Session 1 - Duo

Conference: LBMA's Annual Conference is the most incredible and magnificent event in the global precious metals market.

People: I met with Dr. Stewart Murray, the Chief Executive and Mr. Kevin Crisp, the former LBMA Chairman last May in Beijing.

Venue: Hong Kong was a traditional trading hub for gold in the past decades.
Governor Zhou Xiaochuan of PBC: Three Transformations Strategy

In 2011, <Opinions to Boost the Development of China’s Gold Market> was issued by PBC, Ministry of Finance, State Administration of Taxation, National Development & Reform Commission, Ministry of Industry & Information Technology and CSRC.
The structure of China’s gold market: 2 Exchanges + 1 OTC Market

- SGE: Spot & Deferred Business
- SHFE: Futures Business
- Chinese Commercial Banks: Investment Business

The market reform was successful and fruitful.

Achievements:
- No.1 Gold Producing Country
- No. 1 Gold Consuming Country
- SGE: No. 1 Spot & Physical Gold Trading Center
- SHFE: No. 4 Gold Futures Trading Center
Mission One
Transform from a commodity market to a financial investment market.

China’s Annual Gold Output

Production in 2011: 360.96 Tonnes

Also in 2011, China’s annual gold consumption volume reached 761 tonnes.
SGE attracted more financial institutions to enter into the market and offered both the spot and deferred contracts to the individual investors.

<table>
<thead>
<tr>
<th>SGE</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>Financial Members</td>
<td>26</td>
<td>29</td>
<td>30</td>
<td>31</td>
<td>33</td>
</tr>
<tr>
<td>Individual Clients</td>
<td>1.1 million</td>
<td>1.5 million</td>
<td>2 million</td>
<td>2.6 million</td>
<td>3 million</td>
</tr>
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More than 30 Chinese commercial banks have conducted gold investment business and offered various products, including physical bars and paper gold.
Mission Two
Transform from a spot market to a derivative market.

In 2004, SGE successfully launched the deferred trading product. From 2008, gold deferred trading has accounted for over 60% of SGE's gold market for three consecutive years and in 2011, the percentage rose to 73%.

![SGE's Annual Trading Volume and Amount](chart)

On Jan 9th 2008, with the approval of CSRC, SHFE launched the gold futures contract.

Shanghai is now the world No.4 biggest gold futures market just behind New York, Tokyo and Mumbai.

Chinese commercial banks have gradually offered gold forward, swap and options contracts to their customers.
Mission Three
Transform from a domestic market to an international market.

In November 2005, SGE launched the night trading session.

The night trading session: 21:00 pm – 2:30 am (Monday to Thursday), overlaps with the morning trading session in New York and the afternoon trading session in London.

The night trading session has almost accounted for one third of SGE’s total trading volume.
In 2008, SGE absorbed 4 foreign banks as its international members.

Now SGE has 9 international members from U.S., U.K., Canada, Australia, Switzerland and Singapore.

In 2010, PBC granted another 5 Chinese commercials banks with the gold importation licenses. Now, the total number of the Chinese banks with the importation licenses rose to 9.
Market development is sound and stable.

Efforts to safeguard the fruits of the development:

1. Prevent the reconstruction of the gold trading centers.

2. Eliminate the illegal market, while guide the investors to trade in the legitimate platforms.

Future Development of China’s Gold Market
Step One: Ensure the development orientation of the market.

- Establish a more mature market system
- Promote the product innovation
- Satisfy the growing demand in our market
- Give full play to serve the country’s real economy

Step Two: Perfect the laws, rules and relative policies.
Step Three: Perfect the mechanism of risk aversion and investors protection.

OTC Market -- Dodd Frank Act

Self-disciplinary management

Strict regulation

Step Four: Strengthen the market system construction and accelerate the pace of product innovation.

Price Quoting System

More than 11,000 institutions

Gold Leasing & Lending Market
Step Five: Promote further opening to the outside world.

That’s all and thank you!