25% of the total shares of the listed company, and if the total value of the shares of the listed company is more than RMB 400 Million, such ratio must not be less than 10%. The public refers to the shareholders of the listed company other than any shareholder holding 10% or more shares of the listed company or persons acting in concert with such shareholder, or the directors, supervisors, senior management or their affiliates of the listed company.

4.2 Restrictions on Major Shareholders

Except for the post-IPO lock-up restrictions imposed on major shareholders (discussed below), the material restrictions on major shareholders of a listed company are mainly related to keeping the independence of the organization and finance of the listed company, disclosure of important information, transfer of equity or controlling rights and transactions between affiliates. A major shareholder refers to a shareholder whose capital contribution accounts for 50 percent or more of the total capital of a limited liability

company, a shareholder whose shares account for 50 percent or more of the total share capital of a company limited by shares, or a shareholder whose voting rights according to its capital contribution or the shares it holds –are sufficient to exert a material influence on the resolutions of shareholders' meetings or general meetings, despite the fact that the shareholder's capital contribution or shares account for less than 50 percent of the total capital or total share capital.

4.3 Spread of Shareholders

According to the PRC Company Law, at the time of the listing application, the applicant shall have at least two but less than 200 shareholders. However, after the Administrative Measures of Non-listed Public Companies takes effect on January 1, 2013, the applicant may have more than 200 shareholders if it satisfies the relevant criteria and complete relevant procedures thereunder. Subject to the aforementioned public float requirement, there is no specific requirement for minimum number of shareholders after listing.

4.4 Post-IPO Lock-up

Within 36 months after listing, the controlling shareholder or the actual controlling party of the listed company shall not transfer or otherwise entrust other parties to manage the shares of the listed company directly or indirectly held by it prior to the listing. Such lock-up is subject to certain exceptions, for example, if such transfer happens after the first year of listing and the transferor is controlled by transferee, or vice versa, or they are under the same control. The initial shareholders, directors, supervisors or the senior management of the listed company shall not transfer any shares of the company they hold within a year after listing.

5. Listing Procedure and Timetable

The general listing procedure can be summarized as follows:

Phase	Approximate Timing in Normal Situation
Selection of various professionals (sponsor, accounting firm, law firm and appraisal company)	2-3 weeks
Completion of the restructuring (into a qualified stock share limited company)	2-3 months
Accept the tutorship from the sponsor regarding corporate governance and compliance	3 months
Prepare relevant application documents for the sponsor to submit to CSRC	2-3 months
CSRC to review the application documents or request supplemental documents	3-6 months

Road-show, public offer, pricing and listing	2 months
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5.1 Marketing the Offer

An applicant can proceed with the public offering process by publicizing the prospectus and other relevant documents, and organizing online or offline road-shows. The applicant must ensure that the prospectus and other relevant documents that are publicized and represented to the public are consistent with each other and are the same as those documents previously submitted to CSRC.

5.2 Required Documentation

The documents required to be submitted for review and approval by CSRC are set out in Chapters 5 of the Measures of Public Listing on SSE, the Measures of Public Listing on SZSE and the Measures of Public Listing on the ChiNext Board of SZSE, respectively. A brief summary of those documents can also be found in Section 6.2 below.

5.3 Publication of the Prospectus

After the application documents are accepted by CSRC, but prior to issuance of the approval for listing, the applicant shall publish the prospectus (the application version) on the official website of CSRC, and the applicant shall expressly state in such version that the listing is still under review of CSRC and therefore the application version listing document does not have any legal effect. Before the formal listing, a summary of the prospectus shall be published in the newspaper designated by CSRC and the full text of the prospectus shall be published on the website designated by CSRC and shall also be kept at the premises of the SSE or SZSE, as applicable, or at the premises of the sponsor for public review.

6. Documentary Requirements

6.1 Contents of the Main Listing Document

The content of a prospectus shall include but not be limited to the following:

- the nominal value of the share;
- estimated listing date;
- total number of the shares to be offered;
- identity of the sponsor;
- statement of the applicant that it is in compliance with the requirements under law;
- brief description of the applicant and its actual controlling party;

- the relevant risks;
- the applicant's business and technology;
- horizontal competition and transactions between affiliates;
- directors, senior management and core technical persons of the applicant;
- the management structure of the applicant;
- financial information;
- forecast of business development;
- the purpose of fund raising; and
- debts and other material information that may have material impact on the investment decision to be made by the investor.

6.2 Other Documents

Together with the prospectus, the documents that shall be submitted by the applicant to CSRC include but are not limited to the following:

- the board resolutions of the applicant to approve the application for listing;
- the shareholders' resolutions of the applicant to approve the application for listing;
- sponsor letter for issuance;
- auditing report and other financial statements;
- applicant's legal counsel's legal opinion ;
- business license and articles of association (draft) of the applicant;
- asset appraisal report;
- relevant financial/tax statement for the last three (3) years;
- IP ownership certificates; and
- material contracts.

6.3 Articles/Constitutional Documents

A listing applicant's articles of association must be prepared in accordance with the Guidance of Articles of Association of Listed Company issued by CSRC. The articles of association must provide that neither the company nor that its affiliates will provide any financial subsidy to the investor(s) who purchases or intends to purchase any shares of the company.

7. Financial Information

7.1 Audited Financial Statements

The applicant shall provide the auditing report and financial statements, the profit forecast report and verification report, internal control report, extraordinary profit and loss statement that is verified by the accounting firm as part of the listing documents. In addition, the applicant shall also provide the financial statements and payment records of the taxes for the latest three (3) years.

7.2 Applicable Accounting Standards

Applicants shall use Chinese GAAP to prepare their financial statements.

7.3 Period Covered by the Accounts

The accountants' report must cover the three (3) financial years immediately preceding the listing.

8. Parties Involved

8.1 Sponsor

The applicant shall appoint one or two qualified sponsor(s) for the IPO process, and shall, if applying for listing on the Main Board and SME, retain the sponsor for the remainder of the calendar year in which listing takes place and for two (2) full consecutive accounting years thereafter, or if applying for listing on the ChiNext Board, retain the sponsor for the remainder time of the year in which the listing occurs and for three (3) full, consecutive accounting years thereafter.

The sponsor shall be a stock brokerage firm that can satisfy the following conditions:

- its registered capital is no less than RMB 100 million, and the net capital is no less than RMB 50 million;
- it has a well-developed management and internal control protocol;

- its department that undertakes the sponsorship business has well-developed business protocols and internal risk assessment system;
- its department that undertakes the sponsorship business has a staff of at least 35, 25 of which have focused on the sponsorship business for the last three (3) years;
- it has at least four (4) employees who can act as the representative of the sponsor; and
- it has not received any administrative penalties within the last three (3) years.

The main responsibilities of the sponsor are as follows:

- act as the general coordinator during the IPO process;
- provide tutorship service to the applicant and act as the sponsor for the listing, and issue relevant reports;
- estimate the price of the shares, develop and implement a listing plan;
- draft, compile and submit the whole set of application documents to CSRC;
- be responsible for communications with CSRC; and
- organize the group of underwriters and the sale of the shares.

8.2 Other Parties Involved in the listing process

Accounting Firm: its main responsibilities include but are not limited to the following:

- audit the latest three (3) years' performance of the applicant according to PRC GAAP;
- verify the asset appraisal report and capital verification report for the formation of the applicant as the stock share company;
- assist the applicant to adjust its accounting items to ensure its financial management is in compliance with applicable laws and regulations;
- assist the applicant to enhance its accounting system to meet the standard expected of a stock share company; and

- check the internal control system of the applicant and issue a report on internal control.

Law Firm: its main responsibilities include but are not limited to the following:

- assist the applicant to revise the articles of association, agreements and material contracts;
- review the legal issues relevant to the IPO and relevant documents and provide due diligence report;
- provide the legal opinion;
- provide legal advice for the IPO; and
- provide IPO training and coaching to major shareholders, senior management and relevant persons.

Appraisal Firm: its main responsibility is to provide the appraisal report for the assets of the applicant.

Public Relations Company: its main responsibilities include but are not limited to the following:

- develop the media advertising plan;
- develop and implement the road-show plan;
- handle any public relation crisis; and
- prepare relevant marketing materials.

9. Listing Costs

The cost of listing will vary significantly subject to factors such as the applicant's size and the amount of funds to be raised. The costs relevant to any corporate restructuring and rectification of historical legal and financial problems can only be assessed on a case-by-case basis according to an individual applicant's position.

9.1 Fees charged by the Exchange

Initial listing fess

The initial listing fee for the Main Board and SME is as follows:

- RMB 300,000 if the total amount of the shares is no more than 200

million;

- RMB 450,000 if the total amount of the shares is no more than 400 million;
- RMB 550,000 if the total amount of the shares is no more than 600 million;
- RMB 600,000 if the total amount of the shares is no more than 800 million; or
- RMB 650,000 if the total amount of the shares is more than 800 million.

The initial listing fee for the ChiNext Board is at a 50% discount to the fees listed above.

Annual listing fee

The annual listing fee for the Main Board and SME is as follows:

- RMB 50,000 if the total amount of the shares is no more than 200 million;
- RMB 80,000 if the total amount of the shares is no more than 400 million;
- RMB 100,000 if the total amount of the shares is no more than 600 million;
- RMB 120,000 if the total amount of the shares is no more than 800 million or
- RMB 150,000 if the total amount of the shares is more than 800 million.

The annual listing fee for the ChiNext Board is at a 50% discount to the aforementioned fees.

9.2 Sponsor's Fees

Normally, the sponsor's fee will be 5% to 7% of the total subscription amount.

9.3 Lawyers' and Accountants' Fees

Fees charged by the professional advisers to the applicant will vary according to the size and complexity of the issue, with fees ranging from

RMB 1 million to several million.

10. Corporate Governance Requirements

The SSE sets out the relevant corporate governance requirements for listed companies in the Guidance of Internal Control of Listed Companies. The SZSE also sets out similar requirements in the Guidance of Operation Compliance of Listed Companies in Main Board, the Guidance of Operation Compliance of Listed Companies in SME and the Guidance of Operation Compliance of Listed Companies in ChiNext Board.

The corporate governance requirements mainly cover the areas of directors, management, investment, auditing, risk control, transactions with affiliates and communications with investors.

The listed company must set up an internal auditing department to supervise its corporate compliance activities. In addition, the listed company need to, simultaneously with the publication of its annual statements, publish an annual self-evaluation report internal controls to analyze whether it is compliance with relevant guidance with respect to its internal corporate governance control system.

11. Continuing Obligations

The continuing obligations of the listed company are expressly set forth under the aforementioned relevant measures and guidance. For example, the listed company must disclose information about any subsequent transactions if such transactions meets certain financial criteria, and such criteria will be stricter if the transaction is between the listed company and its affiliates. In addition, the listed company must also disclose other material information (such as disputes concerning amounts meeting certain criteria) to the public.

12. Our Office

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