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Laws and Regulations Updates

I. Measures regarding Enhancement of Supervision on the Issue of New Shares

In order to further enhance the supervision on the procedure for initial public offerings, the China Securities Regulatory Commission (the "CSRC") promulgated the Measures regarding Enhancement of Supervision on the Issue of New Shares (the "Measures") on 12 January 2014 in accordance with the Opinions regarding Further Reform on the Mechanism for the Issue of New Shares as well as the Measures regarding Management on the Issue and Underwriting of Securities. The main content of the Measures is as follows:

1. The CSRC will perform random inspections on price inquiry and roadshows conducted by issuers. Should an issuer and lead underwriter be found to have used in the roadshow information of the issuer other than public information or information disclosed in the prospectus, the public offering shall be terminated and regulatory measures shall be taken against the issuer and the lead underwriter pursuant to the relevant requirements. Any behavior that violates laws or regulations shall be handled in accordance with the law.

2. If the price-earnings ratio corresponding to the proposed issue price is higher than the average price-earnings ratio of the secondary market of listed companies in the same industry, the issuer and the lead underwriter shall release, in a consecutive manner, special announcements regarding the investment risk three weeks before the start of online subscription. Such announcement shall be released at least once every week.

3. The CSRC and the Securities Association of China will perform random inspections on the price quotation process of investors who submit their price quotations by means other than the Internet ("offline investor"). Should an offline investor be found to have insufficient pricing power or have failed to submit its quotation in a prudent manner with strict compliance to the quote assessment and finalization procedures, the Securities Association of China shall place it on a blacklist and release such blacklist on a regular basis. The offline investor shall also be prohibited from participating in IPO offline price inquiry. Should the lead underwriter allow offline investors which do not meet the previously announced conditions to participate in price inquiry and placement of shares, the CSRC shall handle such behavior in a serious manner in accordance with the relevant regulations.

II. Decisions regarding Matters in relation to Share Transfer System for Small and Medium Enterprises in China

In order to better utilize the positive effect that the financial sector can bring to the structural adjustment, transformation and upgrading of the economy and to further expand the channels for private investments, the State Council promulgated the Decisions regarding Matters in relation to Share Transfer System for Small and Medium Enterprises (SMEs) in China on 13 December 2013 (the “Decisions”). The Decisions contain regulations in six aspects, including the positioning of the national share transfer system, development of the market system, reformation of the administrative approval mechanism, management of investors, protection on investors’ interest as well as supervision and coordination.

1. Fully utilize the capabilities of the national share transfer system on the provision of services to SMEs

   Companies limited by shares within China which comply with the requirements may apply for listing on the national share transfer system through their chief agency brokers to conduct activities such as public transfer of shares, equity financing, debt financing and assets reorganization etc.

2. Develop connections among markets at different levels

   Companies listed on the national share transfer system may directly apply to the Stock Exchange for listing if they meet the requirements for listing of shares. Companies which conduct non-public transfer of equities in a qualified regional equity transfer market may apply for listing on the national share transfer system for public transfer of shares if they meet the requirements for such listing.

3. Simplify the administrative approval procedure

   Companies listed on the national share transfer system shall be supervised as a non-listed public company and may have more than 200 shareholders. If the number of shareholders of a shareholding company applying for listing on the national share transfer system does not exceed 200, the CSRC shall exempt such company from the review and approval procedure.

4. Establish and perfect the investor suitability system

   An investor suitability system which adapts investors' risk identification to their risk tolerance level shall be established. The national share transfer system will be gradually structured to become a securities exchange market in which institutional investors will be the main participants.

5. Enhancement of supervision to protect investors' legitimate interests

   The national share transfer system shall establish and a regulatory mechanism. It shall develop a market supervision system, improve the risk management policy, and ensure technological system and information security. It shall discharge its regulatory responsibilities in a disciplined and practical manner.

6. Strengthen coordination to create a quality environment for the healthy growth of listed companies in the national share transfer system

   The relevant departments of the State Council shall strengthen their coordination in order to create a quality environment with established policies for the development of SMEs through the use of the national share transfer system. In market construction, matters concerning taxation policy shall be handled with reference to the taxation policy applicable to listed companies' investors; matters concerning foreign investment policy shall be handled in accordance with the relevant regulations for exchange market and listed companies; matters concerning supervision of state-owned equity shall also be consistent with the relevant requirements for the management of state-owned assets.

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.

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