

Opportunities and Challenges in setting up Electronic Trading in China

Presentation to FPL China Conference
October 2008

Table of Contents

1. An Overview of the Opportunities

- Growth of Chinese Equity Market
- Electronic Trading by nature
- Demands from both Individual and Institutional Investors
- Needs to connect to the world markets
- Requirements for future growth
- Favorable competitive landscape

2. Challenges Encountered

- Complicated Functional Requirements
- Trading Outlet Limitations

3. Appendix

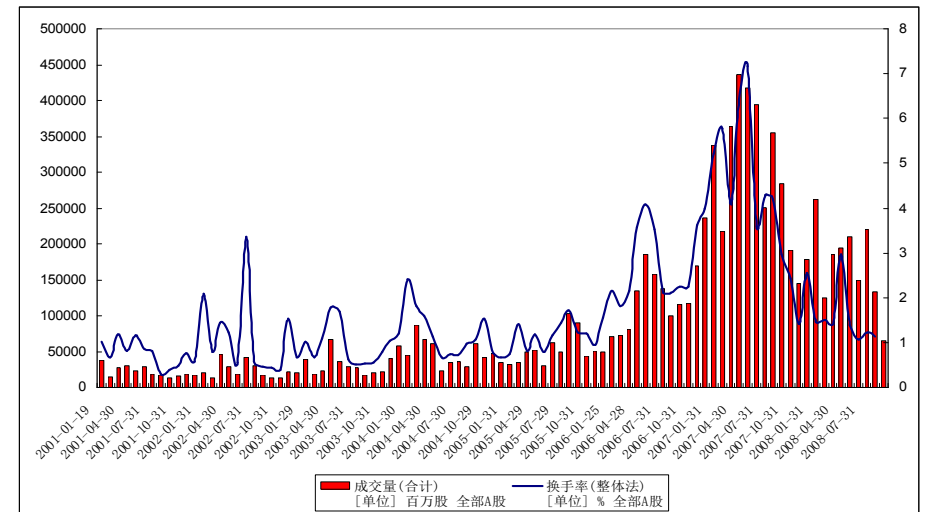
- Top Ten Cities for Retail Trading
- Account Opening From an Investor's Point of View



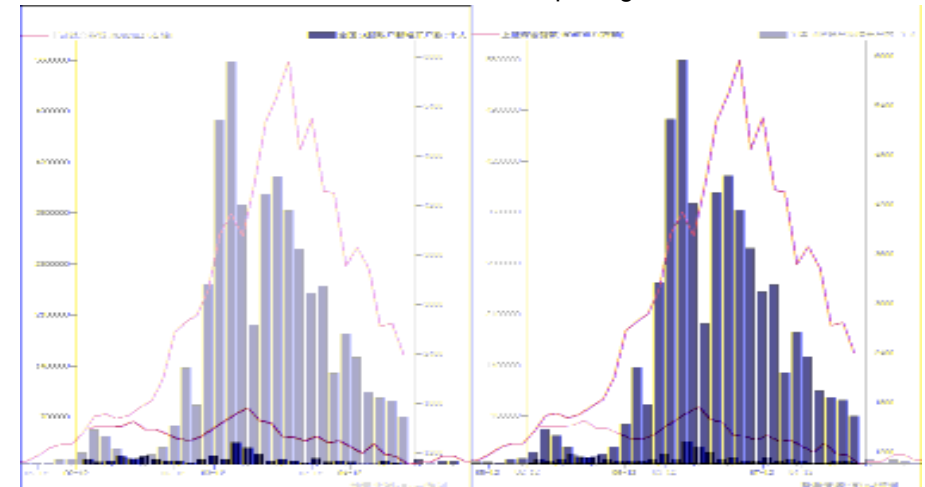
Opportunities - Growth of the Chinese Equity Market

- The Chinese equity market has experienced breathtaking growth since November 2005
- At its peaks, the A-Share stock market capitalization has exceeded RMB 18 trillion with volumes overtaking all global stock markets outside the USA
- 1.3billion people & over 1 million new retail trading accounts per week at its peaks
- With further 16.6 trillion RMB of deposits in retail savings accounts, Retail investments limited to the onshore markets – a captive audience

Daily Market Turnover (US million)



The Pace of New Account Openings

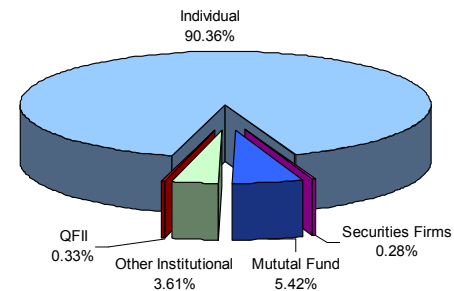


Opportunities - Electronic Trading by nature

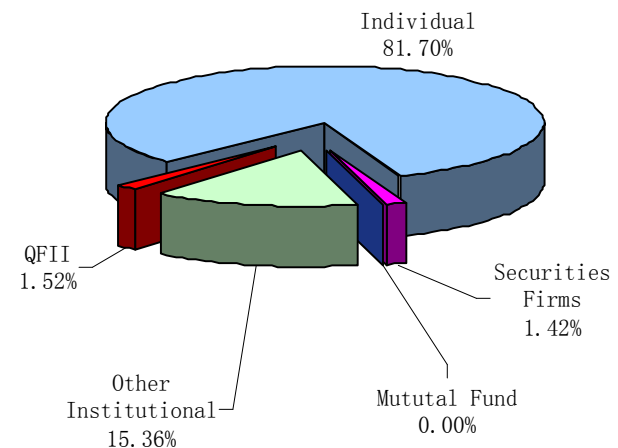
■ The structural elements which characterize this market are unusual and unique for a global sized market formation:

- 1 dominant investor class: retail clients account for 85% of turnover
- 1 asset class: single stocks are the only asset class available to Chinese retail investors
- 1 brokerage account per retail investor in their geographical registration area
- Majority of retail clients trade electronically or over the internet.
- The controllability, efficiency, anonymity, easy-to-use, and low cost give electronic trading many natural advantages in China

A-Share Investor Participants

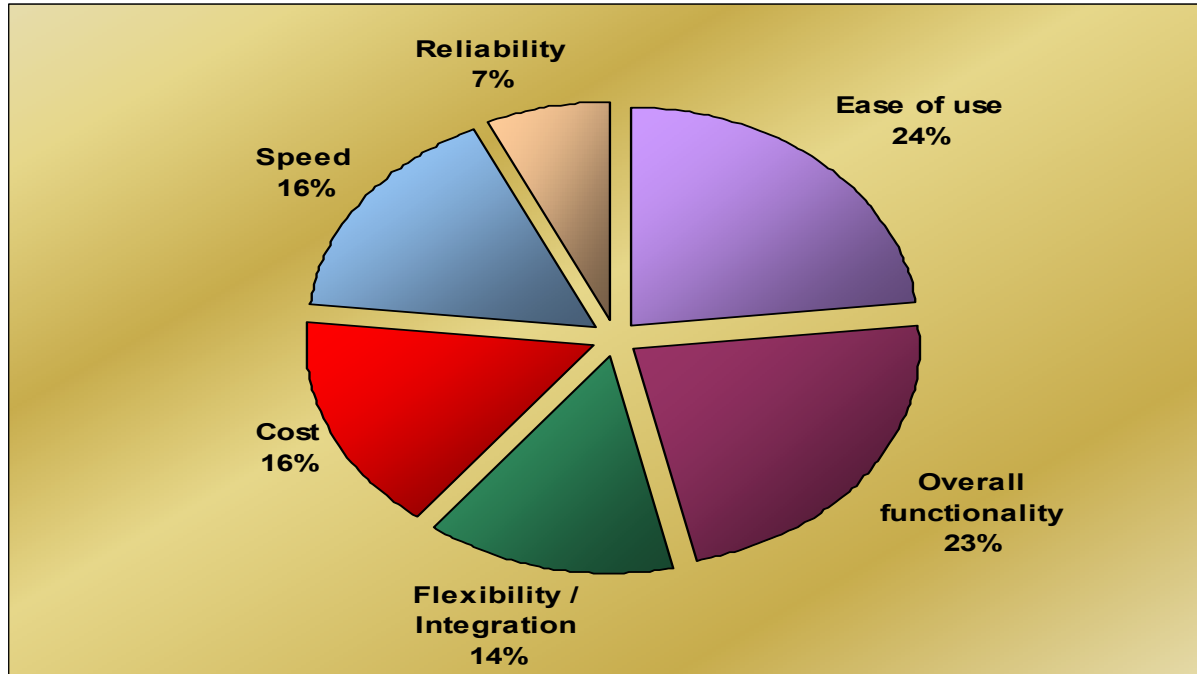


Listed Mutual Fund Products



Opportunities - Demands from both Individual and Institutional Investors

- Individual investors seek more reliable, secure, and intuitive trading platforms
- Institutional investors seek more powerful tools like algorithmic or program trading, pre and post trade analysis tools, etc.
- Following are some key factors for a good electronic trading system:

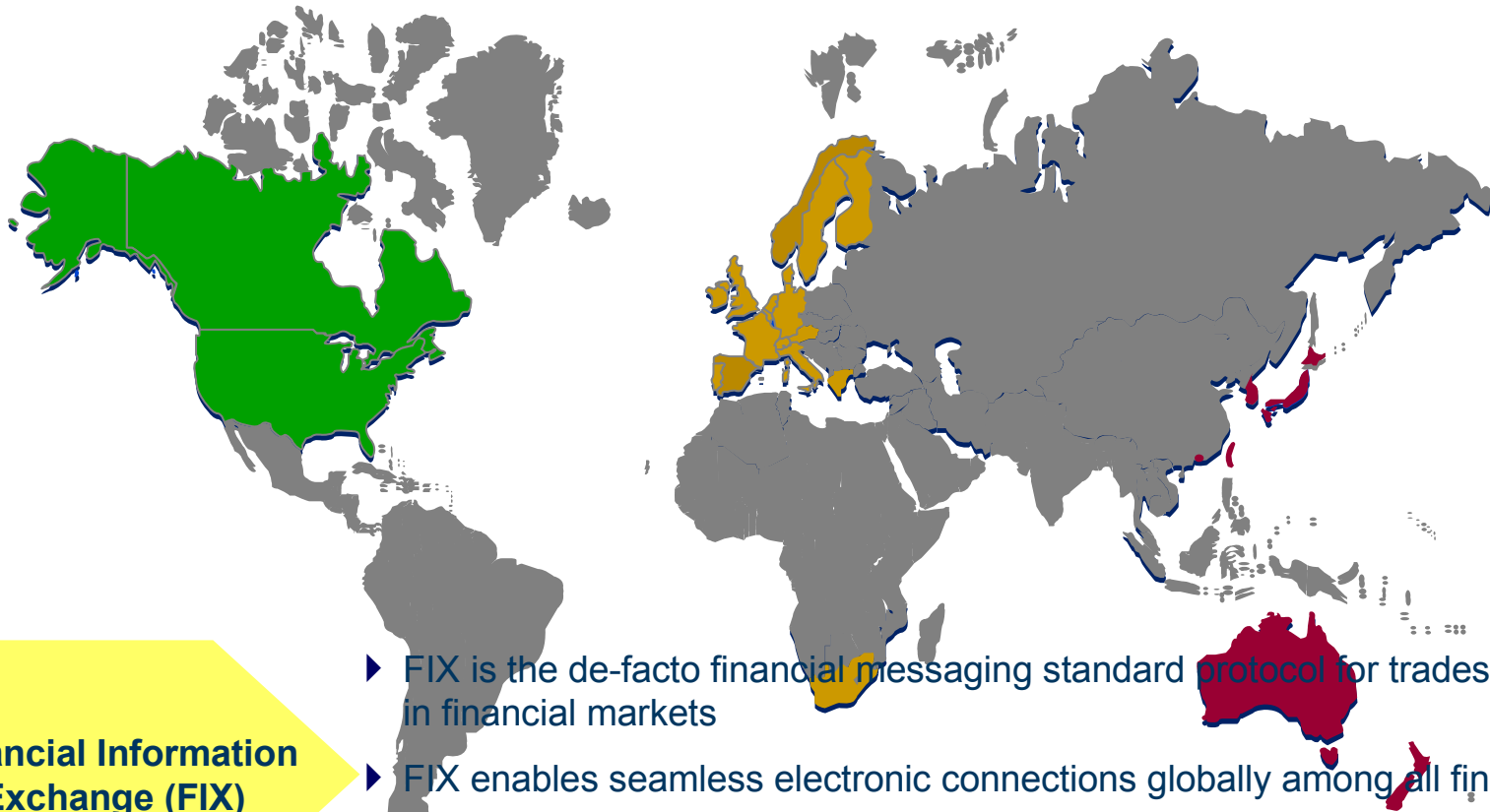


Source: TABB Group, DMA Trading: Transitioning from Aggregation to Execution Platform, July 2005



Opportunities - Needs to connect

- QFII – needs to access the Chinese markets
- QDII – needs to access the Global markets



**Financial Information
Exchange (FIX)**

- ▶ FIX is the de-facto financial messaging standard protocol for trades transactions in financial markets
- ▶ FIX enables seamless electronic connections globally among all financial firms
- ▶ FIX message layouts make it possible to transact in electronic, transparent, cost efficient and timely manner

CHINA FIX CONFERENCE 2008



Opportunities - Requirements for future growth

- Block Trading
- Margin Financing
- Financial Futures
- OTC and Small-Mid-Cap Markets
- New Trading System



Opportunities - Favorable competitive landscape

- Major global players have not yet entered the Chinese market, but may soon...



Challenges - Complicated Functional Requirements

- Non-trade-events (eg. IPO)
- Different Stop-high's & Stop-low's
- Various types of Listed Products and their Units
- Dynamic Legal/Compliance requirements
- Trading Volume Soars By Incident
- Sustainable Development of Trading Tools (eg. Algorithmic and Portfolio Trading)
- Increasing Demand of User Information Security
- The Integration of various Trading and Market data systems

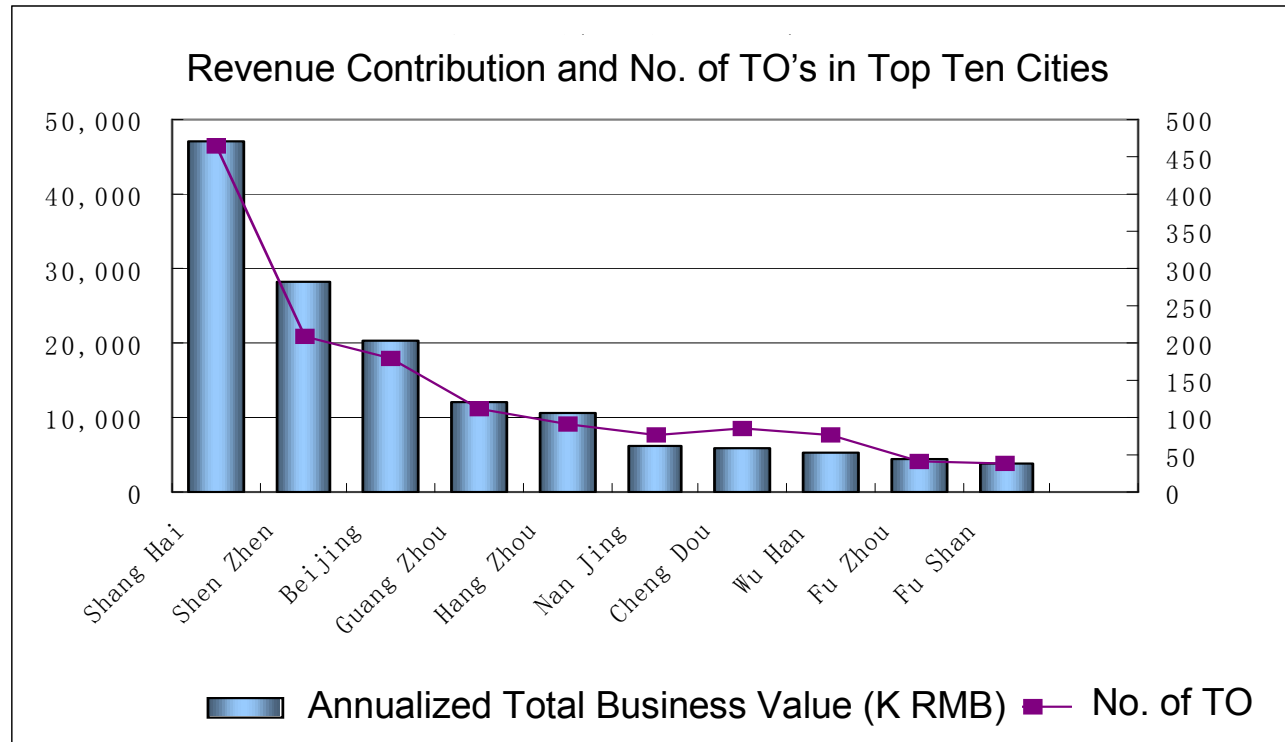


Challenges – Trading Outlet Limitations

- Physical presence required for account opening at TO
- No leasing of TO's
- Restrictions on establishment of TO's
- No business activities to be carried out from non-official business premises
- No delegation of broker functions to others



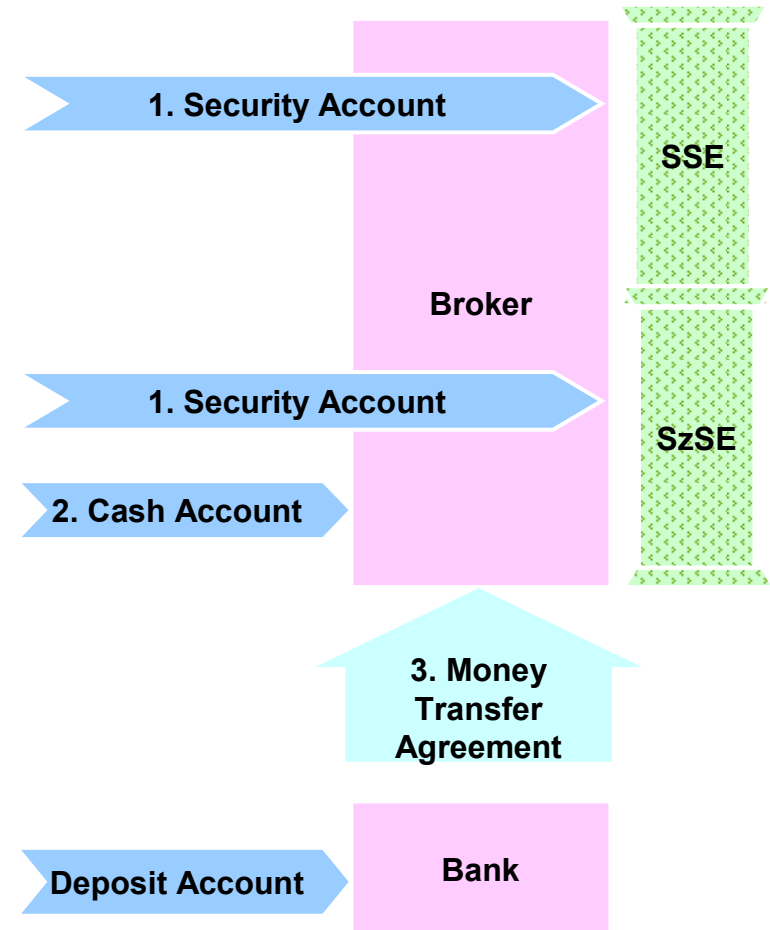
Appendix: Top Ten Cities for Retail Trading



Appendix: Account Opening From an Investor's Point of View

1. **Open "security account" at each exchange, via the broker trading outlet (TO)****
 1. Must be a Chinese citizen
 2. Provide a form of personal identification
 3. Submit application form (Name, ID number, address, phone, profession, education level, signature)
 4. Pay fees & receive IC card (total RMB130)

** (May be skipped if security account pre-existing)
2. **Open "Cash account" at the broker, at the TO**
 1. Provide: a form of personal identification; security account IC cards
 2. Submit signed account agreement
 3. Specify cash account password
 4. Receive cash account card
3. **Set up automatic cash transfer to bank, at the TO**
 1. Provide: a form of personal identification; security account IC cards; cash account card
 2. Submit application form. Specify the account number of an existing deposit account at a bank that has a money transfer agreement with the broker
4. **Confirm the preferred method of trading, at the TO**
 1. Provide: a form of personal identification; security account IC cards, cash account card
 2. Submit signed agreement form specifying trading method (electronic, auto-telephone, outlet, or manual telephone)



Disclaimer

© Copyright 2007 Beijing Gao Hua Securities Company Limited ("Gao Hua"). All rights reserved.

This communication may be confidential and is not intended to be used by anyone other than you. Gao Hua reserves the right to intercept and monitor the content of e-mail messages to and from its systems. This communication is for your general information only and is not an offer or solicitation to buy or sell any security. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendation in this material, you should consider whether it is suitable for your particular circumstances. It has been prepared based upon information that Gao Hua believes to be reliable. However, Gao Hua does not represent that it is accurate, complete and/or up-to-date and accepts no liability if it is not. Any views expressed herein are those of the individual sender except where the sender specifically states them to be the views of Gao Hua. Opinions expressed are current opinions only. Opinions, historical price(s) or value(s) are as of the date and, if applicable, time, indicated. Gao Hua does not accept any responsibility to update any opinions or other information contained in this communication. Gao Hua and/or its officers, directors and employees, including persons involved in the preparation or issuance of this material, may, from time to time, have long or short positions in, buy or sell (on a principal basis or otherwise), and act as market maker or specialist in, the securities or derivatives (including options) thereof, and serve as a director of companies mentioned in this material. In addition, Goldman Sachs Gao Hua Securities Company and /or its affiliates may have served as manager or co-manager of a public offering of securities by any such company within the past three years. Investment involves risks. Past performance is not a guide to future performance and the value of investments and the income derived from them can go down as well as up. This material is not for distribution in the United Kingdom to private customers, as that term is defined under the rules of the Financial Services Authority. Further information on any of the securities mentioned in this material may be obtained on request.

This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities.

These examples are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially.

