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Laws and Regulations Updates

I. Guidelines on the Disclosure of Major Financial Information and Operation Information after the Audit Cut-off Date for Financial Report contained in the Prospectus of Company Listed by Way of Initial Public Offering (the “Guidelines”)

In order to reform the mechanism of new share issues, the China Securities Regulatory Commission formulated and promulgated the guidelines in relation to the disclosure of financial information in initial public offering (IPO) on 6 December 2013 with an aim to further improve the quality of information provided by issuers.

To urge the issuers to disclose in their prospectuses the material events take place after the audit cut-off date in a timely manner and to provide to investors the latest operation status, the Guidelines require quarterly financial statement(s) disclosing major financial information shall be additionally provided if the period between the audit cut-off date and the execution date of the prospectus exceeds 4 months. Such financial statement(s) shall be reviewed by an accountant though no auditing is required. In addition, it shall also disclose the major operation situation after the audit cut-off date and provide sufficient risk warning. The Guidelines also state that a

material event indication shall be announced if the issuer anticipates that the accumulated net profit for the period between the start of the year and the end of the first reporting period after listing will experience a significant decrease when compared to the same period of the previous year.

The Guidelines require that issuers shall analyze and disclose information on profitability in a comprehensive and focused manner after taking into consideration different factors such as the business(es) they are engaging in, their mode of operation and the performance of their counterparts in the same industry. At the same time, to strengthen the sense of responsibility of the intermediaries, the Guidelines also instruct and regulate the intermediaries to effectively fulfill their obligation on due diligence to ensure the quality of the relevant financial information disclosed.

II. Notice on Matters in relation to Cross-border Renminbi Direct Investment

To simplify the procedure for cross-border RMB direct investment and improve the regulatory measures, the Ministry of Commerce promulgated the Notice on Matters in relation to Cross-border Renminbi Direct Investment (the “Notice”) on 5 December 2013. The Notice shall come into effect on 1 January 2014 and its main content is as follows:

1. The “cross-border RMB direct investment” stipulated in the Notice means the direct investment activities, such as the setting up of enterprises, capital increase, equity participation or merger and acquisition of domestic enterprises in China by foreign investors (including Hong Kong, Macau and Taiwan investors) through the use of RMB lawfully obtained overseas. Foreign investors shall

complete the relevant procedures for cross-border RMB direct investment in accordance with the existing laws, administrative regulations, rules and policies on foreign investment.

2. The cross-border RMB direct investment and the re-investment to the foreign investment enterprises so invested shall comply with the requirement under the laws, regulations and rules on foreign investment and observe the policies regarding industries eligible for foreign investment and the relevant regulations regarding security examination on merger and acquisition through foreign fund and examination on anti-trust.
3. Foreign investment enterprises shall not directly or indirectly invest the fund of cross-border RMB direct investment in quoted securities and financial derivatives (except strategic investments in listed companies) or use the same in entrusted loans in China.
4. In the approval letter for cross-border RMB direct investment, the relevant authority under the Ministry of Commerce shall expressly put down the words “funded by off-shore RMB capital” and set out the amount of the RMB capital and the requirement stated in point 3 above. The same set of approval documents shall also be copied to the people’s bank, customs, as well as taxation, industrial and commerce and foreign exchange authorities of the same hierarchy in a timely manner.
5. For foreign investors whose applications for changing the investment currency from a foreign currency to RMB that do not require to undergo the examination

and approval procedure for revision of agreement or memorandum, they may complete the procedures for registration, setting up of account and fund exchange at the relevant authorities and banks pursuant to the laws, administrative regulations and rules on foreign investment.

6. Foreign investors shall comply with the existing regulations when they initiate foreign investments through the profit in RMB which is obtained from the foreign enterprises they invested in China and has yet to be remitted, or through the RMB fund received from transfer of shares, capital reduction, settlement and advance recovery of investment.

The summary is only intended to provide an outline of certain recent developments in the PRC and is not intended to be relied upon or taken as legal advice provided by Sit, Fung, Kwong & Shum or Hong Kong Sit, Fung, Kwong & Shum Xi'an Representative Office. If you have any enquiry, please contact Alex Chan, our partner in Xi'an Representative Office at Tel: (852) 29097320 and fax: (852) 28459292 (Hong Kong) or Tel: (8629) 87203203 and fax: (8629) 87203033 (Xi'an) e-mail: alexchan@sfks.com.hk.

Please note that amendments have been made to the Personal Data (Privacy) Ordinance in Hong Kong in regard to the use of individuals' personal data for direct marketing purposes. We have been using your personal data (and in particular your name and address) to send to you our regular electronic news as well as information about the legal services that our firm is able to provide to its clients. We hope that you find these communications and information useful and of value and we would like to continue to send them to you if you agree. If you no longer wish to receive our communications, please email us at sfks@sfks.com.hk. If you have any queries, or you would like to update your contact details, please also email us at sfks@sfks.com.hk.