

## **Securities Law of the People's Republic of China (revised in 2005)**

*(Adopted at the 6th Meeting of the Standing Committee of the 9th National People's Congress on December 29, 1998, revised at the 18th Meeting of the Standing Committee of the Tenth National People's Congress of the People's Republic of China on October 27, 2005 according to the Decision on Revising the Securities Law of the People's Republic of China as made at the 11th meeting of the Standing Committee of the 10th People's Congress on August 28, 2004)*

### Chapter I General Provisions

Article 1 The present Law is formulated for the purpose of regulating the issuance and transaction of securities, protecting the lawful rights and interests of investors, safeguarding the economic order and public interests of the society and promoting the growth of the socialist market economy.

Article 2 The present Law shall be applied to the issuance and transaction of stocks, corporate bonds as well as any other securities as lawfully recognized by the State Council within the territory of the People's Republic of China. Where there is no such provision in the present Law, the provisions of the Corporation Law of the People's Republic of China and other relevant laws and administrative regulations shall be applied. Any listed trading of government bonds and share of securities investment funds shall be governed by the present Law. Where there is any special provision in any other law or administrative regulation, the special provision shall prevail. The measures for the administration of issuance and transaction of securities derivatives shall be prescribed by the State Council according to the principles of the present Law.

Article 3 The issuance and transaction of securities shall adhere to the principles of openness, fairness and impartiality.

Article 4 The parties involved in any issuance or transaction of securities shall have equal legal status and shall persist in the principles of free will, compensation and integrity and creditworthy.

Article 5 The issuance and transaction of securities shall observe laws and administrative regulations. No fraud, insider trading or manipulation of the securities market may be permitted.

Article 6 The divided operation and management shall be adopted by the industries of securities, banking, trust as well as insurance. The securities companies and the business organs of banks, trust and insurance shall be established separately, unless otherwise provided for by the state.

Article 7 The securities regulatory authority under the State Council shall adopt a centralized and unified supervision and administration of the national securities market. The securities regulatory authority under the State Council may, in light of the relevant requirements, establish dispatched offices, which shall perform their duties and functions of supervision and administration upon the authorization.

Article 8 Under the centralized and unified supervision and administration of the state regarding the issuance and transaction of securities, a securities industrial association shall be lawfully established, which shall adopt the self-regulating administration.

Article 9 The auditing organ of the state shall carry out auditing supervision of stock exchanges, securities companies, securities registration and clearing institutions and securities regulatory bodies.

### Chapter II Issuance of Securities

Article 10 A public issuance of securities shall satisfy the requirements of the relevant laws and administrative regulations and shall be reported to the securities regulatory authority under the State Council or a department upon authorization by the State Council for examination and approval according to law. Without any examination and approval according to law, no entity or individual may make a public issuance of any securities. It shall be deemed as a public issuance upon the occurrence of any of the following circumstances:

- (1) Making a public issuance of securities to non-specified objects;

(2) Making a public issuance of securities to accumulatively more than 200 specified objects; or  
(3) Making a public issuance as prescribed by any law or administrative regulation. For any securities that are not issued in a public manner, the means of advertising, public inducement or public issuance in any disguised form may not be adopted thereto.

Article 11 An issuer that files an application for public issuance of stocks or convertible corporate bonds by means of underwriting according to law or for public issuance of any other securities, to which a recommendation system is applied, as is prescribed by laws and administrative regulations, shall employ an institution with the qualification of recommendation as its recommendation party. A recommendation party shall abide by operational rules and industrial norms and, on the basis of the principles of being honesty, creditworthy, diligent and accountable, carry out a prudent examination of application documents and information disclosure materials of its issuers as well as supervise and urge its issuers to operate in a regulative manner. The qualification of the recommendation party as well as the relevant measures for administration shall be formulated by the securities regulatory authority under the State Council.

Article 12 A public offer of stocks for establishing a stock-limited company shall satisfy the requirements as prescribed in the Corporation Law of the People's Republic of China as well as any other requirements as prescribed by the securities regulatory authority under the State Council, which have been approved by the State Council. An application for public offer of stocks as well as the following documents shall be reported to the securities regulatory authority under the State Council:

- (1) The constitution of the company;
- (2) The promoter's agreement;
- (3) The name or title of the promoter, the amount of shares as subscribed by the promoter, the category of contributed capital as well as the capital verification certification;
- (4) The prospectus;
- (5) The name and address of the bank that receives the funds as generated from the issuance of stocks on the behalf of the company; and
- (6) The name of the underwriting organization as well as the relevant agreements. In case a recommendation party shall be employed, as prescribed by the present Law, the Recommendation Letter of Issuance as produced by the recommendation party shall be submitted as well. In case the establishment of a company shall be reported for approval, as prescribed by laws and administrative regulations, the relevant approval documents shall be submitted as well.

Article 13 An initial public offer (IPO) of stocks of a company shall satisfy the following requirements:

- (1) Having a complete and well-operated organization;
- (2) Having the capability of making profits successively and a sound financial status;
- (3) Having no false record in its financial statements over the latest 3 years and having no other major irregularity; and
- (4) Meeting any other requirements as prescribed by the securities regulatory authority under the State Council, which has been approved by the State Council. A listed company that makes any initial non-public offer of stocks shall satisfy the requirements as prescribed by the securities regulatory authority under the State Council, which have been approved by the State Council and shall be reported to the securities regulatory authority under the State Council for examination and approval.

Article 14 A company that makes an IPO of stocks shall apply for public offer of stocks as well as the following documents to the securities regulatory authority under the State Council:

- (1) The business license of the company;
- (2) The constitution of the company;
- (3) The resolution of the general assemble of shareholders;
- (4) The prospectus;

- (5) The financial statements;
- (6) The name and address of the bank that receives the funds as generated from the public offer of stocks on the behalf of the company; and
- (7) The name of the underwriting institution as well as the relevant agreements. In case a recommendation party shall be employed, as prescribed by the present Law, the Recommendation Letter of Issuance as produced by the recommendation party shall be submitted as well.

Article 15 The funds as raised through public offer of stocks as made by a company shall be used according to the purpose as prescribed in the prospectus. Any alteration of the use of funds as prescribed in the prospectus shall be subject to a resolution of the general assembly of shareholders. In case a company fails to correct any unlawful alteration of its use of funds or where any alteration of its use of funds fails to be adopted by the general assembly of shareholders, the relevant company may not make any IPO of stocks. In the foregoing circumstance, a listed company may not make any non-public offer of stocks.

Article 16 A public issuance of corporate bonds shall satisfy the following requirements:

- (1) The net asset of a stock-limited company being no less than RMB 30 million yuan and the net asset of a limited-liability company being no less than RMB 60 million yuan;
- (2) The accumulated bond balance constituting no more than 40 % of the net asset of a company;
- (3) The average distributable profits over the latest 3 years being sufficient to pay the 1-year interests of corporate bonds;
- (4) The investment of raised funds complying with the industrial policies of the state;
- (5) The yield rate of bonds not surpassing the level of interest rate as qualified by the State Council; and
- (6) Meeting any other requirements as prescribed by the State Council. The funds as raised through public issuance of corporate bonds shall be used for the purpose as verified and may not be used for covering any deficit or non-production expenditure. The public issuance of convertible corporate bonds as made by a listed company may not only meet the requirements as provided for in paragraph 1 herein but also meet the requirements of the present Law on public offer of stocks, and shall be reported to the securities regulatory authority under the State Council for examination and approval.

Article 17 With regard to an application for public issuance of corporate bonds, the following documents shall be reported to the department as authorized by the State Council or the securities regulatory authority under the State Council:

- (1) The business license of the company;
- (2) The constitution of the company;
- (3) The procedures for issuing corporate bonds;
- (4) An assent appraisal report and an asset verification report; and
- (5) Any other document as prescribed by the department as authorized by the State Council or by the securities regulatory authority under the State Council. In case a recommendation party shall be employed, as prescribed by the present Law, the Recommendation Letter of Issuance as produced by the recommendation party shall be submitted as well.

Article 18 In any of the following circumstances, no more public issuance of corporate bonds may be carried out:

- (1) Where the corporate bonds as issued in the previous public issuance haven't been fully subscribed;
- (2) Where a company has any default on corporate bonds as publicly issued or on any other liabilities, or postpones the payment of the relevant principal plus interests, and such situation is still continuing; or
- (3) Where a company violates the present Law by altering the use of funds as raised through public issuance of corporate bonds.

Article 19 The formats and reporting ways of application documents as reported by an issuer for examination and approval of securities issuance according to law shall be prescribed by the legally competent organ or department in charge of examination and approval.

Article 20 The application documents for securities issuance as reported by an issuer to the securities regulatory authority under the State Council or the department as authorized by the State Council shall be authentic, accurate and integrate. A securities trading service institution and its staff that produces the relevant documents for securities issuance shall strictly perform its/his statutory duties and functions and guarantee the authenticity, accuracy and integrity of the documents as produced thereby.

Article 21 Where an issuer files an application for an IPO of stocks, it shall, upon submitting the application documents, disclose the relevant application documents in advance according to the provisions of the securities regulatory authority under the State Council.

Article 22 The securities regulatory authority under the State Council shall establish an issuance examination committee, which shall examine the applications for stock issuance according to law. The issuance examination committee shall be composed of the professionals from the securities regulatory authority under the State Council and other relevant experts from outside the said authority, adopt the means of voting for the determination of applications for stock issuance and set forth the opinions on examination. The specific formulation measures, tenure of members as well as work procedures of the issuance examination committee shall be formulated by the securities regulatory authority under the State Council.

Article 23 The securities regulatory authority under the State Council shall take charge of the examination and approval of applications for stock issuance in light of the statutory requirements. The procedures for examination and approval shall be publicized and shall be subject to supervision according to law. The personnel participating in the examination and verification of stock issuance may not have any interest relationship with an issuance applicant, may not directly or indirectly accept any present of the issuance applicant, may not hold any stock as verified for issuance and may not have any private contact with an issuance applicant. The department as authorized by the State Council shall conduct the examination and approval of applications for issuance of corporate bonds by referring to the preceding 2 paragraphs herein.

Article 24 The securities regulatory authority under the State Council or the department as authorized by the State Council shall, within 3 months as of acceptance of an application for securities issuance, make a decision on approval or disapproval according to the statutory requirements and procedures, whereby the time for an issuer to supplement or correct its application documents for issuance according to the relevant requirements may not be calculated within the aforesaid term for examination and approval. In the event of disapproval, an explanation shall be given in writing.

Article 25 Where an application for securities issuance has been approved, the relevant issuer shall, in accordance with the provisions of the relevant laws and administrative regulations, announce the relevant financing documents of public issuance before publicly issuing any securities and shall make the aforesaid documents available for public reference in designated places. Before the information of securities issuance is publicized according to law, no insider may publicize or indulge the relevant information. An issuer may not issue any securities before an announcement of the relevant financial documents of public issuance.

Article 26 The securities regulatory authority under the State council or the department as authorized by the State Council shall, where finding any decision on approving securities issuance fails to comply with the relevant statutory requirements and procedures and if the relevant securities haven't been issued, revoke the decision on approval and terminate the issuance. As to any securities that have been issued but haven't been listed, the relevant decision on approval for issuance shall be revoked. The relevant issuer shall, according to the issuing price plus interests as calculated at the bank deposit rate for the corresponding period of time, return the funds to securities holders. A recommendation party shall bear the joint and several liabilities together with the relevant issuer, except for one who is able to prove his exemption of



fault. Where any controlling shareholder or actual controller has any fault, he shall bear the joint and several liabilities together with the relevant issuer,

Article 27 After a legal offer of stocks, an issuer shall be liable for any alteration of its operation or its profits by itself. The investment risk as incurred therefrom shall be borne by investors by themselves.

Article 28 Where an issuer issues any securities to any non-specified object and if the said securities shall be underwritten by a securities company, as is provided for by laws and administrative regulations, the issuer shall conclude an underwriting agreement with a securities company. The forms of "sale by proxy" and "exclusive sale" shall be adopted for the underwriting operation of securities. The term "sale by proxy" refers to an underwriting form, whereby a securities company sells securities as a proxy of the relevant issuer and, upon the conclusion of the underwriting period, returns all the securities unsold to the relevant issuer. The term "exclusive sale" refers to an underwriting form, whereby a securities company purchases all of the securities of an issuer according to the agreement there between or purchases all of the residing unsold securities by itself upon the conclusion of the underwriting period.

Article 29 An issuer that makes public issuance of securities has the right to select a securities company for underwriting according to law at its own will. A securities company may not canvass any securities underwriting business by any unjust competition means.

Article 30 Where a securities company underwrites any securities, it shall reach an agreement with the relevant issuer on sale by proxy or exclusive sale, which shall indicate the following items:

- (1) The name, domicile as well as the name of the legal representative of the parties concerned;
- (2) The classes, quantity, amount as well as issuing prices of the securities under sale by proxy or exclusive sale;
- (3) The term of sale by proxy or exclusive sale as well as the start-stop date;
- (4) The means and date of payment for sale by proxy or exclusive sale;
- (5) The expenses for and settlement methods of sale by proxy or exclusive sale;
- (6) The liabilities of breach; and
- (7) Any other matter as prescribed by the securities regulatory authority under the State Council.

Article 31 A securities company that is engaged in the underwriting of securities shall carry out verification on the authenticity, accuracy and integrity of the financing documents of public issuance. Where any false record, misleading statement or major omission is found, no sales activity may be carried out. Where any securities have been sold out under the foregoing circumstances, the relevant sales activity shall be immediately terminated and measures for correction shall be taken.

Article 32 Where the total face value of securities as issued to non-specified objects is beyond RMB 50 million yuan, the said securities shall be underwritten by an underwriting syndicate. An underwriting syndicate shall be composed of securities companies acting as principal underwriters and participant underwriters.

Article 33 The term for sale by proxy or exclusive sale may not exceed 90 days at the most. A securities company shall, within the term of sale by proxy or exclusive sale, guarantee the priority of the relevant subscribers in purchasing securities under sale by proxy or exclusive sale. A securities company may not reserve in advance any securities under sale by proxy thereby or purchase in advance and sustain any securities under exclusive sale thereby.

Article 34 Where any stock is issued at a premium, the issuing price thereof shall be agreed on through negotiation of the relevant issuer and the securities company that is engaged in underwriting.

Article 35 As to a public offer of stocks through sale by proxy, when the term of sale by proxy expires and if the quantity of stocks fails to reach 70 % of the planned quantity in a public offer, it shall be deemed as a failure. The relevant issuer shall return the issuing price plus interests as calculated at the bank deposit rate for the contemporary period of time to the subscribers of stocks.

Article 36 In a public offer of stocks, when the term for sale by proxy or exclusive sale expires, an issuer shall report the information on stock issuance to the securities regulatory authority under the State Council for archival purpose within the prescribed time.

### Chapter III Transaction of Securities

#### Section I General Provisions

Article 37 The securities as purchased and sold by any party who is involved in any securities transaction shall be the securities that have been legally issued and delivered. No securities that have been illegally issued may be purchased or sold.

Article 38 All stocks, corporate bonds or any other securities that have been legally issued, where there are any restrictive provisions of laws on the term of transfer thereof, may not be purchased or sold within the restrictive term.

Article 39 All stocks, corporate bonds or any other securities that have been publicly issued according to law shall be listed in a stock exchange as legally established or in any other places for securities transaction as approved by the State Council.

Article 40 The means of public and centralized transaction or any other means as approval by the securities regulatory authority under the State Council shall be adopted for listed trading of securities in stock exchanges.

Article 41 The securities as purchased or sold by the parties involved in securities transaction may be in paper form or in any other form as approved by the securities regulatory authority under the State Council.

Article 42 The securities transaction shall be carried out in the form of spot goods as well as any other form as prescribed by the State Council.

Article 43 The practitioners in stock exchanges, securities companies as well as securities registration and clearing institutions, the functionary of securities regulatory bodies as well as any other personnel who have been prohibited by laws and administrative regulations from engaging in any stock transaction shall, within their tenures or the relevant statutory term, not hold or purchase or sold any stock directly or in any assumed name or in a name of any other person, nor may they accept any stocks from any other person as a present. Anyone, when becoming any person as prescribed in the preceding paragraph herein, shall transfer the stocks he has held according to law.

Article 44 The stock exchanges, securities companies as well as securities registration and clearing institutions shall keep secret for the accounts as opened for their clients according to law.

Article 45 A securities trading service institution and the relevant personnel that produce such documents as auditing reports, asset appraisal reports or legal opinions for stock issuance may not purchase or sell any of the aforesaid stocks within the underwriting term of stocks or within 6 months as of the expiration of the underwriting term of stocks.

Except for the provisions as prescribed in the preceding paragraph herein, a securities trading service institutions and the relevant personnel that produce such documents as auditing reports, asset appraisal reports or legal opinions for listed companies may not purchase or sell any of the aforesaid stocks within the period from the day when an entrustment of a listed company is accepted to the day when the aforesaid documents are publicized.

Article 46 The charge for securities transaction shall be reasonable. The charging items, standards as well as methods shall be publicized. The charging items, standards and administrative measures of securities transaction shall be uniformly formulated by the relevant administrative department under the State Council.

Article 47 Where any director, supervisor and senior manager of a listed company or any shareholder who holds more than 5% of the shares of a listed company, sells the stocks of the company as held within 6 months after purchase, or purchases any stock as sold within 6 months thereafter, the proceeds generated therefrom shall be incorporated into the profits of the relevant

company. The board of directors of the company shall withdraw the proceeds. However, where a securities company holds more than 5% of the shares of a listed company, which are the residing stocks after sale by proxy as purchased thereby, the sale of the foregoing stocks may not be limited by a term of 6 months. Where the board of directors of a company fails to implement the provisions as prescribed in the preceding paragraph herein, the shareholders concerned have the right to require the board of directors to implement them within 30 days. Where the board of directors of a company fails to implement them within the aforesaid term, the shareholders have the right to directly file a litigation with the people's court in their own names for the interests of the company. Where the board of directors of a company fail to implement the provisions as prescribed in paragraph 1 herein, the directors in charge shall bear the joint and several liabilities according to law.

## Section II Listing of Securities

Article 48 An application for the listing of any securities shall be filed with a stock exchange and shall be subject to the examination and approval of the stock exchange according to law and a listing agreement shall be reached by both parties. The stock exchanges shall, according to the decision of the department as authorized by the State Council, arrange the listing of government bonds.

Article 49 As for an application for the listing of any stocks, convertible corporate bonds or any other securities, to which a recommendation system is applied, as prescribed by laws and administrative regulations, an institution with the qualification of recommendation shall be employed as the recommendation party. The provisions of paragraphs 2 and 3 of Article 11 of the present Law shall be applied to the recommendation party of listing.

Article 50 A stock-limited company that files an application for the listing of its stocks shall satisfy the following requirements:

- (1) The stocks shall have been subject to the examination and approval of the securities regulatory authority under the State Council and shall have been publicly issued;
- (2) The total amount of capital stock shall be no less than RMB 30 million yuan;
- (3) The shares as publicly issued shall reach more than 25 % of the total amount of corporate shares; where the total amount of capital stock of a company exceeds RMB 0.4 billion yuan, the shares as publicly issued shall be no less than 10% thereof; and
- (4) The company may not have any major irregularity over the latest years and there is no false record in its financial statements. A stock exchange may prescribe the requirements of listing that are more strict than those as prescribed in the preceding paragraph herein, which shall be reported to the securities regulatory authority under the State Council for approval.

Article 51 The state encourages the listing of corporate stocks that comply with the relevant industrial policies and fulfill the relevant requirements of listing.

Article 52 With regard to an application for the listing of stocks, the following documents shall be reported to a stock exchange:

- (1) The listing report;
- (2) The resolution of the general assembly of shareholders regarding the application for the listing of stocks;
- (3) The constitution of the company;
- (4) The business license of the company;
- (5) The financial statements of the company for the latest years as audited by an accounting firm according to law;
- (6) The legal opinions as well as the Recommendation Letter of Listing;
- (7) The latest prospectus; and
- (8) Any other document as prescribed by the listing rules of the stock exchange.

Article 53 Where an application for the listing of stocks has been subject to the examination and approval of a stock exchange, the relevant company that has reached a listing

agreement thereon shall announce the relevant documents for stock listing within the prescribed period and shall make the said documents available for public reference in designated places.

Article 54 A company that has reached a listing agreement may not only announce the documents as prescribed in the preceding Article herein but also announce the following items:

- (1) The date when the stocks have been approved to be listed in a stock exchange;
- (2) The name list of the top 10 shareholders who hold the largest number of shares in the company as well as the amount of stocks as held thereby;
- (3) The actual controller of the company; and
- (4) The names of the directors, supervisors and senior managers of the company as well as the relevant information on the stocks and bonds of the company as held thereby.

Article 55 Where a listed company is in any of the following circumstances, the stock exchange shall decide to suspend the listing of its stocks:

- (1) Where the total amount of capital stock or share distribution of the company changes and thus, fails to meet the requirements of listing;
- (2) Where the company fails to publicize its financial status according to the relevant provisions or has any false record in its financial statements, which may mislead the investors;
- (3) Where the company has any major irregularity;
- (4) Where the company has been operating at a loss for the latest 3 consecutive year; or
- (5) Under any other circumstance as prescribed in the listing rules of the stock exchange.

Article 56 Where a listed company is in any of the following circumstances, the stock exchange shall decide to terminate the listing of its stocks:

- (1) Where the total amount of capital stock or share distribution of the company changes and thus, fails to meet the requirements of listing, and where the company fails again to meet the requirements of listing within the period as prescribed by the stock exchange;
- (2) Where the company fails to publicize its financial status according to the relevant provisions or has any false record in its financial statements, and refuses to make any correction;
- (3) Where the company has been operating at a loss for the latest 3 consecutive years and fails to gain profits in the year thereafter;
- (4) Where the company is dissolved or is announce bankruptcy; or
- (5) Under any other circumstance as prescribed in the listing rules of the stock exchange.

Article 57 A company shall, when applying for the listing of corporate bonds, fulfill the following requirements:

- (1) The term of corporate bonds shall be more than 1 year;
- (2) The amount of corporate bonds to be actually issued shall be no less than RMB 50 million yuan; and
- (3) The company shall meet the statutory requirements for the issuance of corporate bonds when applying for the listing of its bonds.

Article 58 A company shall, when filing an application for the listing of its corporate bonds, report the following documents to a stock exchange:

- (1) The listing report;
- (2) The resolution as adopted by the board of directors regarding the application for listing;
- (3) The constitution of the company;
- (4) The business license of the company;
- (5) The measures for financing through the issuance of corporate bonds;
- (6) The amount of corporate bonds to be actually issued; and
- (7) Any other document as prescribed in the listing rules of the stock exchange. With regard to an application for the listing of convertible corporate bonds, the Recommendation Letter of Listing as produced by the relevant recommendation party shall be reported.

Article 59 Where an application for the listing of corporate bonds has been subject to the examination and approval of the stock exchange, the company that has reached a listing agreement thereon shall, within the prescribed period, announce its report on the listing of its



corporate bonds as well as the relevant documents and make its application documents available for public reference in designated places.

Article 60 After any corporate bonds are listed, where the relevant company is in any of the following circumstances, the stock exchange may decide to suspend the listing of its corporate bonds:

- (1) Where the company has any major irregularity;
- (2) Where the company has any major change and thus fails to meet the requirements for the listing of corporate bonds;
- (3) Where the funds as raised through the issuance of corporate bonds fail to be used according to the purpose as verified;
- (4) Where the company fails to perform its obligations according to the measures for financing through the issuance of corporate bonds; or
- (5) Where the company has been operating at a loss for the latest 2 consecutive years.

Article 61 Where a company is in any of the circumstances as described in item (1) or (4) of the preceding Article herein and the consequences as incurred therefrom have been verified to be serious, or where a company is under any of the circumstances as described in any of item (2), (3), or (5) of the preceding Article herein and fails to eliminate the relevant consequence within a specified time limit, the stock exchange shall decide to terminate the listing of corporate bonds of the company. In case a company is dissolved or declared bankrupt, the stock exchange shall terminate the listing of corporate bonds thereof.

Article 62 Any company, which is dissatisfied with a decision of a stock exchange on disapproving, suspending or terminating its listing, may file an application for a review with the review organ established by the stock exchange.

### Section III On-going Information Disclosure

Article 63 The information as disclosed by issuers and listed companies according to law shall be authentic, accurate and integrate and may not have any false record, misleading statement or major omission.

Article 64 As for the stocks that have been publicly issued upon the verification of the securities regulatory authority under the State Council or for the corporate bonds that have been publicly issued upon the verification of the department as authorized by the State Council according to law, the prospectus or the measures for financing through the issuance of corporate bonds shall be announced. In an IPO of stocks or corporate bonds, the relevant financial statements shall be announced as well.

Article 65 A company whose shares or bonds have been listed for trading shall, within two months as of the end of the first half of each accounting year, submit to the securities regulatory authority under the State Council and the stock exchange a midterm report indicating the following contents and announce it:

- (1) The financial statements and business situation of the company;
- (2) The major litigation involving the company;
- (3) The particulars of any change concerning the shares or corporate bonds thereof as already issued;
- (4) The important matters as submitted to the general assembly of shareholders for deliberation; and
- (5) Any other matter as prescribed by the securities regulatory authority under the State Council.

Article 66 A listed company whose shares or bonds have been listed for trading shall, within four months as of the end of each accounting year, submit to the securities regulatory authority under the State Council and the stock exchange an annual report indicating the following contents, and announce it:

- (1) A brief account of the company's general situation;
- (2) The financial statement and business situation of the company;
- (3) A brief introduction to the directors, supervisors, and senior managers of the company well

as the information regarding their shareholdings;

(4) The information on shares and corporate bonds as already issued, including the name list of the top 10 shareholders who hold the largest numbers of shares in the company as well as the amount of shares as held thereby;

(5) The actual controller of the company; and

(6) Any other matter as prescribed by the securities regulatory authority under the State Council.

Article 67 In the event of a major event that may considerably affect the trading price of a listed company's shares and that is not yet known to the investors, the listed company shall immediately submit a temporary report regarding the said major event to the securities regulatory authority under the State Council and the stock exchange and make an announcement to the general public as well, in which the cause, present situation and possible legal consequence of the event shall be indicated: The term "major event" as mentioned in the preceding paragraph herein refers to the following circumstances:

(1) A major change in the business guidelines or business scope of the company;

(2) A decision of the company on any major investment or major asset purchase;

(3) An important contract as concluded by the company, which may have an important effect on the assets, liabilities, rights, interests or business achievements of the company;

(4) Any incurrence of a major debt in the company or default on an overdue major debt;

(5) Any incurrence of a major deficit or a major loss in the company;

(6) A major change in the external conditions for the business operation of the company;

(7) A change concerning directors, no less than one-third of supervisors or managers of the company;

(8) A considerable change in the holdings of shareholders or actual controllers who each hold or control no less than 5% of the company's shares;

(9) A decision of the company on capital decrease, merger, division, dissolution, or application for bankruptcy;

(10) Any major litigation involving the company, or where the resolution of the general assembly of shareholders or the board of directors have been cancelled or announced invalid;

(11) Where the company is involved in any crime, which has been filed as a case as well as investigated into by the judicial organ or where any director, supervisor or senior manager of the company is subject to compulsory measures as rendered by the judicial organ; or

(12) Any other matter as prescribed by the securities regulatory authority under the State Council.

Article 68 The directors and senior managers of a listed company shall subscribe their opinions for recognition in the periodic report of their company in written form. The board of supervisors of a listed company shall carry out an examination on the periodic report of its company as formulated by the board of directors and produce the relevant examination opinions in writing. The directors, supervisors and senior managers of a listed company shall guarantee the authenticity, accuracy and integrity of the information as disclosed by their listed company.

Article 69 Where the prospectus, measures for financing through issuance of corporate bonds, financial statement, listing report, annual report, midterm report, temporary report or any information as disclosed that has been announced by an issuer or a listed company has any false record, misleading statement or major omission, and thus incurs losses to investors in the process of securities trading, the issuer or the listed company shall be subject to the liabilities of compensation. Any director, supervisor, senior manager or any other person of the issuer or the listed company directly responsible shall be subject to the joint and several liabilities of compensation, except for anyone who is able to prove his exemption of any fault. Where any shareholder or actual controller of an issuer or a listed company has any fault, he shall be subject to the joint and several liabilities of compensation together with the relevant issuer or listed company.

Article 70 The information as prescribed by law to be disclosed shall be publicized through the media as designated by the securities regulatory authority under the State Council

and shall, at the same time, be made available for public reference at the company's domicile and a stock exchange.

Article 71 The securities regulatory authority under the State Council shall carry out supervision over annual reports, midterm reports, temporary reports of listed companies as well as their announcements, over the distribution or rationing of new shares of such listed companies and over the controlling shareholders and any other obligor of information disclosure of listed companies. The securities regulatory body, stock exchange, recommendation party or securities company involving in underwriting as well as the relevant personnel thereof shall, before an announcement is made by a company according to the provisions of the relevant laws and administrative regulations, divulge any content concerned before the announcement.

Article 72 Where a stock exchange decides to suspend or terminate the listing of any securities, it shall announce the decision in a timely manner and report it to the securities regulatory authority under the State Council for archival purpose.

#### Section IV Prohibited Trading Acts

Article 73 Any insider who has access to any insider information of securities trading or who has unlawfully obtained any insider information is prohibited from taking advantage of the insider information as held thereby to engage in any securities trading.

Article 74 The insiders who have access to insider information of securities trading include:

- (1) Directors, supervisors, and senior managers of an issuer;
- (2) Shareholders who hold no less than 5% of the shares in a company as well as the directors, supervisors, and senior managers thereof, or the actual controller of a company as well as the directors, supervisors, and senior managers thereof;
- (3) The holding company of an issuer as well as the directors, supervisors, and senior managers thereof;
- (4) The personnel who may take advantage of their posts in their company to obtain any insider information of the company concerning the issuance and transaction of its securities;
- (5) The functionary of the securities regulatory body, and other personnel who administer the issuance and transaction of securities pursuant to their statutory functions and duties;
- (6) The relevant personnel of recommendation institutions, securities companies engaging in underwriting, stock exchanges, securities registration and clearing institutions and securities trading service organizations; and
- (7) Any other person as prescribed by the securities regulatory authority under the State Council.

Article 75 For the purpose of the present Law, the term "insider information" refers to the information that concerns the business or finance of a company or may have a major effect on the market price of the securities thereof and that hasn't been publicized in securities trading. The following information all falls into the scope of insider information:

- (1) The major events as prescribed in paragraph 2 of Article 62 of the present Law;
- (2) The plan of a company concerning any distribution of dividends or increase of capital;
- (3) Any major change in the company's equity structure;
- (4) Any major change in guaranty of the company's obligation;
- (5) Where the mortgaged, sold or discarded value of a major asset as involved in the business operation of the company exceeds 30 % of the said asset in a one-off manner;
- (6) Where any act as conducted by any director, supervisor or senior manager of the company may be rendered liabilities of major damage and compensation;
- (7) The relevant plan of a listed company regarding acquisition; and
- (8) Any other important information that has been recognized by the securities regulatory authority under the State Council as having a marked effect on the trading prices of securities.

Article 76 Any insider who has access to insider information or has unlawfully obtained any insider information on securities trading may not purchase or sell the securities of the relevant company, or divulge such information, or advise any other person to purchase or sell

such securities. Where there is any other provision of the present Law on governing the purchase of shares of a listed company by a natural person, legal person or any other organization who holds or holds with any other person not less than 5% of the company's shares by means of an agreement or any other arrangement, it shall prevail. Where any insider trading incurs any loss to investors, the actor shall be subject to the liabilities of compensation according to law.

Article 77 Anyone is prohibited from manipulating the securities market by any of the following means:

(1) Whether anyone, independently or in collusion with others, manipulates the trading price of securities or trading quantity of securities by centralizing the advantage in respect of funds, shareholding advantage or utilizing information advantage to trade jointly or continuously;

(2) Where anyone collaborates with any other person to trade securities pursuant to the time, price and method as agreed upon in advance, thereby affecting the price or quantity of the securities traded;

(3) Where anyone trades securities between the accounts under self-control, thereby affecting the price or quantity of the securities traded; or

(4) Where anyone manipulates the securities market by any other means. Where anyone incurs any loss to investors by manipulating the securities market, the actor shall be subject to the liabilities of compensation according to law.

Article 78 It is prohibited for state functionaries, practitioners of the news media as well as other relevant personnel concerned to fabricate or disseminate any false information, thereby seriously disturbing the securities market. It is prohibited for stock exchanges, securities companies, securities registration and clearing institutions, securities trading service institutions and the practitioners thereof, as well as the securities industry association, the securities regulatory body and their functionaries to make any false statement or give any misleading information in the activities of securities trading. The securities market information as disseminated by any media shall be authentic and objective. Any dissemination of misleading information is prohibited.

Article 79 It is prohibited for securities companies as well as their practitioners to commit any of the following fraudulent acts in the process of securities trading, which may injure the interests of their clients:

(1) Violating the entrustment of its client by purchasing or selling any securities on the behalf;

(2) Failing to provide a client with written confirmation of a transaction within the prescribed period of time;

(3) Misappropriating the securities as entrusted by a client for purchase or sale, or the funds in a client's account;

(4) Unlawfully purchasing or selling securities for its client without any authorization, or unlawfully purchasing or selling any securities in the name of a client;

(5) Inveigling a client into making any unnecessary purchase or sale of securities in order to obtain commissions;

(6) Making use of mass media or by any other means to provide or disseminate any false or misleading information to investors; or

(7) Having any other act that goes against the true intention as expressed by a client and damages the interests thereof. Where anyone practices any trickery and thus incurs any loss to the relevant clients, the actor shall be subject to the liabilities of compensation according to law.

Article 80 It's prohibited for any legal person to unlawfully make use of any other person's account to undertake any securities trading. It's prohibited for any legal person to lend its or any other's securities account.

Article 81 The channel for capital to go into the stock market shall be broadened according to law. It's prohibited for any unqualified capital to go into the stock market.

Article 82 It's prohibited for any person to misappropriate any public fund to trade securities.



Article 83 The state-owned enterprises and state-holding enterprises that engage in any transaction of listed stocks shall observe the relevant provisions of the state.

Article 84 When stock exchanges, securities companies, securities registration and clearing institutions, securities trading service organizations as well as their functionaries discover any prohibited activities in securities trading, they shall report such activities to the securities regulation body in time.

#### Section V Acquisition of Listed Companies

Article 85 An investor may purchase a listed company by means of tender offer or agreement as well as by any other legal means.

Article 86 Where an investor, through securities trading at a stock exchange, comes to hold or holds with any other person 5 % of the shares as issued by a listed company by means of agreement or any other arrangement, the investor shall, within three days as of the date when such shareholding becomes a fact, submit a written report to the securities regulatory authority under the State Council and the stock exchange, notify the relevant listed company and announce the fact to the general public. Within the aforesaid prescribed period, the investor may not purchase or sell any more shares of the listed company. In case an investor holds or holds with any other person 5% of the shares as issued by a listed company by means of agreement or any other arrangement, he shall, pursuant to the provisions of the preceding paragraph herein, make report and announcement of each 5% increase or decrease in the proportion of the issued shares of the said company he holds through securities trading at a stock exchange. Within the reporting period as well as two days after the relevant report and announcement are made, the investor may not purchase or sell any more shares of the listed company.

Article 87 The written report and announcement as made according to the provisions of the preceding Article herein shall include the following contents:

- (1) The name and domicile of the shareholder;
- (2) The description and amount of the shares as held; and
- (3) The date on which the shareholding or any increase or decrease in the shareholding reaches the statutory percentage.

Article 88 Where an investor holds or holds with any other person 30% of the stocks as issued by a listed company by means of agreement or any other arrangement through securities trading at a stock exchange and if the purchase is continued, he shall issue a tender offer to all the shareholders of the said listed company to purchase all of or part of the shares of the listed company. It shall be stipulated in a tender offer as issued to a listed company that, where the share amount as promised to be sold by the shareholders of the target company exceeds the scheduled amount of stocks for purchase, the purchaser shall carry out the acquisition according to the relevant percentage.

Article 89 Before any tender offer is issued pursuant to the provisions in the preceding Article herein, the relevant purchaser shall submit a report on the acquisition of a listed company to the securities regulatory authority under the State Council beforehand, which shall indicate the following items:

- (1) The name and domicile of the purchaser;
- (2) The decision of the purchaser on acquisition;
- (3) The name of the target listed company;
- (4) The purpose of acquisition;
- (5) The detailed description of the shares to be purchased and the amount of shares to be purchased in schedule;
- (6) The term and price of the acquisition;
- (7) The amount and warranty of the funds as required by the acquisition; and
- (8) The proportion of the amount of shares of the target company as held by the purchaser in the total amount of shares of the target company as issued, when the report on the acquisition of the

listed company is reported. A purchaser shall concurrently submit to the stock exchange a report on the acquisition of the relevant company.

Article 90 A purchaser shall, after 15 days as of the day when the report on the acquisition of a listed company is submitted pursuant to the preceding Article herein, announce its tender offer. Within the aforesaid term, where the securities regulatory authority under the State Council finds that any report in the acquisition of a listed company fails to satisfy the provisions of the relevant laws and administrative regulations, it shall notify the relevant purchaser in a timely manner. The relevant purchaser may not announce its tender offer. The term for acquisition as stipulated in a tender offer shall be not less than 30 days but not more than 60 days.

Article 91 Within the acceptance term as prescribed in a tender offer, no purchaser may revoke its tender offer. Where a purchaser requests for altering its tender offer, it shall submit a report to the securities regulatory authority under the State Council and the stock exchange in advance and announce the alteration upon the approval thereby.

Article 92 All the terms of acquisition as stipulated in a tender offer shall apply to all the shareholders of a target company.

Article 93 In the event of an acquisition by tender offer, a purchaser shall, within the term for acquisition, not sell any share of the target company, nor shall it buy any share of the target company by any other means that hasn't been stipulated by provisions of its tender offer or that oversteps the terms as stipulated in its tender offer.

Article 94 In the event of an acquisition by agreement, a purchaser may carry out share transfer with the shareholders of the target company by means of agreement according to the provisions of the relevant laws and administrative regulations. In the case of an acquisition of a listed company by agreement, a purchaser shall, within three days after the acquisition agreement is reached, submit a written report on the acquisition agreement to the securities regulatory authority under the State Council and the stock exchange as well as announce it to the general public. No acquisition agreement may be performed before the relevant announcement.

Article 95 In the event of an acquisition by agreement, both parties to the agreement may temporarily entrust a securities registration and clearing institution to keep the stocks as transferred and deposit the relevant funds in a designated bank.

Article 96 In the event of an acquisition by agreement, where a purchaser has purchased, held or held with any other person 30% of the shares as issued by a listed company through agreement or any other arrangement and if the acquisition is continued, the purchaser shall issue an offer to all of the shareholders of the target listed company for purchasing all of or part of the company's shares, unless a tender offer is been exempted from being issued by the securities regulatory authority under the State Council. A purchaser that purchases the shares of a listed company by means of tender offer according to the provisions of the preceding paragraph herein shall abide by the provisions of Articles 89~93 of the present Law.

Article 97 Upon the expiration of a term for acquisition, where the share distribution of an target company fails to fulfill the requirements of listing, the listing of stocks of the said listed company shall be terminated by the stock exchange according to law. The shareholders that still hold the shares of the target company have the right to sell their shares pursuant to the equal terms as stipulated in the relevant tender offer. The purchaser shall make the purchase. When an acquisition is concluded, if a target company fails to meet the requirements of being a stock-limited company any more, its form of enterprise shall be altered according to law.

Article 98 In an acquisition of a listed company, the stocks of the target company as held by a purchaser may not be transferred within 12 months after the acquisition is concluded.

Article 99 When an acquisition is concluded, if the purchaser merges with the target company by dissolving the target company, the original shares of the company as dissolved shall be changed by the purchaser according to law.

Article 100 Where an acquisition is concluded, a purchaser shall, within 15 days, report the acquisition to the securities regulatory authority under the State Council and the stock exchange as well as announce it.

Article 101 The purchase of the shares of a listed company as held by an organization that has been authorized by the state for investment shall be subject to the approval of the relevant administrative departments according to the provisions of the State Council. The securities regulatory authority under the State Council shall formulate the specific measures for acquisition of listed companies in light of the principles of the present Law.

#### Chapter V Stock Exchanges

Article 102 For the purpose of the present Law, the term "stock exchange" refers to a legal person that provides the relevant place and facilities for concentrated securities trading, organizes and supervises the securities trading and applies a self-regulating administration. The establishment and dissolution of a stock exchange shall be subject to the decision of the State Council.

Article 103 A constitution shall be formulated for the establishment of a stock exchange. The formulation and revision of the constitution of a stock exchange shall be subject to the approval of the securities regulatory authority under the State Council.

Article 104 The words "stock exchange" shall be indicated in the name of a stock exchange. No other entity or individual may use the name of "stock exchange" or an identical name.

Article 105 The income that is at the discretion of a stock exchange, as generated from various commissions, shall first be used to guarantee the normal operation of the place and facilities of the stock exchange as well as the gradual improvement thereof. The gains as accumulated by a stock exchange that adopts a membership system shall belong to its members. The rights and interests of a stock exchange shall be jointly shared by its members. No accumulated gains of a stock exchange may be distributed to any member within the holding term.

Article 106 A stock exchange shall have a council.

Article 107 There shall be a general manager in a stock exchange, who shall be subject to the appointment and dismissal of the securities regulatory authority under the State Council.

Article 108 Anyone, under the circumstance as prescribed in Article 147 of the Corporation Law of the People's Republic of China or under any of the following circumstances, may not assume the post of person-in-charge of a stock exchange:

(1) Where a person-in-charge of a stock exchange or securities registration and clearing institution or any director, supervisor or senior manager of a securities company who has been removed from his post for his irregularity or disciplinary breach and if it has been within 5 years as of the day when he is removed from his post; or

(2) Where a professional of a law firm, accounting firm or investment consulting organization, financial advising organization, credit rating institution, asset appraisal institution or asset verification institution who has been disqualified for his irregularity or disciplinary breach and if it has been within 5 years as of the day when he is removed from his post.

Article 109 A practitioner of a stock exchange, securities registration and clearing institution, securities trading service organization or securities company or any functionary of the state organ, who has been dismissed for his irregularity or disciplinary breach, may not be employed as a practitioner of a stock exchange.

Article 110 Only a member of a stock exchange may enter into a stock exchange to engage in the centralized trading of securities.

Article 111 An investor shall conclude an entrustment agreement with a securities company on securities trading, open an account of securities trading in a securities company and entrust the securities company to purchase or sell securities on the behalf in writing, by telephone or any other means.

Article 112 A securities company shall, based on the entrustment of its investors, declare orders and engage in the centralized trading at a stock exchange according to the rules of securities trading and shall, based on trading results, bear the relevant liabilities of settlement and delivery. A securities registration and clearing institution shall, on the basis of trading results and according to the rules of settlement and delivery, conduct settlement and delivery of securities and capital with the relevant securities company and handle the formalities of transfer registration of securities for clients of the relevant securities company.

Article 113 A stock exchange shall guarantee a fair centralized trading, announce up-to-the-minute quotations of securities trading, formulate the quotation tables of the securities market on the basis of trading days as well as announce it. Without permission of a stock exchange, no entity or individual may announce any up-to-the-minute quotations of securities trading.

Article 114 Where any normal trading of securities is disturbed by an emergency, a stock exchange may take the measures of a technical suspension of trading. In the event of an emergency of force majeure or with a view to preserving the normal order of securities trading, a stock exchange may decide a temporary speed bump. Where a stock exchange adopts the measure of a technical suspension of trading or decides a temporary speed bump, it shall report it to the securities regulatory authority under the State Council in a timely manner.

Article 115 A stock exchange shall exercise a real-time monitoring of securities trading and shall, according to the requirements of the securities regulatory authority under the State Council, report any abnormal trading thereto. A stock exchange shall carry out supervision over the information as disclosed by a listed company or the relevant obligor of information disclosure, supervise and urge it/him to disclose information in a timely and accurate manner according to law. A stock exchange may, when it requires so, restrict the trading through a securities account where there is any major abnormal trading and shall report it to the securities regulatory authority under the State Council for archival filing.

Article 116 A stock exchange shall withdraw a certain proportion of funds from the transaction fees, membership fees and seat fees as charged thereby to establish a risk fund. The risk fund shall be subject to the administration of the council of the stock exchange. The specific withdrawal proportion and use of risk fund shall be provided for by the securities regulatory authority under the State Council in collaboration with the fiscal department of the State Council.

Article 117 A stock exchange shall deposit its risk fund into a special account of its opening bank and may not unlawfully misuse it.

Article 118 A stock exchange shall, pursuant to laws and administrative regulations of securities, formulate the rules on listing, trading and membership administration as well as any other relevant rules, and shall report them to the securities regulatory authority under the State Council for approval.

Article 119 Any person-in-charge and any other practitioner of a stock exchange that has any interest relationship or any of his relatives has any interest relationship with the performance of his duties relating to securities trading shall withdraw.

Article 120 Any trading result of a transaction, which has been conducted in accordance with the trading rules as formulated according to law, may not be altered. A trader who has conducted any rule-breaking trading may not be exempted from civil liabilities. The proceeds as generated from any rule-breaking trading shall be dealt with pursuant to the relevant regulations.

Article 121 Where any staff of a stock exchange who is engaged in securities trading violates any trading rule of the stock exchange, the stock exchange shall impose him disciplinary sanctions. Under any serious circumstances, the qualification thereof shall be revoked and the violator shall be prohibited from entering into the stock exchange to engage in any securities trading.



Article 122 The establishment of a securities company shall be subject to the examination and approval of the securities regulatory under the State Council. No entity or individual may engage in any securities business without the approval of the securities regulatory under the State Council.

Article 123 For the purpose of the present Law, the term "securities company" as mentioned in the present Law refers to a limited- liability company or stock-limited company that has been established and engages in business operation of securities according to the Corporation Law of the People's Republic of China as well as the provisions of the present Law.

Article 124 The establishment of a securities company shall fulfill the following requirements:

- (1) Having a corporation constitution that meets the relevant laws and administrative regulations;
- (2) The major shareholders having the ability to make profits successively, enjoying good credit standing and having no irregular or rule-breaking record over the latest 3 years, and its net asset being no less than 0.2 billion yuan.
- (3) Having a registered capital that meets the provisions of the present Law;
- (4) The directors, supervisors and senior managers thereof having the post-holding qualification and its practitioners having the qualification to engage in securities business;
- (5) Having a complete risk management system as well as an internal control system;
- (6) Having a qualified business place and facilities for operation; and
- (7) Meeting any other requirement as prescribed by laws and administrative regulations as well as the provisions of the securities regulatory authority under the State Council, which have been approved by the State Council.

Article 125 A securities company may undertake some of or all the following business operations upon the approval of the securities regulatory authority under the State Council:

- (1) Securities brokerage;
- (2) Securities Investment consulting;
- (3) Financial advising relating to activities of securities trading or securities investment;
- (4) Underwriting and recommendation of securities;
- (5) Self-operation of securities;
- (6) Securities asset management; and
- (7) Any other business operation concerning securities.

Article 126 A securities company shall indicate the words "limited-liability securities company" or "stock-limited securities company" in its name.

Article 127 Where a securities company engages in the business operation as prescribed in item (1), (2) or (3) of Article 125 of the present Law, its registered capital shall be RMB 50 million yuan at the least. Where a securities company engages in any of the business operations as prescribed in item (4), (5), (6) or (7), its registered capital shall be RMB 100 million yuan at the least; Where a securities company engages in two or more business operations as prescribed in item (4), (5), (6) or (7), its registered capital shall be 500 million yuan at the least. The registered capital of a securities company shall be the paid-in capital. The securities regulatory authority under the State Council may, according to the principals of prudent supervision and in light of the risk rating of all business operations, adjust the requirement of minimum amount of registered capital, which shall be no less than the minimum amount as prescribed in the preceding paragraph herein.

Article 128 The securities regulatory authority under the State Council shall, within 6 months as of accepting an application for establishing a securities company, carry out an examination according to the statutory requirements and procedures and on the basis of the principle of prudent supervision, make a decision on approval or disapproval and thereafter, notify the relevant applicant. In the case of disapproval, an explanation shall be given. Where an application for establishing a securities company has been approved, an applicant shall, within the prescribed period, apply for registration of establishment with the organ in charge of corporation registration and collect its business license therefrom. A securities company shall,

within 15 days as of collecting its business license, file an application for the Securities Business Permit with the securities regulatory authority under the State Council. Without a Securities Business Permit, a securities company may not engage in any business operation of securities.

Article 129 Where a securities company establishes, purchases or cancels a branch, alters its business scope or registered capital, alters its shareholders or actual controllers who hold more than 5% of its stock rights, alters any important article of its constitution, has any merger or spilt-up, alters its form of corporation, suspends its business, goes through dissolution or bankruptcy, it shall be subject to the approval of the securities regulatory authority under the State Council. Where a securities company establishes, purchases a securities operation institution abroad or purchases the shares of any securities operational institution abroad, it shall be subject to the approval of the securities regulatory authority under the State Council.

Article 130 The securities regulatory authority under the State Council shall formulate provisions on the risk control indicators of a securities company such as net capital, the ratio between net capital and liabilities, the ratio between net capital and net assets, the ratio between net capital and operational scale of self-operation, underwriting and asset management, the ratio between liabilities and net asset as well as the ratio between current assets and current liabilities. A securities company may not provide any financing or guaranty for its shareholders or any related person thereof.

Article 131 The directors, supervisors and senior managers of a securities company shall be honest and integrate, have good moral grade, be familiar with the laws and administrative regulations on securities and have the ability of operation and management as required by the performance of their functions and duties, and shall have obtained the post-holding qualification as verified by the securities regulatory authority under the State Council before assuming his post. Anyone who is under any circumstance as prescribed in Article 147 of the Corporation Law of the People's Republic of China or is under any of the following circumstances may not hold the post of director, supervisor or senior manager of a securities company:

(1) Where a person-in-charge of a stock exchange or securities registration and clearing institution or a director, supervisor or senior manager of a securities company has been removed from his post for his irregularity or disciplinary breach and if it has been within 5 years as of the day when he is removed from his post; and

(2) Where a professional of a law firm, accounting firm or investment consulting organization, financial advising organization, credit rating institution, asset appraisal institution or asset verification institution has been disqualified for his irregularity or disciplinary breach and if it has been within 5 years as of the day when he is removed from his post.

Article 132 A practitioner of a stock exchange, securities registration and clearing institution, securities trading service institution or securities company or any functionary of the state organ, who has been dismissed for his irregularity or disciplinary breach, may not be employed as a practitioner of a stock exchange.

Article 133 A functionary of the state organ and any other personnel as prohibited by laws and administrative regulations from taking any job in a company on a part-time basis may not take any job in a securities company on a part-time basis.

Article 134 The state shall establish the securities investor protection fund. The securities investor protection fund shall be composed of the capital as paid by securities companies and any other capital as lawfully raised. The specific measures for financing, administration and use of the foregoing fund shall be formulated by the State Council.

Article 135 A securities company shall withdraw a trading risk reserve from its annual after-tax profits to cover any loss from securities transaction. The specific proportion for withdrawal shall be prescribed by the securities regulatory authority under the State Council.

Article 136 A securities company shall establish and improve an internal control system, adopt an effective measures of separation so as to prevent any interest conflict between the company and its clients or between different clients thereof. A securities company shall

undertake its operations of securities brokerage, underwriting, self-operation and asset management in a separate manner but not in a mixed manner.

Article 137 A securities company shall undertake its self-operation in its own name and may not make use of any other person's name or in an individual's name. A securities company shall undertake its self-operation by using its own capital and funds as lawfully raised. A securities company may not lend its self-operation account to any other person.

Article 138 A securities company may enjoy its right of independent management according to law and its legal operation may not be interfered.

Article 139 The trading settlement funds of the clients of a securities company shall be deposited in a commercial bank and be managed through accounts as separately opened in the name of each client. The specific measures and implementation procedures shall be formulated by the State Council. A securities company may not incorporate any trading settlement funds or securities of its clients into its own assets. Any entity or individual is prohibited from misusing any trading settlement funds or securities of its/his clients in any form. Where a securities company goes bankruptcy or goes through liquidation. The trading settlement funds or securities of its client may not be defined as its insolvent assets or liquidation assets. Under any other circumstance as irrelevant to the liabilities of its clients or under any other circumstance as prescribed by law, the trading settlement funds or securities of its clients may not be sealed-up, frozen, deducted or enforced compulsorily.

Article 140 Where a securities company engages in any brokerage business, it shall arrange a uniformly formulated the power of attorney of securities transactions for the entrusting party. Where any other means of entrustment is adopted, the relevant entrustment records shall be made. For an entrustment of securities transaction as made by a client, whether the transaction is concluded or not, the entrustment records shall be kept in the relevant securities company within the prescribed period.

Article 141 Upon accepting an entrustment of securities transaction, a securities company shall, on the basis of the description of the securities, trading volume, method of bidding, price band, etc. as indicated in the power of attorney, undertake securities trading as an agent according to the trading rules and make trading records in a faithful manner. After a transaction is concluded, a securities company shall, according to the relevant regulations, formulate a transaction report and deliver it to the relevant clients. The statements in a check sheet that confirms trading acts and results in securities trading shall be authentic. Such statements shall be subject to the examination of an examiner, other than the relevant transaction handler, on a transaction-by-transaction basis, so as to guarantee the consistency between the balance of securities in book account and the securities as actually held.

Article 142 Where a securities company provides any service of securities financing through securities transactions for its client, it shall meet the provisions of the State Council and shall be subject to the approval of the securities regulatory authority under the State Council.

Article 143 A securities company that engages in brokerage operation may not decide any purchase or sale of securities, class selection of securities, trading volume or trading price on the basis of full entrustment of its client.

Article 144 A securities company may not make a promise to its clients on the proceeds as generated from securities transactions or on compensating the loss as incurred from securities transactions by any means.

Article 145 A securities company and the practitioners thereof may not privately accept any entrustment of its client for securities transaction beyond its business place as established according to law.

Article 146 Where any practitioner of a securities company violates the trading rules by implementing the instructions of his securities company or taking advantage of his post in any securities trading, the relevant securities company shall bear all the liabilities as incurred therefrom.

Article 147 A securities company shall keep the materials of its clients regarding account opening, entrustment records, trading records and internal management as well as business operation in a proper manner. No one may conceal, forge, alter or damage the aforesaid materials. The term for keeping the aforesaid materials shall be no less than 20 years.

Article 148 A securities company shall, according to the relevant provisions, report the information and materials regarding operation and management such as its business operation and financial status to the securities regulatory authority under the State Council. The securities regulatory authority under the State Council has the right to require a securities company as well as the shareholders and actual controllers thereof to provide the relevant information and materials within a prescribed period. The information and materials as reported or provided by a securities company and the shareholders and actual controllers thereof to the securities regulatory authority under the State Council shall be authentic, accurate and complete.

Article 149 The securities regulatory authority under the State Council may, when believing it requires so, entrust an accounting firm or an asset appraisal institution to carry out an auditing or appraisal on the financial status, internal control as well as asset value of a securities company. The specific measures thereof shall be formulated by the securities regulatory authority under the State Council in collaboration with the relevant administrative departments.

Article 150 Where the net capital or any other indicator of risk control of a securities company fails to satisfy the relevant provisions, the securities regulatory authority under the State Council shall order it to correct in a prescribed period. Where a securities company fails to correct within the prescribed period or any act thereof has injured the sound operation of the securities company or has damaged the legitimate rights and interests of its clients, the securities regulatory authority under the State Council may take the following measures in light of different circumstances:

- (1) Restricting its business operation, ordering it to suspend some business operations and stopping the approval of any new operation thereof;
- (2) Stopping the approval for establishing or taking over any business branch;
- (3) Restricting its distribution of dividends, restricting the payment of remunerations to or provision of welfare for its directors, supervisors or senior managers;
- (4) Restricting any transfer of property or the setting of any other right to its property;
- (5) Ordering it to alter its directors, supervisors and senior managers or restricting the right thereof;
- (6) Ordering the controlling shareholders to transfer their stock right or restricting its shareholders from exercising the shareholders' rights; and

(7) Revoking the relevant business license. A securities company shall, upon rectification, submit a report to the securities regulatory authority under the State Council. The securities regulatory authority under the State Council shall lift the relevant measures as prescribed in the preceding paragraph herein within 3 days as of concluding the relevant examination and acceptance of a securities company that has met the requirements of risk control indicators upon examination and acceptance.

Article 151 Where a shareholder of a securities company makes any fake capital contribution or spirits away registered capital, the securities regulatory authority under the State Council shall order him to correct within the prescribed period and may order him to transfer the stock rights of the securities company as held thereby. Before a shareholder as prescribed in the preceding paragraph herein corrects his irregularity and transfers the stock right of the securities company as held thereby according to the relevant requirements, the securities regulatory authority under the State Council may restrict the shareholders' rights thereof.

Article 152 Where any director, supervisor or senior manager of a securities company fails to fulfill his accountability in a diligent manner and thus incurs any major irregularity or rule-breaking act or major risk to his securities company, the securities regulatory authority under the State Council may revoke the post-holding qualification thereof and order his company to remove him from his post for alteration.



Article 153 Where any illegal operation of a securities company or any major risk thereof seriously disturbs the order of the securities market or injures the interests of the relevant investors, the securities regulatory authority under the State Council may take such supervisory measures as suspending its business for rectification, designating any other institution for trusteeship, take-over or cancellation.

Article 154 During a period when a securities company is ordered to suspend its business for rectification, or is designated for trusteeship, or is being taken over or liquidated, or where any major risk occurs, the following measures may be adopted to any director, supervisor, senior manager or any other person of the securities company directly responsible upon the approval of the securities regulatory authority under the State Council:

- (1) Notifying the export administrative organ to prevent him from exiting the Chinese territory; and
- (2) Requesting the judicial organ to prohibit him from moving, transferring his properties or disposing his properties by any other means, or setting any other right to his properties.

## Chapter VII Securities Registration and Clearing Institutions

Article 155 A securities registration and clearing institution is a non-profit legal person that provides centralized registration, custody and settlement services for securities transactions. The establishment of a securities registration and clearing institution shall be subject to the approval of the securities regulatory authority under the State Council.

Article 156 The establishment of a securities registration and clearing institution shall fulfill the following requirements:

- (1) Its self-owned capital shall be no less than 0.2 billion yuan;
- (2) It shall have a place and facilities as required by the services of securities registration, custody and settlement;
- (3) Its major managers and practitioners shall have the securities practice qualification; and
- (4) It shall meet any other requirement as prescribed by the securities regulatory authority under the State Council. The words "securities registration and clearing" shall be indicated in the name of a securities registration and clearing institution.

Article 157 A securities registration and clearing institution shall perform the following functions:

- (1) The establishment of securities accounts and settlement accounts;
- (2) The custody and transfer of securities;
- (3) The registration of roster of securities holders;
- (4) The settlement and delivery for listed securities trading of a stock exchange;
- (5) The distribution of securities rights and interests on the basis of the entrustment of issuers;
- (6) The handling of any inquiry relating to the aforesaid business operation; and
- (7) Any other business operation as approved by the securities regulatory authority under the State Council.

Article 158 A national centralized and unified operation shall be adopted for the registration and settlement of securities. The constitution and operational rules of a securities registration and clearing institution shall be formulated according to law and shall be subject to the approval of the securities regulatory authority under the State Council.

Article 159 The securities as held by the relevant holders shall be all put under the custody of a securities registration and clearing institution in a listed trading. A securities registration and clearing institution may not misuse any securities of its clients.

Article 160 A securities registration and clearing institution shall provide the roster of securities holders as well as the relevant materials to a securities issuer. A securities registration and clearing institution shall, according to the result of securities registration and settlement, affirm the fact that a securities holder holds the relevant securities and provide the relevant registration materials to a securities holder. A securities registration and clearing institution shall guarantee the authenticity, accuracy and integrity of the roster of securities holders as well as

records of transfer registration and may not conceal, forge, alter or damage any of the aforesaid materials.

Article 161 A securities registration and clearing institution shall take the following measures to guarantee a sound operation of its business:

- (1) Having the necessary service equipment and complete data protection measures;
- (2) Having established complete management systems concerning operation, finance and security protection; and
- (3) Having established a complete risk management system.

Article 162 A securities registration and clearing institution shall keep the original voucher of registration, custody and settlement as well as the relevant documents and materials in a proper manner. The term for keeping the aforesaid materials shall be no less than 20 years.

Article 163 A securities registration and clearing institution shall establish a clearing risk fund so as to pay in advance or make up any loss of the securities registration and clearing institution as incurred from default delivery, technical malfunction, operational fault or force majeure. The securities clearing risk fund shall be withdrawn from the business incomes and proceeds of a securities registration and clearing institution and may be paid by clearing participants according to a specified percentage of securities trading volume. The measures for raising and managing the securities clearing risk fund shall be formulated by the securities regulatory authority under the State Council in collaboration with the fiscal department of the State Council.

Article 164 The securities clearing risk fund shall be deposited into a special account of a designated bank and shall be subject to special management. Where a securities registration and clearing institution makes any compensation by using the securities clearing risk fund, it may recourse the payment to the relevant person as held responsible.

Article 165 An application for dissolving a securities registration and clearing institution shall be subject to the approval of the securities regulatory authority under the State Council.

Article 166 An investor who entrusts a securities company to undertake any securities trading shall apply for opening a securities account. A securities registration and clearing institution shall, according to the relevant provisions, open a securities account for an investor in his own name. An investor who applies for opening an account shall hold the legitimate certificates certifying his identity of a Chinese citizen or its qualification of a Chinese legal person, unless it is otherwise provided for by the state.

Article 167 A securities registration and clearing institution shall, when providing the netting service for a stock exchange, require the relevant clearing participant to deliver securities and funds in full amount and provide the guaranty of delivery according to the principles of delivery versus payment (DVP). Before a delivery is concluded, nobody may use the securities, funds or collaterals as involved in the delivery. Where a clearing participant fails to perform the duty of delivery according to the schedule, a securities registration and clearing institution has the right to dispose the properties as prescribed in the preceding paragraph herein according to the operational rules.

Article 168 The clearing funds and securities as collected by a securities registration and clearing institution according to the operational rules shall be deposited into a special account for settlement and delivery. The settlement and delivery that can only be applied to the securities trading as concluded according to the operational rules may not be enforced compulsorily.

## Chapter VIII Securities Trading Service Institutions

Article 169 Where an investment consulting institution, financial advising institution, credit rating institution, asset appraisal institution or accounting firm engages in any securities trading service, it shall be subject to the approval of the securities regulatory authority under the State Council and the relevant administrative departments. The measures for the administration of examination and approval of the practice of securities trading services, in which an investment consulting institution, financial advising institution, credit rating institution, asset appraisal

institution or accounting firm engages, shall be formulated by the securities regulatory authority under the State Council and the relevant administrative departments.

Article 170 The staff of an investment consulting institution, financial advising institution or credit rating institution who engage in securities trading service shall have the special knowledge of securities as well as work experience on securities business or securities trading service for more than 2 years. The standards for recognizing the securities practice qualification and the measures for administration thereof shall be formulated by the securities regulatory authority under the State Council.

Article 171 An investment consulting institution as well as its practitioners that engage in securities trading services may not have any of the following acts:

- (1) Engaging in any securities investment as an agent on the behalf of its entrusting party;
- (2) Concluding any agreement with an entrusting party on sharing the gains of securities investment or bearing the loss of securities investment;
- (3) Purchasing or selling any stock of a listed company, for which the consulting institution provides services;
- (4) Providing or disseminating any false or misleading information to investors through media or by any other means; or
- (5) Having any other act as prohibited by any law or administrative regulation. Any institution or person that has any of the acts as prescribed in the preceding paragraph herein and thus incurs any loss to investors shall be subject to the liabilities of compensation.

Article 172 An investment consulting institution or credit rating institution that engages in securities trading services shall, according to the standards of or measures for charging as formulated by the relevant administrative department of the State Council, charge the relevant service commissions.

Article 173 Where a securities trading service institution formulates and generates any auditing report, asset appraisal report, financial advising report, credit rating report or legal opinions for the issuance, listing and trading of securities, it shall be diligent and responsible by carrying out examination and verification for the authenticity, accuracy and integrity of the contents of the documents as formulated and generated. In the case of any false record, misleading statement or major omission in the documents as formulated and generated, which incurs any loss to any other person, the relevant securities trading service institution shall bear the joint and several liabilities together with the relevant issuer and listed company, unless a securities trading service institution has the ability to prove its exemption of fault.

## Chapter IX Securities Industry Association

Article 174 The securities industry association is a self-regulating organization for the securities industry and is a public organization with the status of a legal person. A securities company shall join the securities industrial association. The power organ of the securities industrial association is the general assembly of its members.

Article 175 The constitution of the securities industrial association shall be formulated by the general assembly of its members and shall be report to the securities regulatory authority under the State Council for archival purpose.

Article 176 The securities industrial association shall perform the following functions and duties:

- (1) Educating and organizing its members to observe the laws and administrative regulations on securities;
- (2) Safeguarding the legitimate rights and interests of its members and reporting the suggestions and requirements of its members to the securities regulatory body;
- (3) Collecting and straightening out the securities information and providing services for its members;
- (4) Formulating the rules that shall be observed by its members, organizing the vocational training for the practitioners of its member entities and carrying out vocational exchange

between its members;

(5) Holding mediation over any dispute regarding securities operation between its members or between its members and clients;

(6) Organizing its members to make research on the development, operation and the relevant contents of the securities industry;

(7) Supervising and examining the acts of its members and, according to the relevant provisions, giving a disciplinary sanction to any member that violates any law or administrative regulation or the constitution of the association; and

(8) Performing any other function and duty as stipulated by the constitution of the industrial association.

Article 177 A council shall be established within the securities industrial association. The members of the council shall be selected through election according to the provisions of the constitution.

#### Chapter X Securities Regulatory Bodies

Article 178 The securities regulatory authority under the State Council shall carry out supervision and administration of the securities market according to law so as to preserve the order of the securities market and guarantee the legitimate operation thereof.

Article 179 The securities regulatory authority under the State Council shall perform the following functions and duties regarding the supervision and administration of the securities market:

(1) Formulating the relevant rules and regulations on the supervision and administration of the securities market and exercising the power of examination or verification according to law;

(2) Carrying out the supervision and administration of the issuance, listing, trading, registration, custody and settlement of securities according to law;

(3) Carrying out the supervision and administration of the securities activities of a securities issuer, listed company, stock exchange, securities company, securities registration and clearing institution, securities investment fund management company or securities trading service institution according to law;

(4) Formulating the standards for securities practice qualification and code of conduct and carrying out supervision and implementation according to law;

(5) Carrying out the supervision and examination of information disclosure regarding the issuance, listing and trading of securities;

(6) Offering guidance for and carrying out supervision of the activities of the securities industrial association according to law;

(7) Investigating into and punishing any violation of any law or administrative regulation on the supervision and administration of the securities market according to law; and

(8) Performing any other functions and duties as prescribed by any law or administrative regulation. The securities regulatory authority under the State Council may establish a cooperative mechanism of supervision and administration in collaboration with the securities regulatory bodies of any other country or region and apply a trans-border supervision and administration.

Article 180 Where the securities regulatory authority under the State Council performs its duties and functions, it has the right to take the following measures:

(1) Carrying an on-the-spot examination of a securities issuer, listing company, securities company, securities investment fund management company, securities trading service company, stock exchange or securities registration and clearing institution;

(2) Making investigation and collecting evidence in a place where any suspected irregularity has happened;

(3) Consulting the parties concerned or any entity or individual relating to a case under investigation and requiring the relevant entity or person to give explanations on the matters relating to a case under investigation;

(4) Referring to and photocopying such materials as the registration of property right and the



communication records relating to the case under investigation;

(5) Referring to and photocopying the securities trading records, transfer registration records, financial statements as well as any other relevant documents and materials of any entity or individual relating to a case under investigation; sealing up any document or material that may be transferred, concealed or damaged;

(6) Consulting the capital account, security account or bank account of any relevant party concerned in or any entity or individual relating to a case under investigation; in the case of any evidence certifying that any property as involved in a case such as illegal proceeds or securities has been or may be transferred or concealed or where any important evidence has been or may be concealed, forged or damaged, freezing or sealing up the foregoing properties or evidence upon the approval of the principal of the securities regulatory authority under the State Council;

(7) When investigating into any major securities irregularity such as manipulation of the securities market or insider trading, upon the approval of the principal of the securities regulatory authority under the State Council, restricting the securities transactions of the parties concerned in a case under investigation, whereby the restriction term may not exceed 15 trading days; under any complicated circumstance, the restriction term may be extended for another 15 trading day.

Article 181 Where the securities regulatory authority under the State Council performs its functions and duties of supervision or examination or investigation, the personnel in charge of supervision and examination or investigators shall be no less than 2 and shall show their legitimate certificates and the notice of supervision and examination as well as investigation. Where the personnel in charge of supervision and examination or investigation are less than 2 or fail to show their legitimate certificates and the notice of supervision and examination or investigation, an entity under examination and investigation has the right to refuse.

Article 182 The functionary of the securities regulatory authority under the State Council shall be dutiful, impartial and clean, and handle matters according to law, and may not take advantage of his post to seek any unjust interests or divulge any commercial secrets of the relevant entity or individual as accessible in his performance.

Article 183 Where the securities regulatory authority under the State Council performs its functions and duties according to law, the entity or individual under examination and investigation shall coordinate with it, provide the relevant documents and materials in a faithful manner and may not refuse any legitimate requirement, obstruct the performance of duties and functions or conceal any document or material concerned.

Article 184 The regulations, rules as well as the working system of supervision and administration as formulated by the securities regulatory authority under the State Council according to law shall be publicized to the general public. The securities regulatory authority under the State Council shall, according to the results of investigation, decide the punishment on any securities irregularity, which shall be publicized to the general public.

Article 185 The securities regulatory authority under the State Council shall establish an information pooling mechanism of supervision and administration in collaboration with any other financial regulatory authority under the State Council. Where the securities regulatory authority under the State Council performs its functions and duties of supervision and examination or investigation according to law, the relevant departments shall coordinate with it.

Article 186 Where the securities regulatory authority under the State Council finds any securities irregularity as involved in a suspected crime when performing its functions and duties according to law, it shall transfer the case to the judicial organ for handling.

Article 187 The functionary of the securities regulatory authority under the State Council may not hold any post in an organization under its supervision.

## Chapter XI Legal Liabilities

Article 188 Where any company unlawfully makes any public issuance of securities or does so in any disguised form without any examination and approval of the statutory organ, it shall be ordered to cease the issuance, return the funds as raised plus the deposit interests as

calculated at the interest rate of the bank at the corresponding period of time and be imposed a fine of 1% up to 5% of the funds as illegally raised. A company that has been established through any unlawful public issuance of securities or through any unlawful public issuance of securities in a disguised form shall be revoked by the organ or department that performs the functions and duties of supervision and administration in collaboration with the local people's government at or above the county level. The person-in-charge or any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300,000 yuan.

Article 189 Where an issuer fails to meet the requirements of issuance and cheats for the verification for issuance by any fraudulent means, if the relevant securities haven't been issued, a fine of 300, 000 yuan up to 600, 000 yuan shall be imposed; if the relevant securities have been issued, a fine of 1% up to 5% of the illegal proceeds as unlawfully raised shall be imposed. The person-in-charge and any other person directly responsible shall be imposed a fine of 30, 000 yuan up to 300, 000 yuan. Any controlling shareholder or actual controller of an issuer that instigates any irregularity as prescribed in the preceding paragraph herein shall be subject to the punishments as prescribed in the preceding paragraph.

Article 190 Where a securities company underwrites or, as an agent, purchases or sells any securities, which have been unlawfully issued in a public manner without any examination and approval, it shall be ordered to stop its underwriting operation or purchase or sale on an agency basis. The illegal proceeds shall be confiscated and a fine of 1~5 times of its illegal proceeds shall be imposed. Where there is no illegal proceeds or its illegal proceeds is less than 300, 000 yuan, a fine of 300, 000 yuan up to 60, 000 yuan shall be imposed. Where any loss has been incurred to an investor, the securities company shall bear the joint and several liabilities of compensation together with the issuer. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30, 000 yuan up to 300, 000 yuan and the post-holding qualification or securities practice qualification thereof shall be revoked.

Article 191 Where a securities company that engages in securities underwriting is under any of the following circumstances, it shall be ordered to correct and given a warning. The illegal proceeds shall be confiscated and a fine of 30, 000 yuan up to 600, 000 yuan may be imposed concurrently. Under any serious circumstances, the relevant business licenses shall be suspended or revoked. Where any loss has been incurred to any other securities underwriting institution or investor, it shall be subject to the liabilities of compensation according to law. The person-in-charge and any other person directly responsible shall be given a warning and may be concurrently imposed a fine of 30, 000 yuan up to 300, 000 yuan. Under any serious circumstances, the post-holding qualification or securities practice qualification thereof shall be revoked:

- (1) Conducting any advertising or any other publicity for recommendation, which is false or may mislead investors;
- (2) Canvassing any underwriting business by any means of unjust competition; or
- (3) Having any other irregularity in violation of the relevant provisions on securities underwriting.

Article 192 Where a recommendation party produces a recommendation letter with any false record, misleading statement or major omission, or fails to perform any other statutory functions and duties, it shall be ordered to correct and given a warning. Its business income shall be confiscated and a fine of 1~5 times of its business income shall be imposed. Under any serious circumstances, the relevant business license shall be suspended or revoked. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30, 000 yuan up to 300, 000 yuan. Under any serious circumstances, the post-holding qualification or securities practice qualification thereof shall be revoked.

Article 193 Where an issuer, a listed company or any other obligor of information disclosure fails to disclose information according to the relevant provisions or where there is any false record, misleading or major omission in the information as disclosed, the securities regulatory body shall order it to correct, give a warning and impose it a fine of 300, 000 yuan up

to 600, 000 yuan. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300, 000 yuan. Where an issuer, a listed company or any other obligor of information disclosure fails to submit the relevant reports or where there is any false record, misleading or major omission in any report as submitted, the securities regulatory body shall order it to correct, give a warning and impose it a fine of 300, 000 yuan up to 600, 000 yuan. The person-in-charge and any other person-in-charge directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300, 000 yuan. Any controlling shareholder or actual controller of an issuer, a listed company or any other obligor of information disclosure instigates any irregularity as prescribed in the preceding 2 paragraphs herein shall be subject to the punishments as prescribed in the preceding 2 paragraphs.

Article 194 Where an issuer or a listed company unlawfully alters the use of funds as raised through public issuance of securities, it shall be ordered to correct. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300, 000 yuan. Any controlling shareholder or actual controller of an issuer or a listed company who instigates any irregularity as prescribed in the preceding paragraph herein shall be given a warning and imposed a fine of 300, 000 yuan up to 600, 000 yuan. The person-in-charge and any other person directly responsible shall be subject to the punishment according to the provisions of the preceding paragraph.

Article 195 Where a director, supervisor, senior manager of a listed company or a shareholder who holds more than 5% of the shares of a listed company violates the provisions of Article 47 of the present Law by buying or purchasing any stock of the listed company, he shall be given a warning and be concurrently imposed a fine of 30,000 yuan up to 100, 000 yuan.

Article 196 Any stock exchange as illegally established shall be banned by the people's government above the county level. Its illegal proceeds shall be confiscated and a fine of 1~5 times of its illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 100,000 yuan, a fine of 100, 000 yuan up to 500, 000 yuan shall be imposed. The person-in-charge and an other directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300,000 yuan.

Article 197 Any securities company that is unlawfully established or that unlawfully undertakes any securities operation without an approval shall be banned by the securities regulatory body, the illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 300,000 yuan, a fine of 300,000 yuan up to 600, 000 yuan shall be imposed. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300,000 yuan.

Article 198 Where any personnel without a post-holding qualification or securities practice qualification is unlawfully employed in violation of the provisions of the present Law, the securities regulatory body shall order it to correct, give a warning and impose it a fine of 100,000 yuan up to 300,000 yuan. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300,000 yuan.

Article 199 Where any person who is prohibited by laws and administrative regulations from engaging in securities trading holds or purchases or sells any stock directly or in an assumed name or in a name of any other person, he shall be ordered to dispose the stocks as unlawfully held thereby according to law. The illegal proceeds shall be confiscated and a fine of no more than the equivalent value of stocks as traded shall be imposed. In the case of any functionary of the state, an administrative sanction shall be given according to law.

Article 200 Where any practitioner of a stock exchange, securities company, securities registration and clearing institution or any functionary of the securities industrial association provides any false material or conceals, forges, alters or damages any trading record for the purpose of inducing investors to purchase or sell securities, the securities practice qualification thereof shall be revoked and a fine of 30, 000 yuan up to 100, 000 yuan shall be imposed. In the case of any functionary of the state, an administrative sanction shall be given according to law.

Article 201 Where a securities trading service institution and its staffs that produce any auditing report, asset appraisal report or legal opinions for the issuance of stocks violate the provisions of Article 45 of the present Law by purchasing or selling any stock, it shall be ordered to dispose the stocks as illegally held thereby according to law. The illegal proceeds shall be confiscated and a fine of no more than the equivalent value of the stocks as traded shall be imposed.

Article 202 Where an insider who has access to insider information of securities trading or any person who has obtained any insider information purchases or sells the securities, divulges the relevant information or advises any other person to purchase or sell the securities before the information regarding the issuance or trading of securities or any other information that may have any big impact on the price of the securities is publicized, he shall be ordered to dispose the securities as illegally held thereby according to law. The illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 30,000 yuan, a fine of 30,000 yuan up to 600,000 yuan shall be imposed. Where an entity is involved in any insider trading, the person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300,000 yuan. Any functionary of the securities regulatory body that conducts any insider trading shall be given a heavier punishment.

Article 203 Where anyone violates the present Law by manipulating the securities market, he shall be ordered to dispose the securities as illegally held thereby according to law. The illegal proceeds shall be confiscated and a fine of a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 30, 000 yuan, a fine of 30, 000 yuan up to 300, 000 yuan shall be imposed. Where an entity manipulates the securities market, the person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 100,000 yuan up to 600, 000 yuan as well.

Article 204 Where anyone violates the relevant laws by purchasing or selling any securities during a period when any transfer of securities is prohibited, he shall be ordered to correct, given a warning and imposed a fine of no more than the equivalent value of the securities as illegally traded shall be imposed. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300, 000 yuan.

Article 205 Where a securities company violates the present Law by providing any securities financing, the illegal proceeds shall be confiscated, the relevant business license shall be suspended or revoked, and a fine of no more than the equivalent value of the funds as raised through securities financing shall be imposed. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300, 000 yuan and the relevant post-holding qualification or securities practice qualification shall be revoked.

Article 206 Where anyone violates the provisions of paragraph 1 or 3 of Article 78 of the present Law by disturbing the securities market, the securities regulatory body shall order it to correct. The illegal proceeds shall be revoked and a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 30, 000 yuan, a fine of 30, 000 yuan up to 200, 000 yuan shall be imposed.

Article 207 Where anyone violates the provisions of paragraph 2 of Article 78 by making any false statement or giving any misleading information in the activities of securities trading, the securities regulatory body shall order it to correct and a fine of not less than 30,000 yuan up to 200,000 yuan shall be imposed; in the case of any state functionary, an administrative sanction shall be given according to law.

Article 208 Where any legal person violates the present Law by opening any account in any other person's name or making use of any other person's account to purchase or sell any securities, it shall be ordered to correct and be imposed a fine of 1~5 times of the illegal proceeds. Where there is no illegal proceeds or the illegal proceeds is less than 30, 000 yuan, a fine of 30,



000 yuan up to 300, 000 yuan shall be imposed. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 100, 000 yuan. Where a securities company provides any securities trading account of its own or of any other person for any irregularity as prescribed in the preceding paragraph herein, not only the punishments as prescribed in the preceding paragraph shall be given accordingly, but also the post-holding qualification or securities practice qualification of the person-in-charge or any other person directly responsible shall be revoked.

Article 209 Where a securities company violates the present Law by engaging in the self-operation of securities by making use of any other's name or an individual's name, it shall be ordered to correct. The illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 30, 000 yuan, a fine of 30, 000 yuan up to 200, 000 yuan shall be imposed. Under any serious circumstances, the business license of securities self-operation shall be suspended or revoked. The person-in-charge and any other person directly responsible shall be given a warning and be imposed a fine of 30,000 yuan up to 100, 000 yuan and the relevant post-holding qualification or securities practice qualification shall be revoked.

Article 210 Where a securities company purchases or sells any securities or handles any trading matter in violation of the entrustment of its clients or handles any other non-trading matter in violation of the true intension as expressed by its clients, it shall be ordered to correct and imposed a fine of 10, 000 yuan up to 100, 000 yuan. Where any loss has been incurred to its client, it shall be subject to the liabilities of compensation according to law.

Article 211 Where a securities company or securities registration and clearing institution misuses any fund or securities of its client, or unlawfully purchases or sells any securities for its client without any entrustment thereby, it shall be ordered to correct. The illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 100, 000 yuan, a fine of 100, 000 yuan up to 300, 000 yuan shall be imposed. Under any serious circumstances, it shall be ordered to close or the relevant business license thereof shall be revoked. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 100, 000 yuan and the relevant post-holding qualification or securities practice qualification thereof shall be revoked.

Article 212 Where a securities company undertakes any brokerage business, accepts a full entrustment of its client to purchase or sell any securities or makes any promise on the proceeds as generated from securities trading or on the compensation of any loss as incurred from securities trading, it shall be ordered to correct. The illegal proceeds shall be confiscated and a fine of 50, 000 yuan up to 200, 000 yuan shall be imposed. The relevant business license may be suspended or revoked. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 100, 000 yuan. The relevant post-holding qualification or securities practice qualification thereof may be revoked.

Article 213 Where a purchaser fails to perform its obligations such as announcing the acquisition of a listed company, issuing a tender offer or reporting the acquisition report of a listed company or unlawfully alters its tender offer according to the present Law, it shall be ordered to correct, given a warning and imposed a fine of 100, 000 yuan up to 300, 000 yuan. Before any correction, for the stocks that constitute more than 30% of shares of the target company as held thereby or held within any other person through an agreement or any other arrangement, the voting right thereof may not be exercised. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300, 000 yuan.

Article 214 Where a purchaser or any controlling shareholder of a purchaser takes advantage of the acquisition of a listed company to injure the legitimate rights and interests of the target company as well as the shareholders thereof, it shall be ordered to correct and given a warning. Under any serious circumstances, a fine of 100, 000 yuan up to 600, 000 yuan shall be

imposed. Where any loss is incurred to the target company or the shareholders thereof, it shall be subject to the liabilities of compensation according to law. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 300,000 yuan.

Article 215 Where a securities company or any of its practitioners violates the present Law by privately accepting any entrustment of purchasing or selling securities from a client, it shall be ordered to correct and given a warning. The illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 100, 00 yuan, a fine of 100,000 yuan up to 300,000 yuan shall be imposed.

Article 216 Where a securities company violates the relevant provisions by undertaking any transaction of unlisted securities without an approval, it shall be ordered to correct. The illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed.

Article 217 Where a securities company fails to start its business within 3 months after establishment without any justifiable reason, or suspends its business for a consecutive 3 months, the organ in charge of corporation registration shall revoke the business license of the company.

Article 218 Where a securities company violates the provisions of Article 129 of the present Law by unlawfully establishing, purchasing or revoking any branch, or unlawfully going through any merge, split-up, business suspension, dissolution or bankruptcy, or establishing, purchasing a securities operation institution abroad or purchasing the shares of a securities operation institution abroad, it shall be ordered to correct. The illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 100,000 yuan, a fine of 100,000 yuan up to 600,000 yuan shall be imposed. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 100,000 yuan. Where a securities company violates the provisions of Article 129 of the present Law by altering the relevant items, it shall be ordered to correct and imposed a fine of 100,000 yuan up to 300,000 yuan. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of no more than 50, 000 yuan.

Article 219 Where a securities company violates the present Law by engaging in any securities operation beyond its business scope as permitted, it shall be ordered to correct. The illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. Where there is no illegal proceeds or the illegal proceeds is less than 300, 000 yuan, a fine of 300,000 yuan up to 600,000 yuan shall be imposed. Under any serious circumstances, it shall be ordered to close down. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 100,000 yuan and the relevant post-holding qualification or securities practice qualification shall be revoked.

Article 220 Where a securities company fails to carry out its securities operation of brokerage, underwriting, self-operation or asset management in a separate manner according to law but carries out its securities operation in a mixed operation, it shall be ordered to correct. The illegal proceeds shall be confiscated and a fine of 300, 000 yuan up to 600, 000 yuan shall be imposed. Under any serious circumstances, the relevant business license shall be revoked. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 100, 000 yuan. Under any serious circumstances, the relevant post-holding qualification or securities practice qualification shall be revoked.

Article 221 Where a securities company submits any false document of certification or adopts any other fraudulent means to conceal any major fact so as to cheat for the securities business license or a securities company has any severe irregularity in the securities trading and thus, fails to meet the requirements of business operation any more, the securities regulatory body shall revoke its securities business license.

Article 222 Where a securities company or its shareholder or actual controller violates the relevant provisions by refusing to report or provide information or materials regarding its business and management to the securities regulatory body or in the case of any false record, misleading statement or major omission in the aforesaid information or materials as reported or submitted, it shall be ordered to correct, given a warning and imposed a fine of 30,000 yuan up to 300,000 yuan. The relevant business license of the securities company may be suspended or revoked. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of no more than 30,000 yuan and the relevant post-holding qualification or securities practice qualification shall be revoked. Where a securities company provides financing or guaranty for its shareholder or any person related to its shareholder, it shall be ordered to correct, given a warning and imposed a fine of 100,000 yuan up to 300,000. The person-in-charge and any other person directly responsible shall be imposed a fine of 30,000 yuan up to 100,000 yuan. Where a shareholder has any fault, the securities regulatory authority under the State Council may restrict his shareholders' right before he makes correction according to the relevant requirements. Where anyone refuses to correct, he may be ordered to transfer the stock right of the securities company as held thereby.

Article 223 Where a securities trading service institution fails to fulfill its accountability in a diligent manner so that any document as formulated or produced thereby has any false record, misleading statement or major omission, it shall be ordered to correct. The proceeds as generated from its business shall be confiscated. Its securities business license shall be suspended or revoked. A fine of 1~5 times of its business income shall be imposed. The person-in-charge and any other person directly responsible shall be given a warning and imposed a fine of 30,000 yuan up to 100,000 yuan and the relevant post-holding qualification or securities practice qualification shall be revoked.

Article 224 Where anyone violates the present Law by issuing or underwriting any corporate bond, he shall be given a punishment by the department as authorized by the State Council in accordance with the relevant provisions of the present Law.

Article 225 Where a listed company, securities company, stock exchange, securities registration and clearing institution, or securities trading service institution fails to keep the relevant documents and materials according to the relevant provisions, it shall be ordered to correct, given a warning and imposed a fine of 30,000 yuan up to 300,000 yuan. Where any relevant document or material is concealed, forged, altered or damaged, the violator shall be given a warning and imposed a fine of 300,000 yuan up to 600,000 yuan.

Article 226 Where a securities registration and clearing institution is unlawfully established without any approval of the State Council, it shall be cancelled by the securities regulatory body, the illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. Where an investment consulting institution, financial advising institution, credit rating institution, asset appraisal institution or accounting firm undertakes any securities trading service without the relevant approval, it shall be ordered to correct. The illegal proceeds shall be confiscated and a fine of 1~5 times of the illegal proceeds shall be imposed. In case a securities registration and clearing institution or a securities service trading institution violates the present Law or any operational rules as formulated according to law, the securities regulatory body shall order it to correct and confiscate the illegal proceeds and impose it a fine of 1~5 times of the illegal proceeds. Where there is no illegal proceeds or the illegal proceeds is less than 100,000 yuan, a fine of 100,000 yuan up to 300,000 yuan shall be imposed. Under any serious circumstances, it shall be ordered to close down or its securities business license shall be revoked.

Article 227 Where the securities regulatory authority under the State Council or the department as authorized by the State Council is in any of the following circumstances, the person-in-charge and any other person directly responsible shall be given an administrative sanction according to law:

(1) Verifying or approving an application for issuing securities or for establishing a securities

company, which fails to comply with the present Law;

(2) Violating the provisions of Article 180 of the present Law by taking such measures as on-the-spot examination, investigation and evidence collection, consultation, freeze-up or seal-up;

(3) Violating the relevant provisions by giving any administrative sanction to the relevant institution or personnel; or

(4) Performing any other functions and duties in an unlawful manner.

Article 228 Where any functionary of the securities regulatory body or any member of the issuance examination committee fails to perform the duties and functions as prescribed in the present Law, misuses his power, neglects his duty, takes advantage of his post to seek any unjust interests or divulges any commercial secret of the relevant entity or individual as accessible in his performance, he shall be subject to legal liabilities.

Article 229 A stock exchange that grants any approval to an application for securities listing that fail to meet the requirements as prescribed in the present Law shall be given a warning. Its business income shall be confiscated and a fine of 1~5 times of its business income shall be imposed. The person-in-charge and any other person directly responsible shall be imposed a fine of 30,000 yuan up to 300,000 yuan.

Article 230 Anyone that refuses or obstructs the performance of the securities regulatory body as well as its functionary on the functions and duties of supervision, examination and investigation by no means of violence or threat shall be given an administrative sanction of public security according to law.

Article 231 Where anyone violates the present Law and constitutes a crime, he shall be subject to criminal liabilities according to law.

Article 232 Where anyone violates the present Law and shall be subject to civil liabilities of compensation and payment of fines and penalties and if his properties are not sufficient to cover all the payment at the same time, he shall be first subject to civil liabilities.

Article 233 In case anyone violates the relevant laws and administrative regulations or the relevant provisions of the securities regulatory authority under the State Council and is under any serious circumstances, the securities regulatory authority under the State Council may take measures of prohibiting the relevant responsible persons from entering into the securities market. For the purpose of the present Law, the term of "prohibition from entering into the securities market" as mentioned in the preceding paragraph refers to a system, whereby a person may not undertake any securities practice or hold any post of director, supervisor or senior manager of a listed company within a prescribed term or for life.

Article 234 The fines as collected and the illegal proceeds as confiscated shall be all turned over into the State Treasury.

Article 235 Where any party concerned is dissatisfied with a decision of the securities regulatory body or a department as authorized by the State Council on punishment, it may file an application for an administrative review or file an litigation with the people's court.

## Chapter XII Supplementary Articles

Article 236 The securities that have been approved for listed trading in a stock exchange according to the relevant administrative regulations before the present Law comes into force may continue to be traded according to law. The securities operation institution that has been approved for establishment in accordance with the relevant administrative regulations and the provisions of the administrative department of finance of the State Council before the present Law comes into force but fails to comply with the provisions of the present Law in a complete manner shall satisfy the requirements as prescribed by the present Law within the prescribed term. The specific measures for implementation shall be separately prescribed by the State Council.

Article 237 Where an issuer applies for verifying the public issuance of any stocks or corporate bonds, it shall pay the expenses for examination according to the relevant provisions.



Article 238 Any domestic enterprise that directly or indirectly issues any securities abroad or lists its securities abroad for trading shall be subject to the approval of the securities regulatory authority under the State Council according to the relevant provisions of the State Council.

Article 239 As for any subscription or trading of stocks of a domestic company in a foreign currency, the specific measures thereof shall be formulated by the State Council separately.

Article 240 The present Law shall be implemented as of January 1, 2006.  
Promulgated by Standing Committee of the National People's Congress on 2005-10-27