

# Interim Measures on the Administration of Initial Public Offerings and Listings of Shares on the Chinext

## Chapter I General Provisions

**Article 1** These Measures are formulated in accordance with the *Securities Law* and the *Company Law* for the purposes of regulating the initial public offering (hereinafter, IPO) and listing of shares on the Chinext, promoting the development of innovative enterprises and other growing start-ups, protecting investors' legitimate rights and interests and safeguarding public interests.

**Article 2** These Measures shall apply to the IPO and listing of shares on the Chinext within the jurisdiction of the People's Republic of China.

**Article 3** An issuer that applies for the IPO and listing of shares on the Chinext shall meet the requirements set forth in the *Securities Law*, the *Company Law* and these Measures.

**Article 4** The information disclosed by an issuer in accordance with law shall be true, accurate and complete, and shall not contain any false representations, misleading statements or material omissions.

**Article 5** Sponsors and their representatives shall perform their duties with due diligence and in good faith, fulfill their obligations of prudent examination and coaching seriously, and be responsible for the truth, accuracy and completeness of the documents issued by them.

**Article 6** Securities service providers and individuals issuing documents for the offering of securities shall, in line with the business standards and code of ethics generally accepted by the industry, strictly perform their statutory duties and be responsible for the truth, accuracy and completeness of the documents issued by them.

**Article 7** A market access system that is commensurate with the risk tolerance of investors shall be established for investors on the Chinext and investment risk shall be fully disclosed to investors.

**Article 8** China Securities Regulatory Commission (hereinafter, CSRC) shall, in accordance with law, examine and approve the issuer's IPO application and supervise the issuer's IPO activities.

The stock exchange shall formulate rules in accordance with law, provide an open, fair and equitable market environment and ensure the normal operation of the Chinext.

**Article 9** The approval granted by the CSRC to an issuer's IPO based on the issuer's application documents does not indicate its substantial judgment or guarantee as to the investment value of the IPO shares or the return on investment for investors. After the shares are offered in accordance with law, investment risk arising from any changes in the issuer's business operations and earnings shall be borne by investors themselves.

## **Chapter II Offering Conditions**

**Article 10** The issuer that applies for IPO of shares shall meet the following conditions:

- (1) The issuer must be a duly incorporated company limited by shares and must have been in operation for more than three consecutive years.

For any company limited by shares which has been transformed as a whole from a limited liability company by converting its original book value of net assets into shares, the required operation period may be counted from the date of establishment of the limited liability company.

- (2) The issuer must have been profitable in the most recent two consecutive years, with accumulated profits no less than RMB 10 million and in steady growth; or the issuer must have been profitable in the most recent year with net profits of no less than RMB 5 million and revenues of no less than RMB 50 million, and its

revenue growth rate for either of the most recent two years must have been no less than 30%. Net profits shall be calculated based on the amount before or after deducting non-recurring profits and losses, whichever is smaller.

- (3) The issuer must have net assets of no less than RMB 20 million at the end of the most recent accounting period with no uncovered losses; and
- (4) The issuer must have a total share capital of no less than RMB 30 million after the IPO.

**Article 11** The issuer shall have paid the registered capital in full amount and have completed the procedures for the transfer of ownership to the assets contributed as capital by promoters or shareholders. There is no major dispute over the ownership of the issuer's main assets.

**Article 12** The issuer shall mainly operate one line of business and its production and business operations shall conform to laws, administrative regulations and its articles of association as well as the national industrial and environmental protection policies.

**Article 13** In the most recent two years, there must have been no significant changes in the principal business, directors and senior management of the issuer, nor any change of its *de facto* controller.

**Article 14** The issuer shall have sustainable profitability and shall not fall under any of the following circumstances:

- (1) Its business model or its mix of products or services has undergone or will undergo a material change which has or will have a significant adverse impact on its sustainable profitability;
- (2) Its position in the industry or the business environment for its industry has undergone or will undergo a material change which has or will have a significant adverse impact on its sustainable profitability;
- (3) There is a risk of material adverse change in the availability or use of the important assets or technologies being used by the issuer, such as trademarks, patents, proprietary technology and franchise rights;
- (4) Its revenues or net profits in the most recent year are heavily reliant on any related party or any client susceptible to great uncertainty;
- (5) Its net profits in the most recent year are derived mainly from investment returns

off its consolidated financial statements; or

- (6) Other circumstances that would have a significant adverse impact on its sustainable profitability.

**Article 15** The issuer shall pay taxes in accordance with law and enjoy tax benefits in compliance with applicable laws and regulations. The issuer's performance results shall not be heavily reliant on tax benefits.

**Article 16** The issuer shall be free from any serious debt service risk and shall not be involved in any guarantee, litigation, arbitration or other significant contingent events that may affect its ability to continue as a going concern.

**Article 17** The equity interests in the issuer must be clearly defined and there shall be no major ownership dispute over the shares held by the controlling shareholder and by the shareholders under the control of the controlling shareholder or *de-facto* controller.

**Article 18** The issuer shall maintain the integrity of its assets and independence of its business, personnel, finance and organization and shall have a complete business structure and the capability to operate independently in the market. There must be no intra-industry competition, nor any related-party transaction that severely affects the company's independence or is obviously unfair, between the issuer and its controlling shareholder, *de-facto* controller or any other enterprise under the control thereby.

**Article 19** The issuer shall have a sound corporate governance structure, and have established such systems in accordance with law as the shareholders' general meeting, board of directors, board of supervisors as well as independent directors, board secretaries and audit committee. The relevant internal bodies and personnel shall be capable of performing their duties in accordance with law.

**Article 20** The issuer' basic accounting work shall be legally compliant, its financial statements shall present fairly, in all material respects, its financial position, financial performance and cash flow in accordance with the accounting standards for business enterprises and other relevant accounting rules, and a certified public accountant has issued an unqualified audit report.

**Article 21** The internal control system of the issuer shall be robust and effectively implemented and shall be able to reasonably ensure the reliability of its financial report, the legitimacy of its production and operations and the efficiency and effect of its operations. A certified public accountant has issued an assurance report on its internal controls expressing an unqualified opinion.

**Article 22** The issuer shall have a rigorous fund management system and its funds shall not be appropriated by the controlling shareholder, *de factor* controller or any other enterprise under the control thereof by way of loans, repayment of debts, advance payment or otherwise.

**Article 23** The articles of association of the issuer shall have set forth the approval authority and deliberation procedure for external guarantees and no illegal guarantee shall have been provided to its controlling shareholder, *de facto* controller or any other enterprises under the control thereof.

**Article 24** The directors, supervisors and senior management of the issuer shall have an understanding of the laws and regulations relating to the offering and listing of shares and be familiar with the statutory obligations and responsibilities for listed companies and their directors, supervisors and senior management.

**Article 25** The directors, supervisors and senior management of the issuer shall be loyal and diligent, have the professional qualifications required by laws, administrative regulations and rules, and shall not fall under any of the following circumstances:

- (1) Being banned from the securities market by the CSRC and the ban is still valid;
- (2) Having been subject to any administrative sanction by the CSRC in the most recent three years, or any public censure by the stock exchange in the recent year;  
or
- (3) Being under the investigation initiated by the judicial authority for suspected crimes or under the investigation initiated by the CSRC for suspected irregularities, and there has been no conclusive opinion yet.

**Article 26** The issuer and its controlling shareholder and *de facto* controller shall have not committed any major illegal acts in the most recent three years that impair investors' legitimate rights and interests or public interests.

The issuer or its shareholders or *de facto* controller shall have not made any public offering or disguised public offering of securities in the most recent three years without approval of the statutory authority, or, although a relevant illegal act was committed three years ago, it is not continuing presently.

**Article 27** Proceeds raised by the issuer shall be used for its principal business and have specific purposes. The amount of the proceeds and the project to be funded by the proceeds shall be commensurate with the issuer's current production and operation scale, financial position, technical level and management capability, etc.

**Article 28** The issuer shall establish a special deposit account system for the proceeds raised and deposit the proceeds in the special account determined by its board of directors.

### **Chapter III Offering Procedures**

**Article 29** The board of directors of the issuer shall, in accordance with law, adopt a resolution on the specific plan of the proposed share offering, the feasibility of the use of the proceeds and other relevant issues that must be prescribed and submit the resolution to the shareholders' general meeting for approval.

**Article 30** The shareholders' general meeting of the issuer shall adopt a resolution on the proposed share offering, covering at least the following:

- (1) The type and quantity of the shares to be offered;
- (2) The investors to whom the shares will be offered;
- (3) Price range or pricing method;
- (4) The purpose of the proceeds from the offering;
- (5) The distribution plan for the accumulated profits prior to the offering;
- (6) The validity period of the resolution;

- (7) The authorization to the board of directors for handling specific issues for the offering; and
- (8) Other matters that must be prescribed.

**Article 31** The issuer shall prepare application documents pursuant to relevant regulations of the CSRC, which shall be sponsored and submitted to the CSRC by the sponsor.

**Article 32** The sponsor that sponsors an issuer's share offering and listing on the Chinext shall conduct due diligence investigations and make prudential judgment on the issuer's growth and render special opinions thereon. The sponsor shall also explain the issuer's innovative capability in its special opinions if the issuer is an innovative enterprise.

**Article 33** Within five working days of receipt of the application documents, the CSRC shall decide whether or not to accept the application.

**Article 34** After the CSRC accepts the application, the application documents shall be subject to a preliminary review by relevant functional departments and then be reviewed by the Chinext Public Offering Review Committee.

**Article 35** The CSRC shall render its decision of approval or disapproval on the issuer's application and issue relevant documents accordingly.

The issuer shall make the share offering within six months from the date of the CSRC' approval. If the issuer fails to make the offering within such period, the approval document shall become null and void and the issuer may make the offering only after obtaining approval from the CSRC again.

**Article 36** If a material event occurs on the part of the issuer after the approval of the offering application and before the completion of the share offering, the issuer shall withhold or suspend the offering, report the same to the CSRC in a timely manner and fulfill information disclosure obligations. If such event is inconsistent with the offering conditions, the CSRC shall withdraw its approval.

**Article 37** If the share offering application is not approved, the issuer may file another share offering application six months after the date when the CSRC renders its decision of disapproval.

#### **Chapter IV Information Disclosure**

**Article 38** The issuer shall prepare and disclose the prospectus in accordance with relevant regulations of the CSRC.

**Article 39** The standards prescribed by the CSRC on the content and format of a Chinext prospectus are the minimum requirements on information disclosure. All the information that may have a material effect on the investment decision of investors shall be disclosed, regardless of whether such standards expressly address the same.

**Article 40** The issuer shall make a statement in a prominent position in its prospectus as follows: “The shares to be offered in the contemplated IPO will be listed on the Chinext which is characterized by high investment risk. Companies on the Chinext are susceptible to inconsistent performance and high operation risk and delisting risk which expose investors to high market risk. Prospective investors should be fully aware of the investment risk associated with the Chinext and the risk factors disclosed by the Company and should make the decision to invest only after due consideration.”

**Article 41** The issuer and all of its directors, supervisors and senior management shall sign and seal the prospectus to ensure the truth, accuracy and completeness of the contents of the prospectus. The sponsor and the sponsor representative shall verify the truth, accuracy and completeness of the contents of the prospectus and sign and seal their comments thereon.

The issuer’s controlling shareholder and *de facto* controller shall give their confirmation opinions on the prospectus and sign and seal the same.

**Article 42** The financial statements contained in the prospectus shall be valid for six months from the end date of the most recent accounting period. Under special



circumstances, the issuer may apply for an appropriate extension, but not more than one month at most. The end date for the financial statements shall be the last day of a year, half a year and a quarter.

**Article 43** The prospectus shall be valid for six months, which shall begin from the date when the prospectus is signed for the last time before the CSRC grants approval.

**Article 44** After the CSRC accepts the application and before the Public Offering Review Committee commences review, the issuer shall disclose the prospectus (submission version) in advance on the website of the CSRC. The issuer may also post the prospectus (submission version) on its own website, provided that the information disclosed is identical and that such posting is not earlier than the disclosure on the website of the CSRC.

**Article 45** The prospectus (submission version) disclosed in advance shall not contain any issue price information.

The issuer shall make a statement as follows in a prominent position of the prospectus (submission version) disclosed in advance: "The Company's offering application has yet to be approved by China Securities Regulatory Commission. This prospectus (submission version) has no legal effect for share offering and is provided solely for the purpose of advance disclosure. Investors shall make investment decisions based on the officially published prospectus."

**Article 46** The issuer and all of its directors, supervisors and senior management shall ensure the truth, accuracy and completeness of the contents of the prospectus (submission version) disclosed in advance.

**Article 47** The issuer shall, prior to the share offering, publish the full text of the prospectus on the websites designated by the CSRC and at the same time publish an announcement in the newspapers designated by the CSRC informing investors of such websites and how to access the relevant documents.

The issuer shall disclose the prospectus on its website no earlier than the publishing time prescribed in the preceding paragraph.

**Article 48** The sponsorship letter issued by the sponsor for the offering, the documents issued by securities service providers and other important documents relating to the offering shall be disclosed on the websites designated by the CSRC as well as the company's website as reference documents of the prospectus.

**Article 49** The issuer shall make the prospectus and reference documents available at the domiciles of the issuer, the stock exchange on which its shares are to be listed, the sponsor, the leading underwriter and other underwriters for public inspection.

**Article 50** After the offering application is accepted and before the issuer publishes the prospectus in accordance with law upon the approval of the application by the CSRC, the issuer and the parties involved in the proposed offering shall not promote the public share offering by means of advertisement, briefing, or otherwise.

## **Chapter V Supervision and Legal Liabilities**

**Article 51** The stock exchange shall establish the systems of listing, trading and delisting as well as other relevant systems appropriate to the characteristics of the Chinext. It shall urge sponsors to fulfill their continuous supervisory obligations and shall impose regulatory measures on violations of applicable laws and regulations as well as the rules of the stock exchange.

**Article 52** The stock exchange shall establish a market risk warning system and a continuing investor education system appropriate to the characteristics of the Chinext and urge issuers to establish and perfect an investor protection system and an internal control system for preventing and correcting illegal and irregular acts.

**Article 53** If the offering application documents submitted to the CSRC by the issuer contain any false representations, misleading statements or material omissions, or any issuer does not meet the offering conditions but obtains approval for offering by

fraudulent means, or the issuer interferes with the review work of the CSRC and the Public Offering Review Committee by improper means, or the signature or seal of the issuer or any of its directors, supervisors, senior management members, controlling shareholder or *de facto* controller is forged or altered, or the issuer or the parties involved in the proposed offering promote the public offering in violation of these Measures, the CSRC shall take the regulatory measure of terminating the review process and rejecting the issuer's further share offering application for a period of 36 months and also impose punishment in accordance with relevant provisions of the *Securities Law*.

**Article 54** If the sponsorship letter issued by the sponsor contains any false representation, misleading statements or material omissions, or the sponsor interferes with the review work of the CSRC and the Public Offering Review Committee by improper means, or the signature or seal of the sponsor or any of its relevant signatories is forged or altered, or the sponsor does not perform other statutory duties, the sponsor and relevant individuals shall be dealt with in accordance with relevant provisions of the *Securities Law* and the sponsorship regulations.

**Article 55** If a securities service provider fails to act with due diligence and as a result, any document prepared and issued by it contains any false representations, misleading statements or material omissions, the CSRC shall take the regulatory measure of rejecting any professional document for securities offering issued by such agency for a period of 12 months and rejecting any professional document for securities offering issued by relevant signatories for a period of 36 months, and also impose punishment in accordance with the provisions of the *Securities Law* and other applicable laws, administrative regulations and rules.

**Article 56** If an issuer, sponsor or securities service provider prepares or issues an document that fails to comply with requirements and modifies without authorization any document already submitted, or it refuses to respond to relevant questions raised by the CSRC in the course of review, the CSRC shall, depending on the seriousness of the case, take such regulatory measures against relevant institutions and responsible persons as holding supervisory talks and ordering rectification and have the same recorded in the credibility record system and published. If the case is particularly serious, a warning shall be issued.

**Article 57** If the issuer discloses a profit forecast but the amount of realized profit fails to reach 80% of the forecast figure, unless due to *force majeure*, the legal representative of the issuer and the certified public accountant signing the profit forecast audit report shall give a public explanation and apology at the shareholders' general meeting and on the websites and in the newspapers designated by the CSRC. The CSRC may issue a warning to the legal representative.

If the amount of realized profit fails to reach 50% of the forecast figure, unless due to *force majeure*, the CSRC shall reject such company's further applications for public offering of securities for a period of 36 months.

## **Chapter 6 Supplementary Provisions**

**Article 58** These Measures shall take effect as of May 1, 2009.

### **Disclaimer**

The English version of the *Interim Measures on the Administration of Initial Public Offerings and Listings of Shares on the Chinext* is for reference purposes only. In the event of any discrepancy between the English version and the Chinese version, the Chinese version shall prevail. Shenzhen Stock Exchange shall not be liable for any losses, damages, costs and expenses, or disputes or any other liabilities of whatsoever nature, suffered or incurred as a result of or in connection with such discrepancy.