



An introduction to listing in Hong Kong

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Listing considerations

Listing is one of the most significant steps in a company's development – offering immense opportunities to the listed company while committing it to continuing obligations. Thorough consideration must be undertaken before proceeding with any IPO restructuring exercise.

Listing advantages and opportunities	Continuing obligations and limitations
<ul style="list-style-type: none"> ▶ Provide new capital Financing future growth of the company or stakeholder wealth building 	<ul style="list-style-type: none"> ▶ Time costs and expenses of listing can be substantial and may prove to be higher than other ways of raising capital (e.g. debt or long-term financing)
<ul style="list-style-type: none"> ▶ Realization of shareholder value Realization of shareholder value through market mechanism 	<ul style="list-style-type: none"> ▶ Ongoing costs of compliance with regulatory requirements, shareholders meetings, accounting standards, annual and interim reporting requirements, and more frequent disclosures
<ul style="list-style-type: none"> ▶ Easier access to additional capital <ul style="list-style-type: none"> ▶ Issuance of new shares to finance company's expansion or acquisitions ▶ Through placement or issuance of various financial instruments to gain easier access to additional capital 	<ul style="list-style-type: none"> ▶ Shareholders' expectations will exert pressure on the company to maintain and improve profits and dividends level
<ul style="list-style-type: none"> ▶ Enhance corporate profile and visibility <ul style="list-style-type: none"> ▶ Being a listed company implies that the company has successfully reached a certain level of profitability, net worth, corporate governance and compliance with rigorous accounting standards and reporting transparency ▶ Better credit terms from suppliers, easier to attract new customers and joint-venture partners ▶ More favorable terms, rates and expedient financing from banks, with less stringent collateral requirements 	<ul style="list-style-type: none"> ▶ Dilution of ownership may result in loss of control over the company
<ul style="list-style-type: none"> ▶ Opportunities to better align employee benefits with company's performance <ul style="list-style-type: none"> ▶ Increased adherence to a high profile listed company by its executives and staff ▶ Enhanced ability to attract, reward and retain higher caliber staff through granting stock options 	

Once you have thoroughly considered the above matters, you may consider which type of listing method best suits your company.

Listing requirements on The Stock Exchange of Hong Kong Limited (SEHK)

Companies may seek a listing on either the SEHK's Main Board or Growth Enterprise Market (GEM) depending on their specific criteria, such as company size and profitability. The majority of companies are listed on the Main Board. A Main Board listing applicant must fulfill the financial criteria under either the "Profit test", or the "Market capitalization / Revenue / Cash flow test", or the "Market capitalization / Revenue test" as specified in the Main Board's "Listing Rules".

Listing requirements	Profit test	Market capitalization / Revenue / Cash flow test	Market capitalization/ Revenue test
Place of incorporation (in acceptable jurisdictions)	Hong Kong, mainland China, Bermuda, Cayman Islands, or a jurisdiction where the standards of shareholder protection are at least equivalent to those provided in Hong Kong		
Trading record	Not less than three financial years		
Profit attributable to shareholders	Aggregate profits of HK\$50 million in the last three years (with HK\$20 million in the most recent year and an aggregate of HK\$30 million in the two preceding years)	No specific requirement	No specific requirement
Revenue	No specific requirement	At least HK\$500 million for the most recent audited financial year	
Cash flow	No specific requirement	Positive cash flow from operating activities of at least HK\$100 million in aggregate for the three preceding financial years	No specific requirement
Minimum market capitalization	At least HK\$200 million at the time of listing	At least HK\$2 billion at the time of listing	At least HK\$4 billion at the time of listing
Management and ownership	Management continuity for at least three preceding financial years; and ownership continuity and control for at least the most recent audited financial year		
Relaxation of trading record and management requirement	The SEHK may accept a shorter trading record period and/or may vary or waive the above profit or other financial standards requirement for: <ol style="list-style-type: none"> 1) mineral companies (those that have at least discovered resources); 2) newly formed "project" companies; or 3) applicants applying under the market capitalization/revenue test, when the new applicants' directors and management have sufficient and satisfactory experience of at least three years in the line of business and industry of the applicant; and the new applicant has management continuity for the most recent audited financial year. 		
Minimum public float	At least 25% of total issued share capital; for issuers with expected market capitalization of over HK\$10 billion at the time of listing, the SEHK may accept a lower percentage of 15% to 25%		
Spread of shareholders	At least 300 public holders at the time of listing		
	No more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders		



Regulatory objectives governing the listing of securities on the SEHK

- ▶ To maintain and promote fairness, efficiency, competitiveness, transparency and orderliness of the securities markets
- ▶ To prevent market manipulation in securities markets
- ▶ To ensure that all market participants have simultaneous access to the same information, with a view to precluding any insider dealings

Regulatory framework and rules on listing matters

Listed companies – must have a suitable business, structure, process and timely and accurate disclosure	
Directors – act honestly, possess relevant experience and competence, and understand and comply with the “Listing Rules”	
Before listing	After listing
<ul style="list-style-type: none"> ▶ Appointing sponsor(s) : <ul style="list-style-type: none"> ▶ Confirm that the applicant is suitable for listing ▶ Provide training to directors ▶ Confirm that the applicant has established appropriate accounting and management procedures, systems and internal controls 	<ul style="list-style-type: none"> ▶ Appointing compliance adviser ▶ Listed companies are required to disclose information to shareholders and the general public and certain transactions require shareholders’ prior approval ▶ Board of directors is required to produce a “Corporate Governance Report” in a listed company’s annual report

Required disclosure for listing applicants

Requirements for the contents of listing documents (Relevant rules : Chapter 11 of and Appendix 1A to the Main Board’s “Listing Rules”)	
<ol style="list-style-type: none"> 1. Information about the listed company and its advisers 2. Information about the issue of securities 3. Information about share capital 4. Information about the listed company’s business 	<ol style="list-style-type: none"> 5. Financial information about the listed company 6. Information about the listed company’s management 7. Use of proceeds 8. Material contracts and documents for inspection

Principal steps involved in listing

For any company to attain an ideal listing price and to make informed judgments on financing solutions, experienced IPO professional assistance must be sought to assist and coordinate throughout the listing process. Ernst & Young provides customized professional services to meet specific clients' needs. We can leverage on our professional knowledge and IPO experiences to assist you throughout the listing process as follows :

Main Board listing process and Ernst & Young services

	Initial phase preparations	Listing application preparation	Formal submission to SEHK**
Listing process	<ul style="list-style-type: none"> ▶ Group reorganization ▶ Perform pre-IPO internal due-diligence ▶ Appoint sponsor(s), reporting accountants and other professional advisers ▶ Before submitting application to SEHK, submit an application to China Securities Regulatory Commission (CSRC) for the approval of listing in Hong Kong* 	<ul style="list-style-type: none"> ▶ Submit the preliminary listing application documents including the draft listing application form (Form A1) to CSRC before submission to SEHK* ▶ First draft of prospectus ▶ Audited financial statements based on mainland China accounting standards and corporate accounting standards for past three financial years (only applicable to mainland China incorporated companies) ▶ Audited financial statements based on HKFRS (or IFRS) for past three financial years and first draft of accountants' report in accordance with Listing Rules ▶ First draft of valuation reports ▶ Preliminary draft of profit forecast memorandum (if applicable) ▶ Preliminary cash flow forecast ▶ Review listing applicant's indebtedness position ▶ Submit Form A1 documents to SEHK 	<p>At least 25 clear business days before hearing date</p> <ul style="list-style-type: none"> ▶ Submit the listing application form (Form A1) ▶ Advanced drafts of the prospectus (including draft financial information for the third financial year under normal circumstances) and draft listing timetable ▶ Draft of all requests for waiver from requirements of Listing Rules, and Companies Ordinance ▶ Any draft statement of adjustments relating to the accountants' report ▶ Submit sponsor's undertaking and statement relating to independence
Ernst & Young services	<ul style="list-style-type: none"> ▶ Advise on financial and accounting issues relating to group reorganization ▶ Advise on financial and accounting issues relating to the company's fund raising strategies and methods ▶ Advise on establishing accounting systems, accounting policies, financial statements preparation and consolidation procedures, internal control procedures and tax efficient structures ▶ Provide training to company personnel, assist in improving internal control environment that matches business growth ▶ Assist company in establishing financial budgeting directive according to its business objectives ▶ Assist company in identifying and disclosing related party transactions ▶ Advise on pre-IPO capital structure or dividend distribution with a view to achieving an optimal asset backing for the company 	<ul style="list-style-type: none"> ▶ Prepare accountants' report for the track record for inclusion in the prospectus in accordance with applicable accounting standards and Listing Rules ▶ Provide assistance to sponsor(s), legal adviser(s) and underwriter(s) for the purpose of compiling the prospectus, which is within the scope of the responsibilities assumed by reporting accountants and in accordance with general practice, including attending, drafting and planning 	

*: Non-mainland China incorporated companies do not require approval from the CSRC.

** : The steps and timetable are set out for illustration and reference only. The SEHK may from time to time revise the rules and guidance in relation to new listings. You should keep abreast of the latest regulatory developments or consult our professionals.

			Listing in progress	After listing
<p>At least 15 clear business days before hearing date</p> <ul style="list-style-type: none"> ▶ Draft profit forecast memorandum and cash flow forecast memorandum 	<p>At least 4 clear business days before hearing date</p> <ul style="list-style-type: none"> ▶ Final proofs of the prospectus ▶ A draft letter from the sponsor on directors' statement of working capital sufficiency ▶ A certified copy of the approval letter from CSRC* 		<ul style="list-style-type: none"> ▶ Hearing ▶ Roadshow ▶ Listing 	<ul style="list-style-type: none"> ▶ Disclosure of notifiable transactions ▶ Disclosure of financial results ▶ Shareholders' meetings
<p>meetings, assisting in reviewing and providing information required, and dealing with other matters as instructed</p> <ul style="list-style-type: none"> ▶ After appropriate review, comment on the disclosure regarding indebtedness statement contained in the prospectus ▶ Participate in the review of the business and financial commentary for inclusion in the prospectus 	<ul style="list-style-type: none"> ▶ Participate in the review of the cash flow forecast prepared by the company ▶ If required, review the accounting policies and calculations adopted in arriving at the profit forecast prepared by the company and issue a comfort letter for inclusion in the prospectus ▶ Review the pro forma financial information and issue a comfort letter for inclusion in the prospectus 	<ul style="list-style-type: none"> ▶ Issue comfort letters in relation to the listing application ▶ Following the finalization of the prospectus and the approval by the board of directors, a consent letter will be issued for the inclusion in the prospectus of Ernst & Young's name and accountants' report in the form and context in which they appear 	<p>Assist in the introduction of best practice in corporate governance, internal control management, human capital and information system management with a view to assisting the company in enhancing its capabilities to maximize shareholder value.</p>	



Continuing obligations

SEHK Main Board listed companies disclosure requirements:

- ▶ Disclosure requirements for financial information - periodic
 - ▶ Preliminary announcements of results
 - ▶ Annual report and half-year interim report
- ▶ Disclosure requirements for other important information - transactional
 - ▶ Disclose any price-sensitive information as soon as reasonably practicable
 - ▶ Disclosure relating to the listed company's securities (such as issue of new shares under general mandate, share repurchase, changes in the terms of convertible securities etc.)
 - ▶ Disclosure relating to the listed company's business

Disclosure relating to the listed company's business

1. Advance of funds to an entity
2. Financial assistance and guarantees to affiliated companies of a listed company
3. Pledging of shares by the controlling shareholder
4. Loan agreements with covenants relating to specific performance of the controlling shareholder
5. Breach of a loan agreement by a listed company
6. Winding-up and liquidation
7. Notifiable transactions
8. Connected transactions

“Listing Rules” requirements on corporate governance:

- ▶ The “Code on Corporate Governance Practices” (the “Code”) is set out in Appendix 14 of the Main Board’s “Listing Rules”
- ▶ The “Code” sets out principles of good corporate governance, and two levels of requirements and recommendations:
 - ▶ Principles of good corporate governance:
 - ▶ Code provisions: Listed companies are expected to comply with the code provisions. Any deviation from the code provisions must be set out in the interim reports and annual reports and considered reasons must be given for each deviation
 - ▶ Recommended best practices: For guidance only. Listed companies are encouraged, but are not required, to state whether they have complied with them and give considered reasons for any deviation
- ▶ **The “Code” requires that listed companies shall include in their annual reports a “Corporate Governance Report” prepared by the board of directors**
 - ▶ Mandatory disclosure requirements
 - ▶ Corporate governance practices
 - ▶ Board of directors - composition and operation
 - ▶ Directors’ securities transactions
 - ▶ Segregation of the roles of the chairman and chief executive officer
 - ▶ Terms of appointment of non-executive directors
 - ▶ Remuneration of directors
 - ▶ Nomination of directors
 - ▶ Auditors’ remuneration
 - ▶ Operation of the audit committee
 - ▶ Recommended disclosures
 - ▶ Share interests of senior management
 - ▶ Shareholders’ rights
 - ▶ Investor relations
 - ▶ Effectiveness of internal controls

Directors	The board	Chairman and CEO	Board composition	Appointments, re-election and removal	Responsibilities of directors	Supply of and access to information
Remuneration of directors and senior management	The level and make-up of remuneration and disclosure					
Accountability and audit	Financial reporting	Internal controls		Audit committee		
Delegation by the board	Management functions			Board committees		
Communication with shareholders	Effective communication			Voting by poll		

Introduction to Ernst & Young – A leading professional services organization

Ernst & Young is a global leader in assurance, IPO, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

At Ernst & Young, we are responding to the globalization of your business and industry. Our practices across 140 countries are organized into integrated geographic areas, making us the most globally integrated professional services organization.

Over the years, we have helped many of the world's most dynamic and ambitious companies grow into market leaders. Our professionals have experience in assisting companies at different stages of development, from venture capital funding to IPO, from national expansion to overseas growth.

We thrive on helping companies deliver successful IPOs. Our professionals help businesses evaluate the pros and cons of going public. We demystify the process, examine the alternatives and help prepare them for the public spotlight.

Ernst & Young's awards include:

- ▶ *Fortune* magazine named us one of the "100 Best Companies to Work For" in 2010, the 13th year in a row we have received this recognition
- ▶ We have been named a Most Admired Knowledge Enterprise (MAKE) for the past 13 consecutive years (1998-2009)
- ▶ *Training* magazine named us one of the "Training Top 10 Hall of Fame" in 2009
- ▶ We have been named one of the 10 "Best Employers in China 2009" by Hewitt Associates
- ▶ '500 Most Innovative Users of Information Technology' by InformationWeek (2000-2009)
- ▶ Certificate of Appreciation issued by World Exposition 2010 Shanghai China



Ernst & Young in China

China is a vast market undergoing unprecedented change, creating challenges and complexities even for those with experience of operating in the market.

At Ernst & Young, we draw upon our global and local knowledge to help you retain the confidence of investors, manage your risk, strengthen your controls, grasp opportunities and achieve your potential. We serve many large and fast-growth Chinese companies and multinationals operating in the region.

Ernst & Young is one of the largest professional services organizations in China, having had a presence in the region for almost 40 years.

During that time, we have established many milestones, including opening our first Hong Kong office in 1968, and being one of the first international organizations to establish operations in Beijing in 1981.

We can support you through our extensive network of 14 offices in mainland China and Hong Kong. We are located in Hong Kong, Beijing, Shanghai, Guangzhou, Shenzhen, Dalian, Wuhan, Chengdu, Macau, Suzhou, Tianjin, Qingdao, Hangzhou and Xiamen.

With over 8,000 people in China, we are committed to bringing together the right people at the right time and in the right place to provide you with the seamlessly coordinated and quality service you need.



Your ideal listing services team



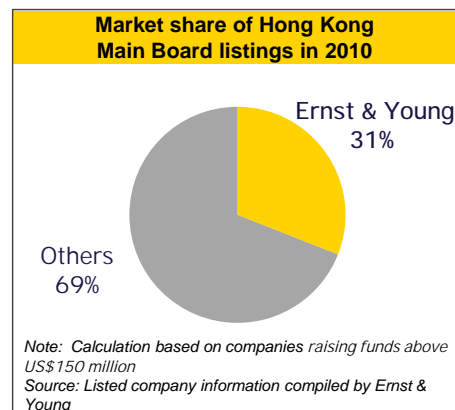


Experience in assisting companies restructuring and listing in Hong Kong

Ernst & Young is a market leader in assisting companies list in Hong Kong. In 2010, we assisted 15 companies that raised funds in excess of US\$150 million to list in Hong Kong (see table below for details). This represented a 31% share of these IPOs listing on the Main Board, ranking us first by market share.

Our significant IPO clients in recent years include:

- ▶ 2006: We helped ICBC successfully launch its IPO, which represented the largest ever IPO at the time in terms of funds raised
- ▶ 2007: We assisted market leaders in their respective industries with their IPOs, including Fosun International and BYD Electronic
- ▶ 2008: We assisted China Railway Construction Corp and CSR Corporation list in March and August, respectively
- ▶ 2009: We assisted 13 companies list in Hong Kong, including China Pacific Insurance
- ▶ Over the past five years, we have helped over 60 enterprises list in Hong Kong



Ernst & Young's selected IPO clients listed on Hong Kong Main Board

2006	2008	2010
Advanced Semiconductor Manufacturing Corporation China BlueChemical Computime Group Embry Holdings Hunan Nonferrous Metals Corporation Industrial and Commercial Bank of China Shanghai Prime Machinery Zhaojin Mining Industry Zhuzhou CSR Times Electric	A8 Digital Music Holdings China Railway Construction Corporation CSR Corporation Little Sheep Group Maoye Int'l Holdings Xtep Int'l Holdings	Biostime China ITS (Holdings) China Liansu Group Holdings China SCE Property Holdings China Sanjiang Fine Chemicals Chu Kong Petroleum and Natural Gas Steel Pipe Holdings China Suntien Green Energy Corporation CITIC Dameng Holdings Convoy Financial Services Holdings Evergreen Int'l Holdings Goodbaby Int'l Holdings Int'l Mining Machinery Holdings Leoch Int'l Technology Magic Holdings Int'l NVC Lighting Technology Sijia Group SITC Int'l Holdings Springland Int'l Holdings Xinjiang Goldwind Science & Technology Zhongsheng Group Holdings
2007	2009	
BYD Electronic (Int'l) Capxon International Electronic Centron Telecom Int'l Holding China Agri-Industries Holdings Eyang Holdings (Group) Fosun Int'l Franshion Properties (China) Global Sweeteners Holdings Kingsoft Corporation KWG Property Holding Regent Manner Int'l Holdings Xinhua Winshare Publishing and Media Company Limited Tao Heung Holdings Zhong An Real Estate	Asia Cassava Resources Holdings Ausnutria Dairy Corporation BBMG Corporation China Pacific Insurance (Group) China Singyes Solar Technologies Holdings China South City Holdings China Vanadium Titano-Magnetite Mining CPMC Holdings Shenguan Holdings (Group) Sany Heavy Equipment International Silver Base Group Holdings Wynn Macau Yuzhou Properties	
		2011 (to March)
		Baofeng Modern International China Kingstone Mining Far East Horizon

Leveraging our industry experience

Ernst & Young has extensive experience across all major industries, and we have assisted companies in various industries to list successfully:

- ▶ Airlines
- ▶ Asset management
- ▶ Automotive
- ▶ Banking and capital markets
- ▶ Chemicals
- ▶ Consumer products
- ▶ Diversified industrial products
- ▶ Insurance
- ▶ Media and entertainment
- ▶ Technology
- ▶ Telecommunications
- ▶ Transportation
- ▶ Oil and gas
- ▶ Mining and metals
- ▶ Pharmaceuticals
- ▶ Real estate, construction and hospitality
- ▶ Retails and wholesales
- ▶ Power and utilities

Close coordination and communication with regulatory authorities

We maintain close coordination and communication with government ministries and domestic securities regulatory authorities, so we can keep you informed of the latest policy developments. In mainland China, these include the China Securities Regulatory Commission, the Ministry of Finance, the State-owned Assets Supervision and Administration Commission, the National Development and Reform Commission, the State Administration of Taxation and the Chinese Institute of Certified Public Accountants; in Hong Kong, these include the Hong Kong Monetary Authority, the Securities and Futures Commission, the Office of the Commissioner of Insurance and the Hong Kong Institute of Certified Public Accountants.

Our partners also hold, or have held, appointments in various capacities within these bodies, including the China Securities Regulatory Commission, Hong Kong Exchanges & Clearing, the Hong Kong Securities and Futures Commission, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

FAQ - Frequently asked questions by companies exploring IPO opportunities in Hong Kong

- ▶ What is the minimum net assets requirement for listing on the SEHK?
- ▶ What issues usually arise when Chinese companies seeking to list in Hong Kong?
- ▶ How to determine the price-earnings ratio in an IPO? What multiple should we expect to receive?
- ▶ Why should I list my company in Hong Kong?
- ▶ My company is planning an IPO to finance expansion. How should I tackle the tax-related issues?
- ▶ There are many profitable companies in my group, but none of which is profitable enough to be listed individually. If we undergo restructuring and merge them together in a holding company, would this holding company qualify to apply for listing despite not having three years of business performance?
- ▶ My company is not profitable enough to apply for listing on the SEHK, and my friend's company is in a similar situation. Could we merge these two companies and apply for listing?
- ▶ What is the role of an reporting accountant during the listing process?
- ▶ How much does it cost to apply for a listing?
- ▶ My company is planning to distribute dividends before the IPO, how much could we distribute? And how to determine the dividend policy after listing?
- ▶ By how much should we expect our company's costs to increase after listing?
- ▶ My company is obligated to comply with which set of rules and regulations?
- ▶ What are the advantages and disadvantages of using a shell company as a listing vehicle?

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Should you have questions or would like to find out more about our IPO services, please contact our partners at any offices near you.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

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About Ernst & Young's IPO Offering

Ernst & Young thrives on helping companies to deliver successful initial public offerings (IPOs). Our strategic growth markets professionals, who are dedicated to serving future market leaders worldwide, help businesses like yours evaluate the pros and cons of an IPO. We demystify the process, examine the alternatives and help prepare you for life in the public spotlight. It's how Ernst & Young makes a difference.

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