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Securities Law of the People's Republic of China (2005)

The Securities Law of the People's Republic of China was revised and adopted 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, is hereby promulgated and shall come into effect on January 1, 2006.

President of the People's Republic of China: HU, Jintao
October 27, 2005

(Adopted at the 6th Meeting of the Standing Committee of the Ninth National People's Congress on December 29, 1998, revised for the first time in accordance with the Decision on Amending the Securities Law of the People's Republic of China adopted at the 11th meeting of the Standing Committee of the tenth National People's Congress on August 28, 2004; revised for the second time at the 18th meeting of the Standing Committee of the tenth National People's Congress on October 27, 2005)

Chapter 1 GENERAL PROVISIONS

Article 1

This Law is enacted in order to standardize the issuing and trading of securities, protect the lawful rights and interests of investors, safeguard the economic order and public interests of society and promote the development of the socialist market economy.

Article 2

This Law is applicable to the issuing and trading in China of shares, corporate bonds and such other securities as lawfully recognized by the State Council. Where their issuing and trading are not covered by this Law, the provisions of the **Company Law** of the People's Republic of

China and other laws and administrative regulations shall apply.

The issuing and trading of government bonds and shares of securities investment funds shall be governed by this law; provided, if other laws and administrative regulations have special provisions thereon, such special provisions shall apply.

The measures for the administration of the issuing and trading of any securities derivative instrument shall be stipulated by the State Council based on the principles of this Law.

Article 3

Securities shall be issued and traded in line with the principles of openness, fairness and equitability.

Article 4

The parties involved in the issuing and trading of securities shall have equal legal status and adhere to the principles of voluntariness, compensation and good faith.

Article 5

Securities shall be issued and traded in accordance with laws and administrative regulations. Fraudulent and insider trading and manipulation of the securities market are prohibited.

Article 6

Except otherwise provided by the State, securities business shall be engaged in and administered as a business separate from the banking business, trust business and insurance business, and securities companies shall be established separately from banks, trust companies and insurance companies.

Article 7

The securities regulatory authority under the State Council shall, in accordance with law, implement centralized and unified regulation of the securities market nationwide.

The securities regulatory authority under the State Council may, where necessary, establish offices which shall perform the regulatory functions as authorized.

Article 8

On condition that the State regulates the issuing and trading of securities on a centralized and unified basis, a Securities Association shall, in accordance with law, be established for self-regulation.

Article 9

The State audit authority shall, in accordance with law and through auditing, supervise stock exchanges, securities companies, securities registration and clearing institutions and the securities regulatory authority.

Chapter 2 ISSUING OF SECURITIES

Article 10

Public offers of securities shall meet the conditions prescribed in laws and administrative regulations and shall, in accordance with law, be reported to the securities regulatory authority under the State Council or the department authorized by the State Council for verification and approval. No unit or individual may make a public offer of securities if the same has not been verified and approved according to law.

Under any of the following conditions, it shall be a public offer:

- (1) Offer of securities to unspecified targets;
- (2) Offer of securities to specific targets of more than 200 persons accumulatively; or
- (3) Other offer act as provided for by laws or administrative regulations.

NO advertisement, public solicitation or disguised public method may be used for non-public offer of securities.

Article 11

Where any issuer, when applying for public offer of stocks or convertible corporate bonds, adopts the underwriting method, or any issuer publicly offers other securities for which the system of sponsorship shall be practiced according to laws or administrative regulations, an institution qualified for sponsorship shall be engaged as the sponsor.

Any sponsor shall abide by the business rules and industry codes, be honest and in good faith, due diligent, cautiously verify the application documents and information disclosure materials of any issuer and supervise and urge the issuer to normatively operate the offer of securities.

The qualification of sponsors and the measures for the administration thereof shall be stipulated by the securities regulatory authority under the State Council.

Article 12

Incorporation of a joint stock limited company and public offer of securities by it shall conform to the conditions as stipulated in the **Company Law** of the People's Republic of China and by the securities regulatory authority under the State Council, and the application for share offer and the following documents shall be submitted to the securities regulatory authority under the State Council:

- (1) The articles of association of the company;
- (2) The sponsors' agreement;

- (3) The names or title of the sponsors, the number of shares subscribed for by the sponsors, the forms of capital contributions and the capital verification certificate;
- (4) The prospectus;
- (5) The names and addresses of the banks accepting subscription money on behalf of the company; and
- (6) The names of the underwriting agencies and related agreements.

Where a sponsor is engaged in accordance with the provisions of this Law, the letter of sponsorship issued by the sponsor shall also be submitted.

Where the incorporation of the company must be reported for approval in accordance with the provisions of laws or administrative regulations, the relevant approval document shall also be submitted.

Article 13

To publicly offer new shares, a company shall satisfy the following conditions:

- (1) The company has a structural organization in sound conditions and good operation;
- (2) The company is capable for continuous profit-making and in good financial standing;
- (3) The company is not found to have false records in its financial and accounting documents and does not commit any seriously illegal acts in the last three years; and
- (4) The company satisfies other conditions as stipulated by the securities regulatory authority under the State Council and approved by the State Council.

Non-public offer of new shares by a listed company shall conform to the conditions as stipulated by the securities regulatory authority under the State Council and approved by the State Council, and shall be reported to the securities regulatory authority under the State Council for verification and approval.

Article 14

To publicly issue new shares, a company shall submit to the securities regulatory authority under the State Council the application for share offer and the following documents:

- (1) The business license of the company;
- (2) The articles of association of the company;

- (3) The resolution of the shareholders' general meeting;
- (4) The prospectus;
- (5) The financial and accounting statements;
- (6) The names and addresses of the banks accepting subscription money on behalf of the company; and
- (7) The name of the underwriting agencies and related agreements.

The sponsors shall not offer shares to the general public without the approval of the securities regulatory authority under the State Council.

Where a sponsor is engaged in accordance with the provisions of this Law, the letter of sponsorship issued by the sponsor shall also be submitted.

Article 15

The funds raised from a public issue of stocks by a company shall be used in adherence to the purpose of the funds as described in the prospectus. Any change in the purpose of the funds described in the prospectus shall be subject to approval by the shareholders' general meeting. If a change in the purpose is made without authorization and is not rectified, or if such a change is not subsequently ratified by the shareholders' general meeting, no new shares may be issued, and, in case of a listed company, no new shares may be issued non-publicly.

Article 16

To publicly issue corporate bonds by a company, the following conditions shall be met:

- (1) For a joint stock limited company, the value of its net asset shall not be lower than RMB 30,000,000; for a limited liability company, the value of its net asset shall not be lower than RMB 60,000,000;
- (2) The accumulated value of the bonds issued shall not exceed 40 percent of the value of the net assets of the company;
- (3) The average distributable profits of the company for the past three years shall be sufficient to pay the interest on the corporate bonds for one year;
- (4) The funds to be raised must be invested in accordance with the industrial policies of the State;
- (5) The interest rate of the bonds shall not exceed the ceiling fixed by the State Council; and
- (6) Other conditions as stipulated by the State Council.

Funds raised through the issue of corporate bonds must be used for the purpose approved after verification and approval and shall not be used to make up the losses of the company or for non-production expenditure.

Issue of convertible corporate bonds by a listed company shall, in addition to conformity with the conditions as stipulated in Paragraph 1, also conform to the conditions on public issue of stocks in this Law and shall be reported to the securities regulatory authority under the State Council for verification and approval.

Article 17

To apply for public issue of corporate bonds, a company shall submit to the securities regulatory authority under the State Council the following documents:

- (1) The business license of the company;
- (2) The articles of association of the company;
- (3) The method of offer of the company bonds;
- (4) An asset valuation report and an asset verification report;
- (5) Other documents as required by the department authorized by the State Council or the securities regulatory authority under the State Council.

Where a sponsor is engaged in accordance with the provisions of this Law, the letter of sponsorship issued by the sponsor shall also be submitted.

Article 18

In any of the following circumstances, a company shall not make another issue of corporate bonds:

- (1) The corporate bonds of the previous issue have not been fully subscribed for;
- (2) It is a fact that the company has defaulted on, or deferred repayment of the principal and the payment of interest of its previously issued corporate bonds or its debts, and such default or deferment still persists; or
- (3) The company, in violation of the provisions of this Law, changes the purpose of the funds raised through the public issue of corporate bonds.

Article 19

The formats and ways of delivery of the application documents to be submitted by an issuer who applies, according to law, for public offer of securities shall be stipulated by the

institution or department in charge of the verification and approval according to law.

Article 20

The application documents for the issue of securities submitted by an issuer to the securities regulatory authority under the State Council or the department authorized by the State Council shall be truthful, accurate and complete.

Any securities service organization or individual that produces relevant documents for the issuance of securities shall strictly perform their statutory duties and warrant the truthfulness, accuracy and completeness of the documents produced by them.

Article 21

Where an issuer applies for initial public offer of shares, it shall, after submitting the application documents, disclose the relevant application documents in advance in accordance with the provisions of the securities regulatory authority under the State Council.

Article 22

In the securities regulatory authority under the State Council, an issuance examination commission shall be established to examine and verify according to law the applications for issuance of shares.

The issuance examination commission shall be composed of professionals from the securities regulatory authority under the State Council and other relevant specialists engaged from outside the said authority, who shall vote on applications for issuance of shares and state their opinions after examination.

The specific measures for forming the issuance examination commission, the term of office of its members and its working procedures shall be formulated by the securities regulatory authority under the State Council.

Article 23

The securities regulatory authority under the State Council shall, in accordance with the statutory conditions, be responsible for verification and approval of applications for issuance of shares. The procedures for the verification and approval shall be made public and shall be subject to supervision according to law.

The persons involved in the verification and approval of an application for issuance of shares shall not have any interest to share with the applicant, nor directly or indirectly accept gifts from the applicant, nor hold the shares the application for the issuance of which they have examined and approved, nor have any private contact with the applicant.

The department authorized by the State Council shall examine and approve the applications for issuance of corporate bonds by reference to the provisions in the preceding two paragraphs.

Article 24

The securities regulatory authority under the State Council or the department authorized by the State Council shall, in accordance with the statutory conditions and procedures, make a decision, either approval or disapproval, on application documents for the issuance of securities within three months from the date of acceptance of the same, excluding the time period during which the applicant is required to supplement or revise the application documents. If it refuses to approve the application documents upon examination, it shall state its reasons.

Article 25

Once an application for issuance of securities has been approved upon examination, the issuer shall announce the public offer documents prior to the public issuing of the securities, as prescribed in laws and administrative regulations, and make the said documents available at the designated places for the public to consult.

Before information about the issuing of securities is announced according to law, no person in the know may make public or divulge such information.

No issuer may issue securities before announcing the public offer documents.

Article 26

Where the securities regulatory authority under the State Council or the department authorized by the State Council discovers that a decision it has made to approve upon examination the issuing of securities does not conform to the statutory conditions or procedures, if the relevant securities have not yet been issued, the decision shall be revoked and the issuance shall be ceased; if the securities have already been issued but not listed, the issuer shall refund to each holder of the securities the amount at the issue price plus bank deposit interest for the same period; the sponsor shall undertake the joint and several liability with the issuer, except it can prove it has no fault; any controlling shareholder and actual controller of the issuer shall, if in fault, undertake the joint and several liability with the issuer.

Article 27

After shares have been issued according to law, the issuer shall itself be responsible for any change in its operation or earnings; and the investors shall themselves be responsible for any investment risks caused by such change.

Article 28

Where, in accordance with the provisions of laws and administrative regulations, the securities publicly offered by an issuer to unspecific targets shall be underwritten by securities companies, then, the issuer shall sign an underwriting agreement with securities companies. Securities shall be underwritten with best effort or firm commitment.

"Best effort underwriting" shall mean the way whereby the securities company sells securities

as the agent of the issuer and, at the end of the underwriting period, returns to the issuer all the securities that remain unsold.

"Firm commitment underwriting" shall mean the way whereby the securities company purchases, pursuant to an agreement, all the securities to be issued by the issuer or whereby it purchases, at the end of the underwriting period, all the securities that remain after sale.

Article 29

An issuer that makes a public offer of securities shall have the right, independently and according to law, to select a securities company to underwrite its securities. Securities companies shall not solicit securities underwriting business by means of unfair competition.

Article 30

To underwrite securities, the securities company shall enter into an agreement with the issuer for underwriting as an agent or as a sole agent. Such agreement shall include the following:

- (1) The names and domiciles of the parties and the names of their legal representatives;
- (2) The type, quantity, amount and issuing price of the securities to be underwritten with best effort or firm commitment;
- (3) The period during which securities are issued on an agency basis or on a sole agency basis, including the commencement and termination dates of the period;
- (4) The means and date of payment of the proceeds from sale on an agency basis or on a sole agency basis;
- (5) The fees for sale on an agency basis or on a sole agency basis and the means of settlement thereof;
- (6) Liability for breach of contract; and
- (7) Other matters prescribed by the securities regulatory authority under the State Council.

Article 31

To underwrite securities, a securities company shall examine the truthfulness, accuracy and completeness of the public offer documents. In case it finds any falsehoods, misleading statements or major omissions in such documents, it shall not carry out the sales activities; if it has already begun to sell the securities, it shall immediately discontinue the sales activities and adopt remedial measures.

Article 32

Securities to be offered to unspecific targets with a total face value exceeding RMB 5,000,000 shall be underwritten by an underwriting syndicate. An underwriting syndicate shall be

composed of a securities company acting as the lead underwriter and securities companies acting as participating underwriters.

Article 33

The maximum period for best effort underwriting or on a sole agency basis shall be 90 days.

During the period for securities underwritten with best effort or firm commitment, securities companies shall ensure that such securities are first sold to subscribers. Securities companies shall not reserve, in advance, for themselves securities which they underwrite as agents, or purchase, in advance, and retain securities which they underwrite with firm commitments.

Article 34

Where shares are issued at a premium, the issue price shall be determined through consultation between the issuer and the securities underwriting company.

Article 35

Where the shares are underwritten with best effort, and, at the expiry of the period for underwriting, the number of the shares sold to the investors is under 70 percent of the number of the shares intended to be issued publicly, it shall be a failure in issuance. The issuer shall refund to the subscribers the money at the issuing price plus bank deposit interest for the same period.

Article 36

Where the shares are issued publicly, any issuer shall, at the expiry of the period for underwriting on an agency basis or on a sole agency basis and within the stipulated time limit, report the details of such issuance to the securities regulatory authority under the State Council for the record.

Chapter 3 TRADING OF SECURITIES

Section 1 General Provisions

Article 37

Securities purchased or sold according to law by the parties to a securities transaction shall be securities that have been issued and delivered according to law.

Securities that have not been issued according to law shall not be purchased or sold.

Article 38

Where the transfer of shares, corporate bonds and other securities issued according to law is prohibited by law within a certain period, they shall not be purchased or sold within the period.

Article 39

Shares, corporate bonds and other securities publicly issued according to law shall be listed and traded on stock exchanges established according to law or transferred on other securities exchanges approved by the State Council.

Article 40

Securities that are listed and traded on stock exchanges shall be traded in the manner of public, centralized trading or in other manners approved by the securities regulatory authority under the State Council.

Article 41

The securities purchased and sold by the parties to a securities transaction may be in the form of scrip or such other forms as prescribed by the securities regulatory authority under the State Council.

Article 42

Securities trading shall take the form of spot transaction or others forms stipulated by the State Council.

Article 43

Employees of stock exchanges, securities companies and securities registration and clearing institutions, staff members of the securities regulatory authority, and other persons prohibited by laws or administrative regulations from participating in share trading shall not, while in office or within the statutory period, hold, purchase or sell shares directly or under an assumed name or under the name of another, nor may they receive or accept shares as gifts.

When anyone becomes an employee, a staff member or a person as mentioned in the preceding paragraph, he shall, in accordance with law, transfer all the shares (if any) he is holding.

Article 44

Stock exchanges, securities companies and securities registration and clearing institutions shall, in accordance with law, keep confidential the accounts opened for their clients.

Article 45

Securities Service Organizations and individuals that produce documents such as audit reports, asset appraisal reports or legal opinions for share issuance shall not purchase or sell the shares in question within the underwriting period for such shares and for a period of six months upon the expiration thereof.

In addition to the provisions of the preceding paragraph, Securities Service Organizations and individuals that produce documents such as audit reports, asset appraisal reports and legal opinions for a listed company shall not purchase or sell the shares in question from the date on which they accept the entrustment by the listed company to the fifth day after the said

documents are made public.

Article 46

The fees charged for securities trading shall be reasonable. The items for which fees are charged, the rates for the fees and the collection methods shall be made public.

The items for which fees are charged, the rates for the fees and administrative measures in securities trading shall be prescribed by the competent department under the State Council in a unified manner.

Article 47

If any director, supervisor, senior executive of a listed company, or the shareholder holding five percent of the shares of the listed company sells, within six months upon purchase, the shares he holds of the said company or repurchases the shares within six months after selling the same, then the earnings so obtained by him shall belong to the company and be recovered by the board of directors of the company. However, a securities company that has a shareholding of more than five percent due to purchase of the remaining shares in the capacity of a company that underwrites with firm commitment shall not be subject to the restriction of six months when selling the said shares.

If the company's board of directors fails to comply with the provisions of the preceding paragraph, the shareholders shall have the right to require the board of directors to comply within 30 days. If the company's board of directors still fails to comply within the said time limit, the shareholders shall have the right to, for the company's benefits, bring a lawsuit in the people's court in their own name.

If the company's board of directors fails to comply with the provisions of the first paragraph, the directors responsible therefor shall bear joint and several liability.

Section 2 Listing of Securities

Article 48

To apply for listing of securities, a company shall apply to a stock exchange for examination and approval, and, upon such approval, the company and the stock exchange shall sign a listing agreement.

The stock exchanges shall, based on the decision of the department authorized by the State Council, arrange for the listing of government bonds.

Article 49

To apply for listing of such securities as shares, convertible corporate bonds or other securities for which the system of sponsorship shall be practiced according to laws or administrative regulations, an institution qualified for sponsorship shall be engaged as the sponsor.

Paragraph 2 and Paragraph 3 of Article 11 of this Law shall be applicable to the sponsors for listing.

Article 50

Where a joint stock limited company applies to have its shares listed, the following conditions shall be satisfied:

- (1) The shares of the company have already been issued publicly with approval of the securities regulatory authority under the State Council;
- (2) The total amount of the company's share capital reaches not less than RMB 30,000,000;
- (3) The shares of the company issued publicly amount to 25 percent or more of the total shares of the company; where the total amount of the company's share capital is more than RMB 400,000,000, the ratio of the shares issued publicly shall amount to 10 percent or more of the total shares; and
- (4) The company must have no records of involvement in serious illegal activities in the recent three years, and its financial and accounting statements must contain no false information in the same period.

The stock exchanges may stipulate the conditions for listing stricter than those as stipulated in the preceding paragraph but shall submit them to the securities regulatory authority under the State Council for approval.

Article 51

The State encourages companies that conform to industrial policies and meet the conditions for listing to have their shares listed.

Article 52

When applying for share listing, a company shall provide to the securities regulatory authority under the State Council the following documents:

- (1) The listing report;
- (2) The resolution adopted at the shareholders' general meeting concerning the application for listing of shares;
- (3) The company's articles of association;
- (4) The company's business license;
- (5) The financial and accounting statements of the company for the last three years that were audited by an accountant's firm according to law;

- (6) Legal opinions in writing, and a letter of sponsorship for listing;
- (7) The most recent prospectus; and
- (8) Other documents as provided for in the listing rules of the relevant stock exchange.

Article 53

After an application for share listing obtains consent from the stock exchange, the listed company signing a listing agreement shall, within the stipulated time limit, announce the documents relating to the said share listing and make such documents available at designated places for the public to consult.

Article 54

In addition to announcing the documents mentioned in the preceding Article, a listed company signing a listing agreement shall also announce the following matters:

- (1) The date on which the shares are approved for trading on the stock exchange;
- (2) A name list of the first ten shareholders who hold the largest numbers of the shares in the company and the number of shares held by each of them;
- (3) The actual controllers of the company; and
- (4) The names of the directors, supervisors and senior executives of the company, and particulars of their holding of the company's shares and/or bonds.

Article 55

The relevant stock exchange may decide to suspend the listing of the shares of a listed company under any of the following circumstances:

- (1) The total share capital or the distribution of share ownership of the company have been altered to make the company no longer satisfy the requirements necessary for listing;
- (2) The company has failed to make public its financial situation in compliance with the relevant provisions or has recorded false information in its financial and accounting statements that may mislead the investors;
- (3) The company is involved in major illegal acts;
- (4) The company has incurred losses for the past three consecutive years; and
- (5) Other circumstances as provided for in the listing rules of the stock exchange.

Article 56

The relevant stock exchange may decide to terminate the listing of the shares of a listed company under any of the following circumstances:

- (1) where the total share capital or the distribution of share ownership of the company have been altered to make the company no longer satisfy the requirements necessary for listing, and within the time limit as stipulated by the stock exchange, the company still fails to meet the conditions for listing;
- (2) where the company has failed to make public its financial situation in compliance with the relevant provisions or has recorded false information in its financial and accounting statements, and the company refuses to make a rectification thereof;
- (3) where the company has incurred losses for the past three consecutive years and fails to resume profit-making within the last year of such period;
- (4) where is dissolved or declared bankrupt; or
- (5) other circumstances as provided for in the listing rules of the stock exchange.

Article 57

A company that applies for listing and trading of its corporate bonds shall meet the following conditions:

- (1) The term of the corporate bonds is not less than one year;
- (2) The amount of corporate bonds to be actually issued is not less than RMB 5,000,000; and
- (3) The company still meets the statutory conditions for the issuing of corporate bonds at the time of application for the listing of its bonds.

Article 58

When applying for listing of corporate bonds, the company shall provide to the stock exchange the following documents:

- (1) The listing report;
- (2) The resolution adopted by the board of directors concerning the application for listing;
- (3) The company's articles of association;
- (4) The company's business license;
- (5) Measures for offer of the corporate bonds;

The number of corporate bonds to be actually issued; and

Other documents as provided for in the listing rules of the relevant stock exchange.

In case of applying for listing and trading of convertible corporate bonds, a letter of sponsorship for listing issued by a sponsor shall also be provided.

Article 59

After an application for listing of corporate bonds obtains consent from the stock exchange, the company signing a listing agreement shall, within the stipulated time limit, announce its listing documents of the corporate bonds and other relevant documents, and make its application documents available at the designated places for the public to consult.

Article 60

If a company, after its corporate bonds are listed, occurs any of the following conditions, the stock exchange may decide to suspend the listing of its corporate bonds:

- (1) If the company commits a major illegal act;
- (2) If the company no longer meets the conditions for listing corporate bonds due to a major change in it;
- (3) If the funds raised from the corporate bond issuance are not used for the purposes approved upon examination;
- (4) If the company fails to perform its obligations stipulated in the measures for offer of corporate bonds; or
- (5) If the company has been operating at a loss over the past two years.

Article 61

If a company is in the situation described in sub-paragraph (1) or (4) of the preceding Article and the consequences are verified to be serious, or if a company is in the situation described in sub-paragraph (2), (3), or (5) of the preceding Article and fails to eliminate the same within a specified time limit, the stock exchange may decide to terminate the listing of the company's bonds.

If a company is dissolved or declared bankrupt, the stock exchange shall terminate the listing of the company's bonds.

Article 62

Should there be any objection to the decisions made by the stock exchange on rejecting the application for listing, suspending listing or terminating listing, an application for review may

be submitted to the review institution established by the stock exchange.

Section 3 Continuing Disclosure of Information

Article 63

The information disclosed by any issuer and listed company according to law must be truthful, accurate and complete, and shall not contain any false record, misleading statement or major omission.

Article 64

A share prospectus or measures for offer of corporate bonds shall be announced where shares are issued according to law upon examination and approval by the securities regulatory authority under the State Council or where corporate bonds are issued according to law upon examination and approval by the department authorized by the State Council. When new shares or corporate bonds are issued publicly according to law, financial and accounting statements shall, in addition, be announced.

Article 65

Any listed company and any company whose corporate bonds are listed for trading shall, within two months following the end of the first half of each fiscal year, submit to the securities regulatory authority under the State Council and the stock exchange an interim report with the following contents and announce the same:

- (1) The company's financial and accounting statements and business situation;
- (2) Major litigation involving the company;
- (3) The particulars of any changes in the shares or corporate bonds already issued;
- (4) Important matters submitted to the shareholders' general meeting for consideration; and
- (5) Other matters specified by the securities regulatory authority under the State Council.

Article 66

Any listed company and any company whose corporate bonds are listed for trading shall, within four months following the end of each fiscal year, submit to the securities regulatory authority under the State Council and the stock exchange an interim report with the following contents and announce the same

- (1) An overview of the company;
- (2) The company's financial and accounting statements and business situation;
- (3) A brief introduction to the directors, supervisors, and senior executives and information

with respect to their shareholdings;

(4) The details of shares and corporate bonds already issued, including the name list of the first ten shareholders who hold the largest numbers of the shares in the company and the number of shares held by each of them;

(5) The actual controllers of the company; and

(6) Other matters specified by the securities regulatory authority under the State Council.

Article 67

When a major event occurs that may considerably affect the price at which a listed company's shares are traded and that is not yet known to the investors, the listed company shall immediately submit an ad hoc report on the details of such major event to the securities regulatory authority under the State Council and to the stock exchange and make the same known to the general public. In such report, the cause, current situation and possible legal consequence of the event shall be stated clearly.

For purposes of the preceding paragraph, the term "major event" shall mean:

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

(2) A decision made by the company concerning a major investment or major asset purchase;

(3) Conclusion by the company of an important contract which may have an important effect on the company's assets, liabilities, rights, interests or business results;

(4) Incurrence by the company of a major debt or default on an overdue major debt;

(5) Incurrence by the company of a major deficit or incurrence of a major loss;

(6) A major change in the external conditions of the company's production or operation;

(7) A change in any director, not less than one-third of supervisors or the manager of the company;

(8) A considerable change in the shares of the shareholders holding not less than 5 percent of the company's shares or any of the company's actual controllers, or a considerable change in the situation that they control the company;

(9) A decision made by the company to reduce its capital, merge, divide, dissolve, or apply for bankruptcy;

(10) Major litigation involving the company, or lawful cancellation by a court of a resolution

adopted by the shareholders' general meeting or the board of directors; or

(11) Other events specified in laws or administrative regulations.

Article 68

The directors and senior executives of a listed company shall sign a written opinion for confirmation on the regular reports of the company.

The supervisory board of a listed company shall examine and approve the company's regular reports worked out by the board of directors and shall bring a written opinion on examination and approval.

The directors, supervisors and senior executives of a listed company shall ensure the truthfulness, accuracy and completeness of the information disclosed by the company.

Article 69

If the share prospectus, measures for offer of corporate bonds, financial and accounting statements, listing report document, annual report, interim report, ad hoc report or other information disclosure materials announced by an issuer or listed company contain any false record, misleading statement or major omission, thus causing losses to investors in the course of securities trading, the issuer or the listed company shall be liable for the losses; the directors, supervisors, senior executives and other personnel directly responsible therefor of the issuer or the listed company, the sponsor, and the underwriting securities company shall be jointly and severally liable for such losses.

Article 70

Any information required to be disclosed in accordance with law shall be published in the media specified by the securities regulatory authority under State Council, and shall be made available at the company's domicile and the stock exchange for the public to consult.

Article 71

The securities regulatory authority under the State Council shall supervise the annual reports, interim reports, ad hoc reports and announcements of listed companies, the distribution or rationing of new shares of listed companies, and the acts of the controlling shareholders and other persons obligated to disclose information of listed companies.

Before any announcement are made by a company as required by laws or administrative regulations, the securities regulatory authority, the stock exchanges, the sponsors, the securities underwriting companies and the individuals concerned shall not divulge the contents of such announcement.

Article 72

When a stock exchange decides to suspend or terminate the listing and trading of the securities of a company, it shall announce the decision without delay and submit it to the securities

regulatory authority under the State Council for the record.

Section 4 Prohibited Trading Activities

Article 73

Any person with knowledge of inside information on securities trading or illegally obtaining such inside information shall be prohibited to take advantage of such inside information to engage in securities trading.

Article 74

The following persons are persons with knowledge of inside information on securities trading:

- (1) Any director, supervisor, and senior executive of an issuer;
- (2) Any shareholder who holds not less than 5 percent of the shares in a company and any director, supervisor, and senior executive of such shareholder, and any actual controller of a company and any director, supervisor, and senior executive of such controller;
- (3) Any issuer-holding company and any director, supervisor, and senior executive of such company;
- (4) Any person who is able to obtain company information concerning the trading of its securities by virtue of the position he holds in the company;
- (5) Any staff member of the securities regulatory authority, and any other person who administers the securities issuing and trading pursuant to his statutory duties;
- (6) Any relevant staff member of any sponsor, securities underwriting company, stock exchange, securities registration and clearing institution and securities service organization; and
- (7) Any other person specified by the securities regulatory authority under the State Council.

Article 75

Inside information shall be the information that is not made public because, in the course of securities trading, it concerns the company's business operation or financial affairs or may have a major effect on the market price of the company's securities.

The following information belongs to inside information:

- (1) The major events listed in the second paragraph of Article 67 of this Law;
- (2) Company plans concerning distribution of dividends or increase of capital;
- (3) Major changes in the company's equity structure;

- (4) Major changes in security for the company's debts;
- (5) Any single mortgage, sale or write-off of a major asset used in the business of the company that exceeds 30 percent of the said asset;
- (6) Potential liability for major losses to be assumed in accordance with law as a result of an act committed by any of a company's directors, supervisors, or senior executives;
- (7) Plans concerning the takeover of listed companies; and
- (8) Other important information determined by the securities regulatory authority under the State Council to have a marked effect on the trading prices of securities.

Article 76

No person with knowledge of inside information on securities trading of a company or any other person who has illegally obtained such inside information may purchase or sell the securities of the company, divulge such information or counsel another person to purchase or sell such securities.

Where there are other provisions in this Law that govern the purchase of shares of a listed company by any natural person, legal person or other organization who holds, or jointly holds with other through agreement or other arrangement, not less than 5 percent of the company's shares, such provisions shall apply.

If any loss is caused to any investor by any inside trading act, the actor shall be liable for the loss according to law.

Article 77

It is prohibited for anyone to manipulate the securities market by any of the following means:

- (1) Whether independently or in collusion with others, carrying out combined or successive purchases or sales by building up an advantage in terms of funds or shareholdings or using one's advantage in terms of information, thereby manipulating the trading prices of securities.
- (2) Collaborating with another person to mutually trade securities or to mutually buy or sell securities not held by them, at a prearranged time and price and by prearranged means, thereby affecting the price or volume of the securities traded;
- (3) Buying or selling securities from or to oneself without transfer of ownership of the securities by means of making oneself the other party to the transaction, thereby affecting the price or volume of the securities traded; or
- (4) Manipulating the securities market by other means.

If any loss is caused to any investor by the act of manipulating the securities market, the actor shall be liable for the loss according to law.

Article 78

It is prohibited for state functionaries, employees of the news media and other persons concerned to fabricate and disseminate false information, thereby disrupting the securities market.

It is prohibited for stock exchanges, securities companies, securities registration and clearing institutions, securities service organizations and their employees to make false statements or give misleading information in the course of securities trading.

Securities trading information disseminated by any mass medium shall be truthful and objective. Disseminating of misleading information is prohibited.

Article 79

It is prohibited for securities companies and their employees to commit any of the following fraudulent acts that are detrimental to the interests of their clients:

- (1) Purchasing or selling securities on behalf of a client contrary to the client's instructions;
- (2) Failing to provide a client with written confirmation of a transaction within the prescribed time period;
- (3) Misappropriating the securities entrusted by a client for purchase or sale or the funds in a client's account;
- (4) Purchasing or selling securities for a client without the client's authorization, or purchasing or selling securities under the name of a client;
- (5) Inveigling a client into making an unnecessary purchase or sale of securities in order to obtain a commission;
- (6) Providing or disseminating false or misleading information by making use of mass media or by other means; or
- (7) Any other act contrary to a client's authentic declaration of intention and detrimental to the client's interests.

If any loss is caused to a client by any such fraudulent act, the actor shall be liable for the loss.

Article 80

In the course of securities trading, it is prohibited for a legal person to carry out securities

trading by making use of others' accounts illegally, or to lend its own or others' securities accounts.

Article 81

The channels for the funds flowing into the stock market shall be broadened according to law, and the flow of funds into the stock market against regulations shall be prohibited.

Article 82

It is prohibited for anyone to misappropriate public funds to trade in securities.

Article 83

State-owned enterprises and enterprises where State-owned assets constitute a controlling interest, when purchasing or selling shares listed for trading, must abide by the relevant provisions of the State.

Article 84

When stock exchanges, securities companies, securities registration and clearing institutions, securities service organizations, and their employees discover any prohibited trading activities in the course of securities trading, they shall immediately report such activities to the securities regulation authority.

Chapter 4 TAKEOVER OF LISTED COMPANIES

Article 85

A listed company may be taken over by offer or by agreement or by other legal means.

Article 86

When, through securities trading at a stock exchange, an investor comes to hold, or jointly hold with others through agreement or other arrangements, 5 percent of the shares issued by a listed company, the investor shall, within three days from the date on which such shareholding becomes a fact, submit a written report to the securities regulatory authority under the State Council and the stock exchange, notify the listed company and make the fact known to the general public. During the period specified above, the investor shall not continue to purchase or sell shares of the listed company.

Once an investor holds, or jointly hold with others through agreement or other arrangements, 5 percent of the shares issued by a listed company, he shall, pursuant to the provisions of the preceding paragraph, report and make announcement of each 5 percent increase or decrease in the proportion of the issued shares he holds of the said company through securities trading on a stock exchange. During the reporting period, and for two days after the report and announcement are made, the investor shall not continue to purchase or sell shares of the listed company.

Article 87

The written report and announcement made in accordance with the provisions in the preceding Article shall include the following:

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

Article 88

When, through securities trading on a stock exchange, an investor comes to hold, or jointly hold with others through agreement or other arrangements, 30 percent of the issued shares of a listed company and continues to buy such shares, the investor shall, in accordance with law, issue to all the shareholders of the listed company a takeover offer for buying the whole of part of the shares of the listed company.

It shall be agreed in the takeover offer for buying part of the shares of a listed company that, if the number of the shares agreed to be sold by the company to be taken over exceeds the number of the shares intended to be bought, then, the purchaser shall conduct the purchase pro rata.

Article 89

Before issuing a takeover offer pursuant to the provisions in the preceding Article, the purchaser shall submit a report on the takeover of the listed company to the securities regulatory authority under the State Council. The following particulars shall be clearly stated in the report:

- (1) The name and domicile of the purchaser;
- (2) The decision of the purchaser concerning the takeover;
- (3) The name of the listed company to be taken over;
- (4) The purpose of the takeover;
- (5) A detailed description of the shares to be bought up and the number of shares scheduled to buy up;
- (6) The term and price of the takeover;
- (7) The amount and guaranteed availability of the funds required for the takeover; and

(8) The ratio between the total number of the issued shares of the company to be taken over and the number of such shares held at the time the takeover report is submitted.

The purchaser shall simultaneously submit to the stock exchange a copy of the report on the takeover of the company.

Article 90

The purchaser shall announce his takeover offer 15 days upon the date on which, pursuant to the provisions in the preceding Article, he submits the report on the takeover of the listed company. Within the said 15 days, in case the securities regulatory authority under the State Council finds the report on the takeover of the listed company not in conformity with the provisions of laws or administrative regulations, it shall immediately notify the purchase thereof, and in such case, the purchase shall not announce his takeover offer.

The term of a takeover offer shall be not less than 30 days but not more than 60 days.

Article 91

Within the acceptance term as specified in a takeover offer, the purchaser shall not withdraw his takeover offer. If the purchaser needs to alter any item in the takeover offer, he shall submit a report to the securities regulatory authority under the State Council and the stock exchange in advance and, upon approval thereof, he shall make an announcement with respect thereto.

Article 92

All the conditions proposed in a takeover offer shall apply to all the shareholders of the company to be taken over.

Article 93

In the case of takeover by offer, the purchaser, during the term of the takeover offer, shall not sell shares of the company under takeover, nor buy the same in a way different from, or on conditions in excess of, those as prescribed in the offer.

Article 94

In the case of takeover by agreement, the purchaser may effect the equity transfer by entering into an agreement with the shareholders of the company under takeover, as prescribed in laws and administrative regulations.

When a listed company is to be taken over by agreement, the purchaser shall, within three days after the agreement is reached, submit a written report on the takeover agreement to the securities regulatory authority under the State Council and the stock exchange and make the same known to the general public.

The takeover agreement shall not be performed until the announcement is made.

Article 95

In the case of takeover by agreement, the parties to the agreement may, on an ad hoc basis, entrust a securities registration and clearing institution with custody of the shares to be transferred pursuant to the agreement and with deposit of the funds with a designated bank.

Article 96

When, through takeover by agreement, an purchaser comes to buy, or jointly buy with others through agreement or other arrangements, 30 percent of the issued shares of a listed company and continues to buy such shares, the purchaser shall issue a takeover offer to all the shareholders of the listed company, unless he is exempted by the securities regulation authority under the State Council from issuing such an offer.

If the purchaser is to buy the shares of a listed company by means of offer pursuant to the provisions of the preceding paragraph, he shall abide by the provisions of article 89 to article 93 of this Law.

Article 97

Where, upon the expiration of the term of the takeover offer, the distribution of the share ownership of the company under takeover does not meet the conditions for listing, the listing and trading of the shares of the said company shall be terminated by the stock exchange; the remaining holders of the shares of the said company shall have the right to sell their shares on the same conditions as those in the takeover offer, and the purchaser, on his part, shall buy up the same.

Where, upon completion of the takeover, the company that is taken over no longer meets the conditions for a joint stock limited company, it shall change its enterprise form according to law.

Article 98

During the takeover of a listed company, the shares in such company which are held by the purchaser of the listed company may not be transferred for 12 months following completion of the takeover.

Article 99

Upon completion of the takeover, if the purchaser merges with the company and dissolves the company, then the original shares of the dissolved company shall be replaced by the purchaser according to law.

Article 100

After completion of the takeover of a listed company, the purchaser shall, within 15 days, report the particulars of the takeover to the securities regulatory authority under the State Council and the stock exchange and make the same known to the general public.

Article 101

Where the takeover of a listed company involves shares held by an investment organization authorized by the State, the matter shall be subject to approval by the competent department in accordance with the provisions of the State Council.

The securities regulatory authority under the State Council shall, in accordance with the principles of this Law, formulated the specific measures for takeover of a listed company.

Chapter 5 STOCK EXCHANGES

Article 102

A stock exchange is a self-disciplined legal person that provides the premises and facilities for the centralized trading of securities and organizes and supervise the trading of securities.

A stock exchange shall be established or dissolved upon decision by the State Council.

Article 103

The formulation and amendment of the articles of association of a stock exchange shall be subject to approval by the securities regulatory authority under the State Council.

Article 104

A stock exchange shall include the words "stock exchange" in its name. No other units or individuals may use the name "stock exchange" or a similar name.

Article 105

The income from various charges that is at the discretion of a stock exchange shall first be used to ensure the normal operation and gradual improvement of the premises and facilities of the stock exchange.

The gains accumulated by a stock exchange practicing the membership system shall belong to its members, and its rights and interests shall be shared by the members. The accumulated gains shall not be distributed to the members while the stock exchange is in existence.

Article 106

A stock exchange shall have a board of governors.

Article 107

A stock exchange shall have a general manager, who shall be appointed and removed by the securities regulatory authority under the State Council.

Article 108

None of the persons described in Article 147 of the **Company Law** or in the following may hold a responsible position of a stock exchange:

(1) Any responsible person of stock exchanges or securities registration and clearing institutions and directors, supervisors and senior executives of securities companies who, due to a violation of the law or rules of discipline, are removed from office, where not more than five years have elapsed since the date of their removal; and

(2) Lawyers, certified public accountants and professionals of investment consultation companies, property consultation companies, credit rating organizations, asset appraisal organizations or verification organizations who, due to a violation of the law or rules of discipline, are disqualified as such, where not more than five years have elapsed since the date of their disqualification.

Article 109

Employees of stock exchanges, securities registration and clearing institutions, securities service organizations or securities companies and functionaries of State organs who are discharged for violating laws or rules of discipline shall not be engaged by stock exchanges.

Article 110

Only members of a stock exchange may enter that stock exchange to participate in centralized trading.

Article 111

An investor shall sign an agreement on securities trading entrustment and open a securities trading account with a securities company and shall instruct, in writing, by telephone or otherwise, the said company to purchase or sell securities on his behalf.

Article 112

A securities company shall, in accordance with the investors' instructions and the rules of securities trading, declare orders and participate in centralized trading on the stock exchange, and shall be responsible for clearing and settlement based on the transactions concluded; a securities registration and clearing institution shall, on the basis of the transactions concluded and in accordance with the rules for clearing and settlement, effect the clearing and settlement of securities and funds with securities companies and handle, for the clients of securities companies, the procedures for registration and transfer of the securities.

Article 113

Stock exchanges shall ensure fair centralized trading, promptly announce quotations concerning the securities trading, compile securities market quotation tables for each day of trading, and announce the same.

Without approval of a stock exchange, none of units and individuals may publish immediate quotations of securities trading.

Article 114

When a sudden event affecting the normal trading of securities occurs, stock exchanges may

effect a technical suspension of trading. They may decide to temporarily suspend the market when a sudden event of force majeure occurs or in order to protect the normal order of securities trading.

When stock exchanges effect a technical suspension of trading or decide to temporarily suspend the market, they shall, without delay, report the same to the securities regulatory authority under the State Council.

Article 115

A stock exchange shall carry out real-time monitoring of securities trading conducted on the exchange and shall report any unusual trading, as required by the securities regulatory authority under the State Council.

A stock exchange shall supervise disclosure of information by listed companies and the obligors of relevant information so as to cause such companies to disclose information promptly and accurately according to law.

If necessary, stock exchanges may limit the trading of any securities account occurring major unusual trading, and shall report it to the securities regulatory authority under the State Council for record.

Article 116

A stock exchange shall derive a certain proportion from its transaction fees, membership dues and seat fees to establish a risk fund. The risk fund shall be controlled by the board of governors of the stock exchange.

The specific proportion derived for the risk fund and measures for its use shall be prescribed by the securities regulatory authority under the State Council in conjunction with the finance [id=0-2-0-10&statutes_id=10009126&skind=110&search117](#)

Article 117

A stock exchange shall deposit the risk fund in a dedicated account with its bank and shall not use the same without authorization.

Article 118

A stock exchange shall, pursuant to laws and administrative regulations governing securities, formulate the rules for listing, trading, administrative regulations for its members and other relevant rules, and submit the same to the securities regulatory under the State Council for approval.

Article 119

In performing their duties related to securities trading, the responsible persons and employees of stock exchanges shall withdraw where they themselves or any of their relatives have an interest.

Article 120

The transaction results of trading conducted in accordance with the trading rules formulated according to law shall not be changed. Traders who violate the rules during trading shall not be exempted from civil liability; gains obtained from trading against the rules shall be dealt with pursuant to relevant provisions.

Article 121

If persons engaged in securities trading inside a stock exchange violate the trading rules of the stock exchange, the stock exchange shall impose disciplinary sanctions on them. If the circumstances are serious, the offenders' qualifications shall be revoked and the offenders shall be barred from entering the exchange to trade securities.

Chapter 6 SECURITIES COMPANIES

Article 122

The establishment of a securities company shall be subject to examination and approval by the securities regulatory authority under the State Council. No one may engage in securities business without approval of the said authority.

Article 123

For the purposes of this Law, "a securities company" shall mean a limited liability company or a joint stock limited company which, pursuant to the provisions of the **Company Law** and this Law, is established to engage in securities business.

Article 124

The following conditions shall be satisfied for the establishment of a securities company:

- (1) The company has an articles of association in conformity with the provisions of laws and administrative regulations;
- (2) Each of major shareholders of the company has the capacity for continuous profit-making, is in good standing, has no record on serious acts against laws or rules for the last three years, and has a net assets of not less than RMB 200,000,000;
- (3) The company has a minimum registered capital in conformity with the provisions of this Law;
- (4) Each of the directors, supervisors and senior executives of the company is qualified for his position, and the business persons of the company are qualified to engage in securities business;
- (5) The company has a sound system of risk management and internal control;

(6) the company has a qualified place of business and business facilities; and

(7) Other conditions as stipulated by laws or administrative regulations, and by the securities regulatory authority under the State Council with approval of the State Council.

Article 125

With the approval of the securities regulatory authority under the State Council, a securities company may engage in the whole or part of the following business:

(1) Securities brokerage business;

(2) Consultation for securities investment;

(3) Financial advice related to the activities of securities trading or securities investment;

(4) Securities underwriting business and sponsorship;

(5) Securities business on its own account;

(6) Securities assets management; and

(7) Other securities business.

Article 126

A securities company shall include the words "limited liability securities company " or "joint stock limited securities company" in its name.

Article 127

Where a securities company engages in the business as described in subparagraph (1) to (3) of Article 125 of this Law, the minimum amount of its registered capital shall be RMB 50,000,000; where it engages in any of the business as described in subparagraph (4) to (7) thereof, the minimum amount of its registered capital shall be RMB 100,000,000; where it engages in two or more of the business as described in subparagraph (4) to (7) thereof, the minimum amount of its registered capital shall be RMB 500,000,000. The registered capital of a securities company shall be the paid-up capital.

The securities regulatory authority under the State Council may, based on the principle of cautious supervision and the risk level of various businesses, readjust the minimum amount of the registered capital of a securities company, provided that, it shall not be lower than the minimum amount as stipulated in the preceding paragraph.

Article 128

The securities regulatory authority under the State Council shall, in accordance with the statutory condition and procedures and the principle of cautious supervision, examine the

application for incorporation of a securities company within six months upon its acceptance of the same, make a decision on approval or disapproval upon the examination, and notify the applicant thereof; if the application is disapproved, it shall state the reasons therefor.

Where the application for incorporation of a securities company is approved, the applicant shall, within the stipulated time limit, apply to the company registration authority for the registration of incorporation and obtain the business license.

A securities company shall, within 15 days upon its acquisition of its business license, apply to the securities regulatory authority under the State Council for the permit for securities business. If a permit for securities business is not obtained, no securities company may engage in securities business.

Article 129

The establishment, purchase or closure of branches by a securities company, change in its scope of business, registered capital, the shareholders holding 5 percent or more of its share ownership, actual controllers and important terms of its articles of association, and merger, division, change in its corporate form, cease of doing business, dissolution and bankruptcy shall be subject to the approval by the securities regulatory authority under the State Council.

The establishment, purchase or participation in any securities business institution by a securities company shall be subject to the approval by the securities regulatory authority under the State Council.

Article 130

In respect of a securities company, the securities regulatory authority under the State Council shall provide for the provisions the risk control indexes such as the net capital, the ratio between the net capital and liabilities, the ratio between the net capital and net assets, the ratio between the net capital and such business scale as self-operation, underwriting and assets management, the ratio between the liabilities and net assets, and the ratio between the current assets and current liabilities.

No securities companies may provide financing or guarantee for any of their shareholders or any affiliate of their shareholders.

Article 131

Any director, supervisor or senior executive of a securities company shall be in integrity, honesty and good character, be familiar with the laws and administrative regulations governing securities, have the capability of operation and management required for performing his duties, and obtain, before taking his office, the qualification for his post examined and approved by the securities regulatory authority under the State Council.

None of the persons described in Article 147 of the **Company Law** of the People's Republic of China or in any of the following conditions may act as a director, supervisor or senior

executive of a securities company:

(1) Responsible persons of stock exchanges or securities registration and clearing institutions and directors, supervisors and senior executives of securities companies who, due to a violation of the laws or rules of discipline, are removed from office, where not more than five years have elapsed since the date of their removal; and

(2) Lawyers, certified public accountants and professionals of investment consultation institutions, financial advice institutions, credit rating institutions, asset appraisal organizations or verification organizations who, due to a violation of the law or rules of discipline, are disqualified as such, where not more than five years have elapsed since the date of their disqualification.

Article 132

Employees of stock exchanges, securities registration and clearing institutions or securities companies and functionaries of State organs who are discharged for violating the law or rules of discipline shall not be engaged by securities companies.

Article 133

No functionaries of State organs, or other persons prohibited by laws or administrative regulations from concurrently holding positions in companies, may concurrently hold positions in securities companies.

Article 134

The state establishes the securities investor protection fund. Such fund shall be composed of the funds paid by securities companies and other funds raised according to law, and the specific measures for raising, managing and using such fund shall be stipulated by the State Council.

Article 135

A securities company shall derive for a trading risk reserve from its annual after-tax profits to make up losses from securities trading. The specific percentage for such derivation shall be prescribed by the securities regulatory authority under the State Council.

Article 136

Securities companies shall establish and perfect its internal control system, take effective isolation measures, and prevent conflict of interests between the company and its clients, or between various clients.

Securities companies must keep their securities brokerage business, securities underwriting business, securities business operated on their own account and securities assets management business separate from each other, and shall not operate such business in a mixed manner.

Article 137

The business on the account of a securities company itself shall be conducted in its own name, and shall not be conducted in the name of another or in the name of an individual.

The business on the account of a securities company itself shall be conducted only by making use of its own funds and the funds raised according to law.

No securities company may lend its own business account to another for use.

Article 138

Securities companies shall have the lawful right to operate independently, and their lawful operations shall be subjected to no interference.

Article 139

The transaction clearing funds of any client of a securities company shall be deposited with a commercial bank and a separate account shall be opened and managed as such. The specific measures and implementation procedures therefor shall be stipulated by the State Council.

Any securities company shall not incorporate the transaction clearing funds of any of its clients into its own property. It is prohibited for any unit or individual to misappropriate the transaction clearing funds and securities of the clients in any way. Where a securities company is bankrupt or liquidated, the transaction clearing funds of its clients do not belong to its bankrupt property or liquidated property. None of the transaction clearing funds of the clients may be sealed up, frozen up, transferred or forcibly executed, except attributable to the debts of the clients themselves or other circumstances as stipulated by laws.

Article 140

To handle brokerage business, a securities company shall provide uniform letters of instruction for securities trading for use by instructing parties. If instructions are given in other ways, a record shall be kept thereof.

Whether or not any transactions are concluded, the records of clients' instructions for trading of securities shall be kept at the securities company for the prescribed period of time.

Article 141

Upon accepting an instruction to purchase or sell securities, a securities company shall purchase or sell securities as an agent in accordance with the trading rules and on the basis of the description of the securities, the purchase or sale quantity, the method of bidding, the price range, etc. set forth in the instruction form, and truly make a trading record. After a transaction is concluded, it shall, according to regulations, prepare a transaction report and deliver it to the client.

Reconciliation statements confirming trading acts and their transaction results in securities trading shall be truthful. Such statements shall be audited on a transaction-by-transaction basis by an auditor other than the person handling the transactions, who shall see that the securities

book balance is the same as the number of securities actually held.

Article 142

Provision of A securities or funds by a securities company for the purchase or sale of securities of its clients shall be bound by the provisions of the State Council and subject to the securities regulatory authority under the State Council.

Article 143

When handling brokerage business, a securities company shall not accept a client's unlimited authorization to decide on the purchase or sale of securities, choose the types of securities or decide on the quantities to be purchased or sold or the purchase or sales price.

Article 144

A securities company shall not give any form of commitment with respect to its clients' profits from the purchase or sale of securities or compensation for losses from the purchase or sale of securities.

Article 145

A securities company and its employees shall not, in private and not through the company's place of business established according to law, accept instructions from a client to purchase or sell securities.

Article 146

If, in the course of securities trading, an employee of a securities company violates trading rules under the instructions of the company or by taking advantage of his position, the securities company to which he belongs shall bear full liability therefor.

Article 147

Any securities company shall properly keep the information on opening the accounts, instruction records and trading records of its clients, and various materials related to its internal management and business operation, and no one may conceal, forge, alter or damage the same. The said information and materials shall be kept for not less than 20 years.

Article 148

Any securities company shall, pursuant the relevant provisions, submit to the securities regulatory authority under the State Council the information and materials on its operation and management such as business and finance. The securities regulatory authority under the State Council shall have the right to require the securities company and its shareholders or actual controllers to provide the relevant information and materials within a stipulated time limit.

The informant and materials submitted or provided by a securities company or its shareholders or actual controllers to the securities regulatory authority under the State Council must be truthful, accurate and complete.

Article 149

The securities regulatory authority under the State Council may, as it deems necessary, entrust an accountant's firm, asset appraisal institution to audit or appraise the financial standing, internal control situation and asset value of a securities company. The specific measures therefor shall be formulated by the securities regulatory authority under the State Council together with the competent department.

Article 150

Where the net capital or other risk control indexes of a securities company fail to conform to the relevant provisions, the securities regulatory authority under the State Council shall order it to make a rectification within a stipulated time limit; if the company fails to make such rectification within such time limit, or its acts seriously endanger the stable operation of the company or damage the legal rights and interests of its clients, the securities regulatory authority under the State Council may take the following measures based on the specific circumstances:

- (1) To limit its business activities, order it to suspend part business, and cease to approve its new business;
- (2) To cease to approve its additional establishment or purchase of profit-making branches;
- (3) To limit its distribution of dividends, and limit the payment of remuneration and provision of welfare to its directors, supervisors and senior executives;
- (4) To limit transfer of its property or creation of other rights over its property;
- (5) To order it to replace directors, supervisors or senior executives or limits their rights;
- (6) To order its controlling shareholders to transfer their share ownership or limit the relevant shareholders to exercise their shareholder's rights; or
- (7) To cancel its relevant business permits.

After the securities company is subject to rectification, it shall submit a report to the securities regulatory authority under the State Council. If the securities regulatory authority under the State Council finds, upon acceptance test, the company conforms to the relevant risk control indexes, it shall, within three days upon the completion of the acceptance test, dissolve the relevant measures against the company as described in the preceding paragraph.

Article 151

If any shareholder of a securities company commits the acts of false capital contribution or withdrawal of capital contribution, the securities regulatory authority under the State Council shall order him to make a correction within a stipulated time limit, and may order him to transfer the share ownership of the securities company held by him.

The securities regulatory authority under the State Council may limit the shareholder's rights of the shareholder as described in the preceding paragraph before the shareholder, pursuant to the requirements, corrects its illegal acts or transfers its share ownership of the company.

Article 152

If any director, supervisor or senior executive of a securities company fails to perform his duties due diligently hence causing the company to occur major acts against laws or rules, the securities regulatory authority under the State Council may cancel his competence for his post and order the company to replace him.

Article 153

Where a securities company carries out its business operation illegally or occurs major risks hence seriously endangering the order of the securities market or damaging the interests of the investors, the securities regulatory authority under the State Council may take such supervision measures as ordering it to suspend its business for rectification or designating other institutions as the trustees or receivers of the company or cancelling the company.

Article 154

When a securities company is ordered to suspend its business, or a trustee or receiver is appointed for it according to law, or is in the process of liquidation, or occurs major risks, then, with the approval of the securities regulatory authority under the State Council, the following measures may be taken against the directors, supervisors or senior executives or other personnel directly responsible for the securities company:

- (1) To notify the exit management authority to hinder them from exiting out of China; or
- (2) To apply to the judicial authority to prohibit them from diverting, transferring or disposing of their properties in other ways, or creating other rights over their properties.

Chapter 7 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 clearing services for securities trading.

The establishment of a securities registration and clearing institution shall be subject to approval by the securities regulatory authority under the State Council.

Article 156

To be established, a securities registration and clearing institution shall meet the following conditions:

- (1) It has self-owned funds of not less than RMB 200,000,000;

- (2) It has the place and facilities necessary for providing securities registration, custody and clearing services;
- (3) Its chief administrators and business persons are qualified to engage in securities business; and
- (4) Other conditions prescribed by the securities regulatory authority under the State Council.

The name of a securities registration and clearing institution shall include the words "securities registration and clearing."

Article 157

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

- (1) Establishment of securities accounts and clearing accounts;
- (2) Custody and transfer of ownership of securities;
- (3) Registration of the names of the holders of securities;
- (4) Clearing and delivery of listed securities traded on the stock exchange;
- (5) Allotment of securities rights and interests upon entrustment by the issuer;
- (6) Handling of inquiries concerning the above-mentioned businesses; and
- (7) Other businesses approved by the securities regulatory authority under the State Council.

Article 158

A centralized and unified method of operation shall be used for registration and clearing of securities nationwide.

The articles of association and business rules of a securities registration and clearing institution shall be formulated according to law and be subject to approval by the securities regulatory authority under the State Council.

Article 159

Before trading listed securities, a holder shall place all such securities in the custody of a securities registration and clearing institution.

A securities registration and clearing institution shall not misappropriate its clients' securities.

Article 160

A securities registration and clearing institution shall furnish the issuer of securities with the register of, and relevant information concerning, the holders of its securities.

On the basis of the results of securities registration and clearing, a securities registration and clearing institution shall confirm the fact that particular securities are held by particular holders and provide registered information on the holders of the securities.

A securities registration and clearing institution shall ensure the truthfulness, accuracy and completeness of the register of the holders of securities and the records of registration of change in ownership. It shall not, conceal, forge, alter or destroy such register or records.

Article 161

A securities registration and clearing institution shall adopt the following measures to ensure the normal operation of business:

- (1) To have the necessary service equipment and sufficient measures for data security and protection;
- (2) To have established sound management systems for business, financial affairs and security; and
- (3) To have established complete risk control systems.

Article 162

A securities registration and clearing institution shall carefully preserve the original evidence relating to registration, custody and clearing and the documents and materials with relation thereto for not less than 20 years.

Article 163

A securities registration and clearing institution shall establish a clearing risk fund that shall be used to pay in advance or make up any losses suffered by the securities registration and clearing institution as a result of default on delivery, technical failures, operational errors or force majeure.

The securities clearing risk fund shall be derived from the business revenue and profits of a securities registration and clearing institution, and may also be collected from clearing participants at a certain percentage of the volume of their securities traded.

The measures for raising and managing securities clearing risk fund shall be prescribed by the securities regulatory authority in conjunction with the finance department under the State Council.

Article 164

The securities clearing risk fund, as earmarked money, shall be deposited in a dedicated

account at a designated bank.

After paying compensation with money from the risk fund, a securities registration and clearing institution shall have recourse to the responsible person(s).

Article 165

The application of a securities registration and clearing institution for dissolution shall be subject to approval by the securities regulatory authority under the State Council.

Article 166

Any investor who entrusts a securities company with securities trading shall apply to open a securities account. The securities registration and clearing institution shall, in the name of the investor, open a securities account for the investor according to the relevant provisions.

To apply to open a securities account, an investor must produce a legal certificate approving his identity as Chinese citizen or qualification as Chinese legal person, except as otherwise provided by the State.

Article 167

When the securities registration and clearing institution provides netting service of net amount, it shall require the clearing participants to, based on the principle of delivery versus payment, fully deliver securities and funds and provide security.

Prior to completion of delivery, no one may use any securities, fund and security used for the delivery.

If any clearing participant fails to perform its obligation of delivery timely, the securities registration and clearing institution shall have the right to dispose of the properties as mentioned in the preceding paragraph in accordance with the business rules.

Article 168

All clearing funds and securities collected by a securities registration and clearing institution according to the business rules shall be deposited in a dedicated clearing and delivery account, shall only be used for the clearing and delivery of the concluded securities trading according to the business rules, and shall not be enforced.

Chapter 8 SECURITIES SERVICE ORGANIZATIONS

Article 169

Engaging in securities service business of investment consulting organizations, financial advice organizations, credit-rating institutions, assets appraisal organization and accountant's firms shall be subject to approval of securities regulatory authority under the State Council and the competent authority.

The measures governing the examination and approval of engaging in securities service business of investment consulting organizations, financial advice organizations, credit-rating institutions, assets appraisal organization and accountant's firms shall be prescribed by the securities regulatory authority under the State Council and the competent authority.

Article 170

The personnel engaging in securities service business in investment consulting organizations, financial advice organizations and credit-rating institutions shall be persons who are armed with professional knowledge of securities and have engaged in the securities business or the securities service business for not less than two years. The criteria and administrative measures for determining the qualifications of such persons to engage in securities business shall be formulated by the securities regulatory authority under the State Council.

Article 171

Any investment consulting organization and its any employee, when engaging in securities service business, shall not engage in the following activities:

- (1) Investing in securities as an agent for an entrusting party;
- (2) Agreeing with an entrusting party to share profits or losses from securities investment;
- (3) Purchasing or selling the shares of listed companies to which the consulting organization provides services;
- (4) Providing or disseminating false or misleading information by means of mass media or in other ways; or
- (5) Other activities prohibited by laws or administrative regulations.

If any loss is caused to any investor by any act as listed in the preceding paragraph, the actor shall be liable for the loss.

Article 172

Investment consulting organizations and credit-rating institutions engaging in securities service business shall charge service fees in accordance with the rates or measures prescribed by the competent department under the State Council.

Article 173

Any securities service organization that produces documents such as audit reports, asset appraisal reports, financial advice reports, credit-rating reports or legal opinions for the securities business activities such as issuing, listing or trading of securities shall be due diligent, and check and verify the truthfulness, accuracy and completeness of the contents of the documents made or produced by them. If the documents made or produced by them contain false records, misleading statement or major omission and hence cause any loss to

others, they shall bear joint and several liability for compensation with the issuers or listed companies, unless they can prove they have no fault.

Chapter 9 SECURITIES ASSOCIATION

Article 174

The Securities Association is a self-regulating organization for the securities industry and is a social organization with the status of a legal person.

Securities companies shall join the Securities Association.

The organ of authority of the Securities Association is the members' general assembly composed of all of the members.

Article 175

The charter of the Securities Association shall be formulated by its members' general assembly and submitted to the securities regulatory authority under the State Council for the record.

Article 176

The Securities Association shall perform the following functions:

- (1) To educate and organize its members to abide by the laws and administrative regulations governing securities;
- (2) To safeguard the lawful rights and interests of members according to law and to report members' suggestions and requests to the securities regulatory authority;
- (3) To collect and process information on securities and provide services to members;
- (4) To formulate rules to be observed by members, to arrange for vocational training for the employees of its members and to promote professional exchanges among members;
- (5) To mediate in the event of disputes between members or between members and their clients;
- (6) To make arrangements for members to research into the development, operation and other matters related to the securities industry;
- (7) To supervise and inspect members' conduct and, in accordance with rules, to impose disciplinary sanctions on any member that violates laws, administrative regulations or the charter of the Association; and
- (8) Other functions delegated to it by the charter of the Association.

Article 177

The Securities Association shall have a board of governors. The members of the board of governors shall be elected as prescribed in the charter.

Chapter 10 SECURITIES REGULATORY AUTHORITY

Article 178

The securities regulatory authority under the State Council shall regulate the securities market according to law, maintain order of the securities market and ensure the lawful operation of the market.

Article 179

The securities regulatory authority under the State Council shall perform the following functions in regulating the securities market:

- (1) To formulate, according to law, rules and regulations concerning supervision and regulation of the securities market and to lawfully exercise its power of examination and approval or verification;
- (2) To regulate, according to law, the offering, listing, trading, registration, custody and clearing of securities;
- (3) To regulate, according to law, the securities business activities of the issuers of securities, listed companies, stock exchanges, securities companies, securities registration and clearing institutions, securities investment fund management companies, and securities service organizations;
- (4) To formulate, according to law, the qualification criteria and code of conduct for persons engaged in securities business, and to see that these are observed;
- (5) To supervise and inspect, according to law, the disclosure of information in connection with securities offering, listing and trading;
- (6) To guide and supervise the activities of the Securities Association according to law;
- (7) According to law, to investigate and deal with violations of laws and administrative regulations concerning the regulation of the securities market; and
- (8) Other functions prescribed in laws and administrative regulations.

The securities regulatory authority under the State Council may establish a cooperative mechanism of supervision and regulation with the securities regulatory authorities in other countries or regions so as to implement transnational regulation.

Article 180

When performing its functions according to law, the securities regulatory authority under the State Council shall have the power to adopt the following measures:

- (1) To conduct onsite inspection on issuers of securities, listed companies, securities companies, securities investment fund management companies, securities service organizations, stock exchanges and securities registration and clearing institutions;
- (2) To enter the site where an illegal act is committed to investigate and collect evidence;
- (3) To question the party concerned and any unit or individual connected with the event under investigation, and to require them to give explanations concerning matters connected with the event under investigation;
- (4) To inspect and make copies of the materials such as the registration of property right and communication records connected with the event under investigation;
- (5) To inspect and make copies of the securities trading records, records of registration of change in ownership, financial and accounting information and other relevant documents and materials of the party concerned and any unit or individual connected with the event under investigation, and to seal up documents or materials likely to be removed, concealed or destroyed;
- (6) To examine the fund accounts, securities accounts and bank accounts of the party concerned and any unit or individual connected with the event under investigation, and if there is evidence to substantiate signs that illegally obtained properties involved such as funds or securities have been or may be removed or concealed or important evidences have been or may be concealed, forged or destroyed, to freeze or seal up the same with the approval of the person chiefly held responsible of the securities regulatory authority under the State Council; and
- (7) When investigating the major illegal acts concerning securities such as manipulating the securities market or inside trading, to limit, with the approval of the person chiefly held responsible of the securities regulatory authority under the State Council, the securities purchasing or selling of the party involved in the event under investigation, provided that the limited time period shall not exceed 15 trading days; if the details of the case is complicated, the limited time period may be extended by 15 trading days.

Article 181

When the securities regulatory authority under the State Council conducts supervision, inspection or investigation during the lawful performance of their duties, the members conducting such supervision, inspection or investigation shall not be less than two persons, and shall produce the legal papers and written notice of supervision, inspection or

investigation. If such members are less than two persons or fail to produce the legal papers and written notice of supervision, inspection or investigation, the unit under such inspection or investigation may refuse the same.

Article 182

Members of the securities regulatory authority under the State Council shall perform their duties faithfully, do their work according to law and be impartial and honest. They shall not take advantage of their positions to seek illegitimate gains nor disclose the commercial secrets of relevant units or individuals which they become aware of.

Article 183

When the securities regulatory authority under the State Council performs its functions according to law, the units and individuals under inspection or investigation shall cooperate and provide truthful relevant documents and materials. Such units and individuals shall not refuse to cooperate, obstruct inspection or investigation or conceal relevant documents or materials.

Article 184

The rules and regulations and the regulatory work systems formulated according to law by the securities regulatory authority under the State Council shall be made public.

Decisions made by the securities regulatory authority under the State Council, on the basis of the results of its investigations, to impose penalties on illegal acts involving securities shall be made public.

Article 185

The securities regulatory authority under the State Council shall establish a regulation information sharing mechanism with other finance regulatory authorities under the State Council.

When the securities regulatory authority under the State Council conducts supervision, inspection or investigation during the lawful performance of their duties, the relevant departments shall cooperate with it.

Article 186

If, during the performance of its functions according to law, the securities regulatory authority under the State Council suspects that an illegal act involving securities discovered by it may constitute a criminal offence, it shall hand the case over to a judicial organ for it to handle.

Article 187

No members of the securities regulatory authority under the State Council may concurrently hold a position in an organization that is under the regulation of the authority.

Chapter 11 LEGAL LIABILITY

Article 188

Any unit that issues securities in a public or disguised public form without verification by the statutory authority shall be ordered to cease issuance and refund the funds thus raised together with bank deposit interest for the same period, and shall also be fined not less than one percent but not more than five percent of the amount of the illegally raised funds; the company that is established through the issuance of securities in a public or disguised public form without authorization shall be cancelled by the institution or department performing the regulatory functions in conjunction with the relevant people's government at or above the county level. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also be fined not less than RMB 30,000 but not more than 300,000.

Article 189

Where any issuer, in unconformity with the conditions for issuance, illegally obtains the verification of issuance by fraudulent means, if the securities have not been issued yet, the issuer shall be fined not less than RMB 300,000 but not more than RMB 600,000; if the securities have been issued, the issuer shall be fined not less than one percent but not more than five percent of the amount of the illegally raised funds. The persons directly in charge and the other persons directly responsible shall be fined not less than RMB 30,000 but not more than 300,000.

Any controlling shareholder or actual controller of the issuer that instigates the issuer to engage in the illegal acts as mentioned in the preceding paragraph shall be punished in accordance with the provisions of the preceding paragraph.

Article 190

Where a securities company underwrites or purchases or sells as an agent the securities publicly issued without verification, it shall be ordered to cease to underwrite or purchase or sell as an agent the securities, confiscated of its illegal gains and imposed upon a fine of not less than the amount of but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than RMB 300,000, it shall be fined not less than RMB 300,000 but not more than RMB 600,000. If any loss is caused to any investor thereby, the securities company shall bear the joint and several liability for the loss with the issuer. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning, disqualified for holding their offices or engaging in securities business and also be fined not less than RMB 30,000 but not more than 300,000.

Article 191

Any securities company that commits any of the following acts when underwriting securities shall be ordered to make a rectification, given a disciplinary warning, and confiscated of its illegal gains and may also be fined not less than RMB 300,000 but not more than RMB 600,000; if the circumstances are serious, its relevant business permit shall be suspended or cancelled. If any loss is caused thereby to any other securities underwriting organizations or

investors, it shall be liable for the loss according to law. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and may also be fined not less than RMB 30,000 but not more than 300,000; if the circumstances are serious, they shall be disqualified for holding their offices or engaging in securities business:

- (1) False or misleading advertising or other publicity and promotion activities;
- (2) Solicitation of securities underwriting business by means of unfair competition; or
- (3) Other acts in violation of the provisions on securities underwriting business.

Article 192

Any sponsor that issues a letter of sponsorship containing a falsehood, misleading statement or major omission or fails to perform its statutory functions shall be ordered to make a rectification, confiscated of business incomes, and also fined not less than the amount of but not more than five times the business incomes; if the circumstances are serious, its relevant business permit shall be suspended or cancelled. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not less than RMB 30,000 but not more than RMB 300,000; if the circumstances are serious, they shall be disqualified for holding their offices or engaging in securities business.

Article 193

Where any issuer, listed company or other obligor of information disclosure fails to disclose the information in accordance with relevant regulations or the information disclosed contains a falsehood, misleading statement or major omission, it shall be ordered by the securities regulatory authority to make a rectification, given a disciplinary warning and fined RMB 300,000 but not more than RMB 600,000. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also fined not less than RMB 30,000 but not more than RMB 300,000.

If any issuer, listed company or other obligor of information disclosure fails to submit the relevant reports in accordance with the relevant provisions, or the reports submitted contain a falsehood, misleading statement or major omission, the securities regulatory authority shall order it to take remedial measures and impose on it a fine of not less than RMB 300,000 but not more than RMB 600,000. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also fined not less than RMB 30,000 but not more than RMB 300,000.

Where any controlling shareholder or actual controller of any issuer, listed company or other obligor of information disclosure instigates the same to engage in the illegal acts as mentioned in the preceding two paragraphs, shall be punished in accordance with the provisions of the preceding two paragraphs.

Article 194

Any issuer or listed company that changes without authorization the purpose of the funds raised through public issuance of securities shall be ordered to make a rectification, and the persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also fined not less than RMB 30,000 but not more than RMB 300,000.

Where any controlling shareholder or actual controller of any issuer or listed company instigates the issuer or listed company to engage in the illegal acts as mentioned in the preceding paragraph, it shall be given a disciplinary warning and also fined not less than RMB 300,000 but not more than RMB 600,000. The persons directly in charge and the other persons directly responsible shall be punished in accordance with the provisions of the preceding paragraph.

Article 195

Where any director, supervisor or senior executive of a listed company or any shareholder of a listed company holding five percent or more of the shares of the company purchases or sells the shares of the company in violation of the provisions of Article 47 of this Law, he shall be given a disciplinary warning and may also be fined not less than RMB 30,000 but not more than RMB 300,000.

Article 196

If anyone illegally establishes a securities exchange, the people's government at or above county level shall close down the exchange, confiscate any illegal gains and impose a fine of not less than the amount of but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than RMB 100,000, a fine of not less than RMB 100,000 but not more than RMB 500,000 shall be imposed upon. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also fined not less than RMB 30,000 but not more than RMB 300,000.

Article 197

If anyone establishes a securities company without approval or illegally operates securities business, the securities regulatory authority shall have it closed down, confiscate any illegal gains and impose a fine of not less than the amount of but not more than five times the illegal gains. If there are no illegal gains or the illegal gains are less than RMB 300,000, a fine of not less than RMB 300,000 but not more than 600,000 shall be imposed. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also fined not less than RMB 30,000 but not more than RMB 300,000.

Article 198

Any unit that, in violation of the provisions of this Law, engages any person having no the capacity for holding his office or engaging in business securities shall be ordered by the securities regulatory authority to make a rectification, given a disciplinary warning and may also be fined not less than RMB 100,000 but not more than RMB 300,000; The persons directly in charge and the other persons directly responsible shall be given a disciplinary

warning and may also be fined not less than RMB 30,000 but not more than RMB 100,000.

Article 199

If anyone who is prohibited by laws or administrative regulations from participating in share trading holds, purchases or sells shares directly or under an assumed name or in the name of another, he shall be ordered to dispose of the illegally held shares according to law, his illegal gains shall be confiscated and he shall also be imposed a fine of not more than the value of the shares purchased or sold. If the offender is a State functionary, administrative sanctions shall, in addition, be imposed on him according to law.

Article 200

If an employee of a stock exchange, securities company, securities registration and clearing institution or securities service organization, or a staff member of the Securities Association intentionally provides false information, conceal, forges, alters or destroys trading records or inveigle investors into purchasing or selling shares, his professional qualifications shall be revoked and a fine of not less than RMB 30,000 but not more than RMB 100,000 shall be imposed. If the offender is a State functionary, administrative sanctions shall, in addition, be imposed according to law.

Article 201

If, in violation of the provisions in Article 45 of this Law, a securities service organization or individual that produces documents such as audit reports, asset appraisal reports or legal opinions for the issuance, listing or trading of shares purchases or sells shares, it or he shall be ordered to dispose of the illegally obtained shares according to law, the illegal gains shall be confiscated and a fine of not more than the value of the shares purchased or sold shall, in addition, be imposed.

Article 202

If, before information that may affect the issuance or trading of securities or other information that may have a major effect on the price of securities is made public, a person who has knowledge of inside information on securities trading or a person who illegally obtains such information purchases or sells such securities, divulges such information or counsels another to purchase or sell such securities, he shall be ordered to dispose of the illegally obtained securities according to law, his illegal gains shall be confiscated and, in addition, he shall be imposed a fine of not less than the amount of but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than RMB 300,000, it shall be fined not less than RMB 300,000 but not more than RMB 600,000. In case of a unit engaging in the insider trading, the persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and may also be fined not less than RMB 30,000 but not more than RMB 300,000. If a staff member of the securities regulatory authority engages in insider trading, he shall be given a heavier punishment.

Article 203

If anyone, in violation of the provisions of this Law, manipulates the securities market, he

shall be ordered to dispose of the securities illegally held by him, his illegal gains shall be confiscated and he shall be fined not less than the amount of but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than RMB 300,000, he shall be fined not less than RMB 300,000 but not more than RMB 3,000,000. If the offender is a unit, the persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not less than RMB 100,000 but not more than RMB 600,000.

Article 204

If any unit, in violation of the provisions of this Law, purchases or sells securities within the time period of prohibited transfer of securities, it shall be ordered to make a rectification, given a disciplinary warning and fined not more than the value of the shares purchased or sold illegally. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and may also be fined not less than RMB 30,000 but not more than RMB 300,000.

Article 205

If a securities company, in violation of the provisions of this Law, sells for a client securities that are not actually in the client's account or provides funds for a client to purchase securities, its illegal gains therefrom shall be confiscated, its relevant business permit shall be suspended or cancelled, and a fine equal to the value of the securities illegally purchased or sold shall be imposed on it. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning, disqualified for holding their offices or engaging in securities business, and also fined not less than RMB 30,000 but not more than 300,000.

Article 206

If anyone, in violation of the provisions of paragraph 1 or 3 of Article 78 of this Law, disrupts the securities market, he shall be ordered by the securities regulatory authority to make a rectification, confiscated of his illegal gains and also fined not less than the amount of but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than RMB 300,000, he shall be fined not less than RMB 30,000 but not more than RMB 200,000.

Article 207

If anyone, in violation of the provisions of paragraph 2 of Article 78 of this Law, makes false statement or provides misleading information, he shall be ordered to make a rectification and fined not less than RMB 30,000 but not more than RMB 200,000; If the offender is a State functionary, administrative sanctions shall, in addition, be imposed according to law.

Article 208

If a legal person, in violation of the provisions of this Law, opens an account to deal in securities in the name of an individual, it shall be ordered to make rectification, the illegal gains shall be confiscated and a fine of not less than the amount of but not more than five times the illegal gains shall be imposed; if there are no illegal gains or the illegal gains are less than RMB 300,000, it shall be fined not less than RMB 300,000 but not more than RMB

300,000. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also fined not less than RMB 30,000 but not more than RMB 100,000.

If a securities company provides its own or others securities trading accounts for the illegal acts as mentioned in the preceding paragraph, it shall be punished according to the provisions of the preceding paragraph, and, in addition, the persons directly in charge and the other persons directly responsible shall be disqualified for holding their offices or engaging in securities business.

Article 209

If a securities company, in violation of the provisions of this Law, engages in business on its own account in the name of another or in the name of an individual, it shall be ordered to make rectification, its illegal gains shall be confiscated, and it shall be fined not less than the amount of but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than RMB 300,000, it shall be fined not less than RMB 300,000 but not more than RMB 600,000. If the circumstances are serious, its securities business permit on its own account shall be suspended or cancelled. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning, disqualified for holding their offices or engaging in securities business and fined not less than RMB 30,000 but not more than RMB 100,000.

Article 210

If a securities company deals in securities or handles trading matters contrary to a client's instructions, or handles non-trading matters contrary to the client's authentic declaration of intention, it shall be ordered to make a rectification and fined not less than RMB 10,000 but not more than 100,000. If it causes losses to the client, it shall be liable for the losses according to law.

Article 211

If, a securities company or securities registration and clearing institution misappropriates the funds or securities in a client's account, or without the client's instruction, purchases or sells securities for the client, it shall be ordered to make a rectification, the illegal gains shall be confiscated, a fine of not less than the amount of but not more than five times the illegal gains shall be imposed; if there are no illegal gains or the illegal gains are less than RMB 100,000, it shall be fined not less than RMB 100,000 but not more than RMB 600,000; if the circumstances are serious, it shall be ordered to close down or its relevant business permit shall be cancelled. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning, disqualified for holding their offices or engaging in securities business and fined not less than RMB 30,000 but not more than RMB 300,000.

Article 212

If, when handling brokerage business, a securities company accepts unlimited authorization by a client to purchase or sell securities or gives a commitment to a client concerning profits

from the purchase or sale of securities or compensation for losses from the purchase or sale of securities, it shall be ordered to make a rectification, confiscated of its illegal gains, fined not less than RMB 50,000 but not more than RMB 200,000 and its relevant business permit may be suspended or cancelled. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not less than RMB 30,000 but not more than RMB 100,000 and may be disqualified for holding their offices or engaging in securities business.

Article 213

If a purchaser, in violation of the provisions of this Law, fails to perform the obligations of announcing the takeover of a listed company, sending takeover offer or submitting the report on takeover of a listed company or changes the takeover offer without authorization, it shall be ordered to make a rectification, given a disciplinary warning and fined not less than RMB 100,000 but not more than RMB 300,000; before it makes the rectification, it shall not exercise the voting rights of the portion in excess of 30 percent of the shares of the company under takeover held or jointly held by it with others through agreement or other arrangements. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not less than RMB 30,000 but not more than RMB 300,000.

Article 214

If a purchaser or any of its controlling shareholders, by taking advantage of the takeover of a listed company, damages the legitimate rights and interests of the company under takeover and its shareholders, it or he shall be ordered to make a rectification and given a disciplinary warning. If the circumstances are serious, a fine of not less than RMB 100,000 but not more than RMB 600,000 shall also be imposed. If any loss is caused thereby to the company under takeover and its shareholders, the offender shall be liable for the loss according to law. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not less than RMB 30,000 but not more than RMB 300,000.

Article 215

If a securities company or one of its employees, in violation of the provisions of this Law, privately accepts instructions from a client to purchase or sell securities, it shall be ordered to make a rectification, given a disciplinary warning, the illegal gains shall be confiscated and a fine of not less than the amount of but not more than five times the illegal gains shall be imposed; if there are no illegal gains or the illegal gains are less than RMB 100,000, it shall be fined not less than RMB 100,000 but not more than RMB 300,000

Article 216

If a securities company, in violation of the provisions of this Law, engages, without approval, in the trading of unlisted securities, it shall be ordered to make a rectification, its illegal gains shall be confiscated, and it shall be fined not less than the amount of but not more than five times the illegal gains.

Article 217

If a securities company, after its establishment, fails to commence business without justifiable reason or, after having commenced business, it suspends business on its own for a period of not less than three months running, its corporate business license shall be revoked by the company registration organ.

Article 218

If a securities company, in violation of Article 129 of this Law, without approval, establishes, purchases, cancels branches, or merges, divides, stops doing business, dissolves, or gets bankrupt, or establishes, purchases or participate in any securities business organization, it shall be ordered to make a rectification, confiscated of the illegal gains, and fined not less than the amount of but not more than five times the illegal gains. If there are no illegal gains or the illegal gains are less than RMB 100,000, it shall be fined not less than RMB 100,000 but not more than RMB 600,000. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not less than RMB 30,000 but not more than RMB 100,000.

If a securities company, in violation of the provisions of Article 129 of this Law, changes the relevant matters without approval, it shall be ordered to make a rectification and fined not less than RMB 100,000 but not more than RMB 30,000. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not more than RMB 50,000.

Article 219

If a securities company, in violation of the provisions of this Law, engages in securities business beyond the scope of business permitted, it shall be ordered to make a rectification, its illegal gains shall be confiscated, and it shall be fined not less than the amount of but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than RMB 300,000, it shall be fined not less than RMB 300,000 but not more than RMB 600,000. If the circumstances are serious, the securities company shall be ordered to close down. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning, disqualified for holding their offices or engaging in securities business and fined not less than RMB 30,000 but not more than RMB 100,000.

Article 220

If a securities company that operates at the same time securities brokerage business, securities underwriting business, securities business on its own account and securities assets management business fails to keep any two types of business separate from each other according to law and operates them together, it shall be ordered to make a rectification, its illegal gains shall be confiscated, and it shall be fined not less than RMB 300,000 but not more than RMB 600,000; if the circumstances are serious, its relevant business permit shall be revoked. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not less than RMB 30,000 but not more than RMB 100,000; if the circumstances are serious, they shall be disqualified for holding their offices or engaging in securities business

Article 221

If a unit submits sham supporting documents or conceals major facts by other fraudulent means to and thus obtains a securities business permit by deception, or if a securities company commits a serious illegal act in the course of securities trading so that it is no longer qualified to operate such business, the securities regulatory authority shall revoke its securities business permit.

Article 222

If a securities company or any of its shareholders or actual controllers, in violation of the relevant provisions, refuses to submit or provide to the securities regulatory authority the information and materials on its operation and management, or such information and materials submitted or provided contain false records, misleading statement or major omission, it shall be ordered to make a rectification, given a disciplinary warning, fined not less than RMB 30,000 but not more than RMB 300,000, and relevant business permit of the securities company may be suspended or revoked. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also fined not more than RMB 30,000, and may be disqualified for holding their offices or engaging in securities business.

If a securities company provides funds or guarantee to any of its shareholders or any affiliate of such shareholders, it shall be ordered to make a rectification, given a disciplinary warning, and fined not less than RMB 100,000 but not more than RMB 300,000. The persons directly in charge and the other persons directly responsible shall be fined not less than RMB 30,000 but not more than RMB 100,000. if any of such shareholders has fault, the securities regulatory authority under the State Council may, before he makes a rectification according to the requirements, limit his shareholder's rights; if he refuses to make the rectification, he may be ordered to transfer the share ownership of the securities company held by him.

Article 223

If a securities service organization fails to be due diligent and the documents made or produced by it contain false records, misleading statements or major omission, it shall be ordered to make a rectification, confiscated of its business incomes, its securities service business permit shall be suspended or revoked, and is shall also be fined not less than the amount of but not more than five times the business incomes. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning, revoked of their securities professional qualification, and also fined not less than RMB 30,000 but not more than RMB 100,000.

Article 224

Whoever issues or underwrites corporate bonds in violation of the provisions of this Law shall be punished by the department authorized by the State Council in accordance with the relevant provisions of this Law.

Article 225

If a listed company, securities company, stock exchange, securities registration and clearing institution, or securities service organization fails to keep the relevant documents and materials in accordance with the relevant provisions, it shall be ordered to make a rectification, given a disciplinary warning, and fined not less than RMB 30,000 but not more than RMB 300,000; if the offender conceals, forges, alters or destroys the relevant documents and materials, it shall be given a disciplinary warning and fined not less than RMB 30,000 but not more than RMB 600,000.

Article 226

If a securities registration and clearing institution is established without approval of the securities regulatory authority under the State Council, the securities regulatory authority shall close down the same, confiscate its illegal gains and impose on it a fine of not less than the amount of but not more than five times the illegal gains.

If an investment consulting organization, financial advice organization, credit-rating institution, assets appraisal organization or accountant's firm engages in securities service business without approval, it shall be ordered to make a rectification, confiscated of the illegal gains and fined not less than the amount of but not more than five times the illegal gains.

If a securities registration and clearing institution or a securities service organization violates the provisions of this Law or the business rules formulated according to law, the securities regulatory authority shall order it to make a rectification, confiscate its illegal gains and impose on it a fine of not less than the amount of but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than RMB 100,000, it shall be fined not less than RMB 100,000 but not more than RMB 300,000; if the circumstances are serious, it shall be ordered to close down or its securities service business permit shall be revoked.

Article 227

If the securities regulatory authority under the State Council or a department authorized by the State Council is under any of the following conditions, the persons directly in charge and the other persons directly responsible shall be given administrative sanctions according to law:

- (1) To verify or approve an application for issuing of securities or establishment of securities companies that does not conform to the provisions of this Law;
- (2) In violation of the relevant provisions, to take such measures as onsite inspection, investigation and collection of evidences, enquiry, freeze up or seal up as provided for in Article 180 of this Law.
- (3) In violation of the relevant provisions, to impose administrative sanctions upon the relevant organs or persons; or
- (4) To conduct any acts of failure in performance of its functions according to law.

Article 228

If a staff member of the securities regulatory authority or a member of the issuance examination commission fails to perform his duties prescribed in this Law, abuses his powers, neglects his duties, seeks illegitimate benefits by taking advantage of his position, or discloses the business secrets of the relevant unit or individual which he becomes aware of, he shall be investigated for legal liabilities according to law.

Article 229

If a stock exchange approves the application for listing of securities in unconformity with the conditions as provided for in this Law, it shall be given a disciplinary warning, confiscated of the business incomes, and fined not less than the amount of but not more than five times the business incomes. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and fined not less than RMB 30,000 but not more than RMB 300,000.

Article 230

If a person, without resorting to violence or threat, prevents or obstructs the securities regulatory authority or its staff members from or in lawfully exercising their functions and powers of regulation, inspection and investigation, such person shall be given an administrative penalty for public security.

Article 231

If any offence, in violation of the provisions of this Law, constitutes a crime, the criminal liability shall be investigated according to law.

Article 232

If the property of a person, who violates the provisions of this Law and who therefore bears civil liability for damages and is required to pay a fine or criminal fine, is insufficient to pay both the damages and the fine, such person shall first bear the civil liability for damages.

Article 233

If anyone violates laws, administrative regulations or the relevant provisions of the securities regulatory authority under the State Council and the circumstances are serious, the securities regulatory authority under the State Council may, against the relevant responsible persons, take the measure of banning them access to the securities market.

"Banning access to the securities market" as referred to in the preceding paragraph shall mean the system that the relevant responsible persons shall not engage in securities business or shall not act as any director, supervisor or senior executive of a listed company within a stipulated time period or even for life.

Article 234

All fines and illegal gains collected pursuant to this Law shall be turned over to the State treasury.

Article 235

If a person concerned is dissatisfied with a punishment decision of the securities regulatory authority or the department authorized by the Stated Council, such person may apply for administrative reconsideration or directly institute legal proceedings in a People's Court according to law.

Chapter 12 SUPPLEMENTARY PROVISIONS

Article 236

Securities whose listing on a stock exchange was approved pursuant to administrative regulations before this Law comes into effect shall continue to be traded according to law.

Securities business institutions which were established upon approval pursuant to administrative regulations and regulations of the administrative department for finance under the State Council before this law comes into effect and which do not fully conform to the provisions of this Law shall meet the requirements prescribed in this Law within the specified time limit. Specific measures in this respect shall be formulated separately by the State Council.

Article 237

When an issuer applies for verification of public issuance of shares or corporate bonds, it shall pay the expenses for examination and approval according to the relevant provisions.

Article 238

If an enterprise within the territory of China is to directly or indirectly issue shares or have its shares listed and traded outside the territory of China, it shall be subject to the approval of the securities regulatory authority under the State Council according to the provisions of the State Council.

Article 239

If the shares of an enterprise within the territory of China are subscribed for and traded in foreign currencies, the specific measures therefor shall be stipulated separately by the State Council.

Article 240

This Law shall come into effect as of January 1, 2006.