

Order of the President of the People's Republic of China

No.12

The Securities Law of the People's Republic of China, adopted at the 6th Meeting of the Standing Committee of the Ninth National People's Congress of the People's Republic of China on December 29,1998,is hereby promulgated and shall go into effect as of July 1,1999.

Jiang Zemin

President of the People's Republic of China

December 29,1998

Securities Law of the People's Republic of China

(Adopted at the 6th Meeting of the Standing Committee of the Ninth National People's Congress on December 29, 1998)

■ Chapter I 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 are lawfully recognized by the State Council. Where their issuing and trading are not covered by this Law, the provisions of the Company Law and other laws and administrative regulations shall apply.

The issuing and trading of government bonds shall be separately provided for in laws and administrative regulations.

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 trading market are prohibited.

Article 6 Securities business shall be engaged in and administered as a business separate from the banking business, trust business and insurance business. 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 Industry 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 II 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 or examination and approval. No unit or individual may make a public offer of securities if the same has not been verified or examined and approved according to law.

Article 11 Public offers of shares shall, in compliance with the conditions provided for in the Company law, be reported to the securities regulatory authority under the State Council for verification. The issuer shall submit to the said authority the application documents prescribed in the Company Law and the relevant documents specified by the authority.

The issuing of corporate bonds shall, in compliance with the conditions provided for in the Company Law, be reported to the department authorized by the State Council for examination and approval. The issuer shall submit to the department authorized by the State Council the application documents prescribed in the Company Law and the relevant documents specified by the said department.

Article 12 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 prescribed by the authority or department legally responsible for verification or examination and approval.

Article 13 The application documents for the issuing 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.

Professional institutions and individuals that produce relevant documents for the issuance of securities shall strictly perform their statutory duties and warrant the truthfulness, accuracy and completeness of the documents that they produce.

Article 14 In the securities regulatory authority under the State Council an issuance examination commission shall be established to examine according to law 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 and submitted to the State Council for approval.

Securities Law of the People's Republic of China

Article 15 The securities regulatory authority under the State Council shall, in accordance with the statutory conditions, be responsible for verification of applications for issuance of shares. The verification procedures shall be made public and shall be subject to supervision according to law.

The persons involved in the verification of an application for issuance of shares may not have any interests to share with or accept gifts from the applicant, or hold shares the application for the issuance of which they have verified, or have any private contact with the applicant.

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

Article 16 The securities regulatory authority under the State Council or the department authorized by the State Council shall make a decision on application documents for the issuing of securities within three months from the date of acceptance of the same. If it refuses to verify the application documents or to grant approval to the same upon examination, it shall state its reasons.

Article 17 Once an application for issuance of securities has been verified or 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 18 If the securities regulatory authority under the State Council or the department authorized by the State Council discovers that a decision it has made to verify or approve upon examination the issuing of securities does not conform to the provisions of laws or administrative regulations, it shall revoke the decision. If the relevant securities have not yet been issued, they shall be kept from being issued; if they have already been issued, the holders of the securities may require the issuer to refund their money at the issue price plus bank deposit interest for the same period.

Article 19 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 20 To issue new shares, listed companies shall meet the conditions provided for in the Company Law for the issuance of new shares. Such shares may be issued in the form of a public offer or be rationed among existing shareholders.

Securities Law of the People's Republic of China

The proceeds of a share issue by a listed company shall be used in adherence to the purpose of the funds as described in the share prospectus. Any change in the purpose of the funds described in the share 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.

Article 21 Securities companies shall, in accordance with the provisions of laws and administrative regulations, underwrite the securities to be issued to the public by issuers. Securities shall be underwritten on an agency basis or on a sole agency basis.

"Underwriting securities on an agency basis " means 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.

"Underwriting securities on a sole agency basis," means 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 22 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 may not solicit securities underwriting business by means of unfair competition.

Article 23 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 on an agency basis or on a sole agency basis;
- (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 24 To underwrite securities, a securities company shall examine the truthfulness, Accuracy and completeness of the public offer documents. If it finds any falsehoods, misleading statements or major omissions in such documents, it may 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.

Securities Law of the People's Republic of China

Article 25 Securities to be offered to the public with a total face value exceeding RMB 50 million yuan 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 26 The maximum period for underwriting securities on an agency basis or on a sole agency basis shall be 90 days.

During the period for securities underwritten on an agency basis or on a sole agency basis, securities companies shall ensure that such securities are first sold to subscribers. Securities companies may not reserve, in advance, for themselves securities which they underwrite as agents, or purchase, in advance, and retain securities which they underwrite as the sole agents.

Article 27 Securities companies that underwrite securities as the sole agents, shall within 15 days after the expiration of the period for underwriting as the sole agents, report the details of such underwriting to the securities regulatory authority under the State Council for the record.

Securities companies that underwrite securities as agents shall, in conjunction with the issuer and within 15 days after the expiration of the period for underwriting as agents, report the details of such underwriting to the securities regulatory authority under the State Council for the record.

Article 28 Where shares are issued at premium, the issue price shall be determined through consultation between the issuer and the securities underwriting company and reported to the securities regulatory authority under the State Council for verification.

Article 29 Enterprises in China that intend to directly or indirectly issue securities abroad or to list their securities for trading abroad shall be subject to approval by the securities regulatory authority under the State Council

■ Chapter III Trading of Securities

Section 1 General Regulations

Article 30 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 may not be purchased or sold.

Article 31 Where the transfer of shares, corporate bonds and other securities issued according to law is prohibited by law within a certain period, they may not be purchased or sold during the period.

Article 32 Share, corporate bonds and other securities that have been lawfully approved for trading shall be quoted and traded on stock exchanges.

Article 33 Securities that are quoted and traded on stock exchanges shall be traded in the manner of public, centralized trading at competing prices.
Centralized competitive pricing for securities trading shall follow the principle of price precedence and time precedence.

Article 34 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 35 Securities trading shall take the form of spot transaction.

Article 36 Securities companies may not engage in securities trading activities that are financed by funds or securities obtained from their clients.

Article 37 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 and administrative regulations from participating in share trading may not, while in office or during 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 he is holding.

Article 38 Stock exchanges, securities companies and securities registration and clearing institutions shall, in accordance with law, keep confidential the accounts opened for their clients.

Securities Law of the People's Republic of China

Article 39 Professional institutions and individuals that produce documents such as audit reports, asset appraisal reports and legal opinions for share issuance may not purchase or sell the shares in question during the underwriting period for such shares and for a period of six months after the expiration thereof.

In addition to the provisions of the preceding paragraph, professional institutions and individuals that produce documents such as audit reports, asset appraisal reports and legal opinions for listed companies may not purchase or sell the shares in question from the date on which they accept the entrustment by the listed company to the sixth day after the said documents are made public.

Article 40 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 relevant administrative department under the State Council in a unified manner.

Article 41 A shareholder that holds 5 percent of the shares issued by a company limited by shares shall, within three days from the date on which the number of shares held by him reaches this percentage, report the same to the company, which shall, within three days from the date on which it receives the report, report the same to the securities regulatory authority under the State Council. If the company is a listed company, it shall report the matter to the stock exchange at the same time.

Article 42 If the shareholder described in the preceding Article sells, within six months of purchase, the shares he holds of the said company or repurchases the shares within six months after selling the same, the earnings so obtained by the shareholder 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 not less than 5 percent due to purchase of the remaining shares not he capacity of a company that underwrites as the sole agent 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 other shareholders shall have the right to require the board of directors to comply.

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

Section 2 Listing of Securities

Article 43 Before a company limited by shares applies for listing of its shares, it shall report to the securities regulatory authority under the State Council for verification.

The securities regulatory authority under the State Council may authorize a stock exchange, pursuant to the statutory conditions and procedures, to verify the application for share listing.

Article 44 The State encourages companies that conform to industrial policies and meet the conditions for listing to have their shares listed.

Article 45 When applying for share listing to the securities regulatory authority under the State Council, the company shall provide the following documents:

- (1) the listing report;
- (2) the resolution adopted at the shareholders' general meeting concerning the application for listing;
- (3) the company's articles of association;
- (4) the company's business license;
- (5) the financial and accounting reports of the company for the last three years, or since establishment, verified by the statutory verification authority;
- (6) legal opinions in writing, and a letter of recommendation from a securities company; and
- (7) the most recent share prospectus.

Article 46 After an application for share listing is verified by the securities regulatory authority under the State Council, the issuer shall submit to the stock exchange the verification document and the relevant documents specified in the preceding Article.

The stock exchange shall make arrangements for the listing and trading of the said shares within six months from the date of receiving the documents specified in the preceding paragraph and submitted by the issuer of the shares.

Article 47 After an application for share listing obtains consent from the stock exchange, the listed company shall, five days prior to the listing, announce the verified documents relating to the said share listing and make such documents available at designated places for the public to consult.

Article 48 In addition to announcing the listing application documents mentioned in the preceding Article, listed companies shall make the following matters known to the general public:

- (1) the date on which the shares are approved for trading on the stock exchange;
- (2) a name list of the 10 shareholders who hold the largest numbers of the shares in the company

Securities Law of the People's Republic of China

and the number of shares held by each of them;

(3) the names of the directors, supervisors, manager and related senior management persons, and particulars of their holding of the company's share and /or bonds.

Article 49 When a listed company ceases to meet the condition for listing prescribed in the Company Law, the listing of its shares shall be suspended or terminated in accordance with law.

Article 50 Companies that apply for listing and trading of corporate bonds to be issued by them shall be subject to verification by the securities regulatory authority under the State Council.

The securities regulatory authority under the State Council may authorize a stock exchange, pursuant to the statutory conditions and procedures, to verify an application for listing of corporate bonds.

Article 51 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 50 million yuan; 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 52 When applying for listing of corporate bonds to the securities regulatory authority under the State Council, the company shall provide 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; and
- (6) the number of corporate bonds to be actually issued.

Article 53 After an application for listing of corporate bonds is verified by the securities regulatory authority under the State Council, the issuer shall submit to the stock exchange the verification document and the relevant documents specified in the preceding Article.

The stock exchange shall make arrangements for the listing and trading of the said bonds within three months from the date of receiving the documents specified in the preceding paragraph and submitted by the issuer of the bonds.

Article 54 After an application for listing of corporate bonds obtains consent from the stock exchange, the issuer shall, five days prior to the listing of the corporate bonds, announce its report for

Securities Law of the People's Republic of China

listing of the corporate bonds, the verification document and the documents relating to its application for the listing and make its application documents available at the designated places for the public to consult.

Article 55 After corporate bonds are listed, the securities regulatory authority under the State Council may decide to suspend their listing:

- (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 proceeds of the corporate bond issuance are not used for purposes approved by the examination and approval authority;
- (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 56 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 securities regulatory authority under the State Council shall decide to terminate the listing of the company's bonds.

If a company is dissolved, lawfully ordered to close down or declared bankrupt, the stock exchange shall terminate the listing of the company's bonds and report the same to the securities regulatory authority under the State Council for the record.

Article 57 The securities regulatory authority under the State Council may authorize stock exchanges to lawfully suspend or terminate the listing of shares or corporate bonds.

Section 3 Continuing Disclosure of Information

Article 58 Pursuant to the Company Law, a share prospectus or measures for offer of corporate bonds shall be announced where shares are issued according to law upon verification by the securities regulatory authority under the State Council or where corporate bonds are issued according to law upon approval by the department authorized by the State Council. When new shares or corporate bonds are issued according to law, financial and accounting reports shall, in addition, be announced.

Article 59 The documents for the issuing and listing of shares or corporate bonds announced by companies shall be truthful, accurate and complete; they may not contain any falsehoods, misleading statements or major omissions.

Securities Law of the People's Republic of China

Article 60 Companies whose shares or 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 reports and business situation;
- (2) major litigation involving the company;
- (3) the particulars of any changes in the shares or corporate bonds already issued;
- (4) any 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 61 Companies whose shares or 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 annual report with the following contents and announce the same:

- (1) a brief account of the company's general situation;
- (2) the company's financial and accounting reports and business situation;
- (3) a brief introduction to the directors, supervisors, managers and the senior management persons and information with respect to their shareholdings;
- (4) the details of shares and corporate bonds already issued, including the name list of the 10 shareholders who hold the largest numbers of the shares in the company and the number of shares held by each of them; and
- (5) other matters specified by the securities regulatory authority under the State Council.

Article 62 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 the report the essence of the event shall be stated clearly.

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

- (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 exceeding 10 percent of the company's net assets;
- (6) a major change in the external conditions of the company's production or business;
- (7) a change in the chairman of the board of direction, not less than one - third of the directors or the manager of the company;

Securities Law of the People's Republic of China

- (8) a considerable change in the holdings of shareholders who each hold not less than 5 percent of the company's shares;
- (9) a decision made by the company to reduce its capital, to merge, to divide, to dissolve, or to 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 63 If the share prospectus, measures for offer of corporate bonds, financial or accounting report, listing report document, annual report, interim report or ad hoc report announced by an issuer or securities underwriting company contain or contains any falsehood, misleading statement or major omission, thus causing losses to investors in the course of securities trading, the issuer or the company shall be liable for the losses and the responsible director(s), supervisor(s) and/or the manager of the issuer or the company shall be jointly and severally liable for such losses.

Article 64 Announcements to be made in accordance with laws or administrative regulations shall be published in the newspapers, periodicals or the dedicated gazette specified by the relevant department of the State. In addition, such announcements shall be made available at the company's domicile and the stock exchange for the public to consult.

Article 65 The securities regulatory authority under the State Council shall supervise the annual reports, interim reports, ad hoc reports and announcements of listed companies, as well as the distribution or rationing of new shares of such companies.

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

Article 66 When the securities regulatory authority under the State Council disqualifies for listing a listed company that commits a major illegal act or does not meet other listing conditions, it shall announce the same without delay.

When a stock exchange, pursuant to its authorization, makes a decision as specified in the preceding paragraph, it shall, without delay, announce the decision and submit it to the securities regulatory authority under the State Council for the record.

Section 4 Prohibited Trading Activities

Article 67 Persons with knowledge of inside information on securities trading are prohibited to take advantage of such inside information to engage in securities trading.

Securities Law of the People's Republic of China

Article 68 The following persons are persons with knowledge of inside information on securities trading:

- (1) directors, supervisors, managers, deputy managers and other senior management persons concerned of companies that issue shares or corporate bonds;
- (2) shareholders who hold not less than 5 percent of the shares in a company;
- (3) the senior management persons of the holding company of a company that issues shares;
- (4) persons who are able to obtain company information concerning the trading of its securities by virtue of the positions they hold in the company;
- (5) staff members of the securities regulatory authority, and other persons who administer securities trading pursuant to their statutory duties;
- (6) the relevant staff members of public intermediary organizations who participate in securities trading pursuant to their statutory duties and the relevant staff members of securities registration and clearing institutions and securities trading service organizations; and
- (7) other persons specified by the securities regulatory authority under the State Council.

Article 69 Inside information is information that is not made public because, in the course of securities trading, it concerns the company's business 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 62 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 a company's director(s), supervisor(s), manager, deputy manager(s) or other senior management person(s);
- (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 70 No person with knowledge of inside information on securities trading of a company or other person who has illegally obtained such inside information may purchase the securities of the company or sell such securities he is holding, 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 a shareholder who holds not less than 5 percent of the company's shares, such provisions shall apply.

Securities Law of the People's Republic of China

Article 71 It is prohibited for anyone to obtain illegitimate benefits or to shift risks to others 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 trading prices of securities by other means.

Article 72 It is prohibited for state functionaries, employees of the news media and other persons concerned to fabricate and disseminate false information, thereby seriously affecting securities trading.

It is prohibited for stock exchanges, securities companies, securities registration and clearing institutions, securities trading service organizations and public intermediary organizations and their employees, as well as the Securities Industry Association and the securities regulatory authority and their staff members, 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 73 It is prohibited for securities companies and their employees to commit any of the following fraudulent acts in the course of securities trading that is 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 period of time;
- (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 in a client's account 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; or
- (6) any other act contrary to a client's authentic declaration of intention and detrimental to the client's interests.

Article 74 In the course of securities trading, it is prohibited for a legal person to open an account and purchase or sell securities in the name of an individual.

Article 75 In the course of securities trading, it is prohibited for anyone to misappropriate public funds to trade in securities.

Article 76 State - owned enterprises and enterprises where State - owned assets constitute a controlling interest may not speculate in listed shares.

Article 77 When stock exchanges, securities companies, securities registration and clearing institutions, securities trading service organizations, public intermediary 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 IV Takeover of Listed Companies

Article 78 A listed company may be taken over by offer or by agreement.

Securities Law of the People's Republic of China

Article 79 When, through securities trading at a stock exchange, an investor comes to hold 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 may not continue to purchase or sell shares of the listed company.

Once an investor holds 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 may not continue to purchase or sell shares of the listed company.

Article 80 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 81 When, through securities trading on a stock exchange, an investor comes to hold 30 percent of the issued shares of a listed company and continues to buy such shares, the investor shall, in accordance with law, 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.

Article 82 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, as specified in the preceding paragraph.

Article 83 The purchaser shall announce his takeover offer 15 days after the date on which,

Securities Law of the People's Republic of China

pursuant to the provisions in the preceding Article, he submits the report regarding the takeover of the listed company.

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

Article 84 During the effective term of a takeover offer, the purchaser may not withdraw his takeover offer.

If, during the effective term of a takeover offer, 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 85 All the terms proposed in the takeover offer shall apply to all the shareholders of the company to be taken over.

Article 86 Where, upon the expiration of the term of the takeover offer, the number of shares of the company under takeover held by the purchaser accounts for not less than 75 percent of the total number of the shares issued by the company, the listing and trading of the shares of the said company shall be terminated on the stock exchange.

Article 87 Where, upon the expiration of the term of the takeover offer, the number of shares of the company under takeover held by the purchaser accounts for not less than 90 percent of the total number of the shares issued by the company, the remaining holders of the shares of the said company shall have the right to sell their shares on the same terms 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 prescribed in the Company Law, it shall change its enterprise form according to law.

Article 88 In the case of takeover by offer, the purchaser, during the term of the takeover offer, may not buy or sell shares of the company under takeover in a way different from, or on terms in excess of, those as prescribed in the offer.

Article 89 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 may not be performed until the announcement is made.

Securities Law of the People's Republic of China

Article 90 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 the designated bank.

Article 91 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 six months following completion of the takeover.

Article 92 Where a person acquires the shares of a company through a takeover offer or takeover agreement and closes down the company so taken over, it is a case of merger, and the purchaser shall have the existing shares of the closed - down company replaced according to law.

Article 93 After conclusion 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 94 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 relevant department in charge in accordance with the regulations of the State Council.

■ Chapter V Stock Exchanges

Article 95 A stock exchange is a non-profit legal person that provides a place for the centralized trading of securities at competing prices.

Securities Law of the People's Republic of China

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

Article 96 To establish a stock exchange, articles of association shall be formulated.

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 97 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 98 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 shall belong to its members, and its rights and interests shall be shared by the members. The accumulated gains may not be distributed to the members while the stock exchange is in existence.

Article 99 A stock exchange shall have a board of governors.

Article 100 A stock exchange shall have a general manager, who shall be appointed and removed by the securities regulatory authority under the State Council.

Article 101 None of the persons described in Article 57 of the Company Law or in the following may hold a responsible position of a stock exchange:

- (1) responsible persons of stock exchanges or securities registration and clearing institutions and directors, supervisors and managers 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 statutory 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 102 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 may not be engaged by stock exchanges.

Article 103 Only securities companies that are qualified as members of a stock exchange may enter that stock exchange to participate in centralized trading at competing prices.

Article 104 An investor shall open a securities trading account with a securities company and shall

Securities Law of the People's Republic of China

instruct, in writing, by telephone or otherwise, the said company to purchase or sell securities on his behalf.

An investor who purchases or sells securities through the securities company where he has opened an account shall adopt the method of instruction to buy or sell at market prices or instruction to buy or sell subject to price limits.

Article 105 A securities company shall, in accordance with the investors' instructions and the rule of time precedence, declare orders and participate in centralized trading at competing prices at the stock exchange. 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 and handle the procedures for registration of the change in ownership of the securities.

Article 106 Securities purchased by securities companies upon instruction or on their own account may not be sold on the same day.

Article 107 Stock exchanges shall ensure fair centralized trading at competing prices, promptly announce quotations concerning the securities trading, compile securities market quotation tables for each day of trading, and announce the same.

Article 108 Stock exchanges shall, in accordance with laws and administrative regulations, handle matters relating to the suspension, resumption or termination of listings of shares or corporate bonds. The specific measures shall be formulated by the securities regulatory authority under the State Council.

Article 109 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 110 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 by causing such companies to disclose information promptly and accurately according to law.

Article 111 A stock exchange shall derive a certain proportion from its transaction fees,

Securities Law of the People's Republic of China

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 department under the State Council.

Article 112 A stock exchange shall deposit the trading guarantee fees collected by it and the risk fund in dedicated accounts with its bank and may not use the same without authorization.

Article 113 A stock exchange shall, pursuant to laws and administrative regulations governing securities, formulate specific rules for centralized securities trading at competing prices, administrative regulations for its members and operational rules for its employees, and submit the same to the securities regulatory authority under the State Council for approval.

Article 114 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 115 The transaction results of trading conducted in accordance with the trading rules formulated according to law may not be changed. Traders who violate the rules during trading may not be exempted from civil liability. Gains obtained from trading against the rules shall be dealt with pursuant to relevant regulations.

Article 116 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 VI Securities Companies

Article 117 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

Securities Law of the People's Republic of China

business without approval of the said authority.

Article 118 For purposes of this Law, "a securities company" means a limited liability company or a company limited by shares which, pursuant to the provisions of the Company Law and the preceding Article, is established with approval to engage in securities business.

Article 119 The State administers securities companies by dividing them into categories -- comprehensive securities companies and brokerage securities companies. The securities regulatory authority under the State Council shall, on the basis of the these categories, issue business permits to them.

Article 120 A securities company shall include the words "limited liability securities company " or "securities company limited by shares" in its name.

A brokerage securities company shall include the word "brokerage" in its name.

Article 121 The following conditions shall be satisfied for the establishment of a comprehensive securities company:

- (1) to have a minimum registered capital of 500 million yuan;
- (2) to have chief administrators and business persons who are qualified to engage in securities business;
- (3) to have a fixed place of business and up -to- standard trading facilities; and
- (4) to have a sound management system and a standardized system for the separate administration of business on its own account and brokerage business.

Article 122 The minimum registered capital of a brokerage securities company is 50 million yuan, the chief administrators and business persons of such a company shall be qualified to engage in securities business, and it shall have a fixed place of business, up-to-standard trading facilities and a sound management system.

Article 123 The establishment or closure of branches of a securities company, change in its scope of business, registered capital or articles of association, and merger, division, change in its corporate form, and its dissolution shall be subject to approval by the securities regulatory authority under the State Council.

Article 124 The total amount of external liabilities of a securities company may not exceed the prescribed multiple of its net assets, and the total amount of its current liabilities may not exceed a certain proportion of its total current assets. The specific multiple, proportion and administrative measures shall be prescribed by the securities regulatory authority under the State Council.

Article 125 None of the persons described in Article 57 of the Company Law or in the following may serve as director, supervisor or manager of a securities company:

Securities Law of the People's Republic of China

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

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

Article 126 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 may not be engaged by securities companies.

Article 127 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.

No director, supervisor, manager or business person of a securities company may concurrently hold a post in another securities company.

Article 128 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 129 Comprehensive securities companies may engage in the following securities business:

- (1) brokerage business;
- (2) securities business on its own account;
- (3) securities underwriting business; and
- (4) other business verified by the securities regulatory authority under the State Council.

Article 130 Brokerage securities companies are permitted only to engage in securities brokerage business.

Article 131 A securities company shall, on the basis of the lines of business specified in the preceding two Articles, submit an application for its scope of business to the securities regulatory authority under the State Council for verification.

No securities company may engage in securities business or other business beyond the scope of business verified.

Article 132 Comprehensive securities companies shall conduct their brokerage business separately from business operated on their own account. The business persons and financial accounts for one type

Securities Law of the People's Republic of China

of business shall be kept separate from those for the other type. The same business persons may not operate both types of business and the same accountants may not keep the financial accounts for both types of business.

Transaction clearing funds of a client shall be deposited in full with a designated commercial bank and a separate account shall be opened and managed as such. Misappropriation of a client's transaction clearing funds is strictly prohibited.

Article 133 The flow of bank funds into the stock market against regulations is prohibited.

When carrying out business on its own account, a securities company shall use its self-owned funds and funds raised according to law.

Article 134 Business on the account of a securities company itself shall be conducted in its own name, and may not be conducted in the name of another or in the name of an individual.

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

Article 135 Securities companies shall have the lawful right to operate independently, and their lawful operations shall be subjected to no interference.

Article 136 Where the registered capital of a securities company falls below the amount required to engage in the relevant business as prescribed in this Law, the securities regulatory authority under the State Council shall revoke its verification of the relevant scope of business.

Article 137 A securities company that, in securities trading, buys or sells securities on behalf of its clients or operates as an intermediary is a securities broker with the status of a legal person.

Article 138 When handling brokerage business, a securities company shall separately open a securities account and a funds account for a client, and shall manage the securities and funds delivered by the client under separate accounts and truthfully record transactions. It may not make sham entries.

To open an account, the client shall present lawful papers to show that he is a Chinese citizen or a Chinese legal person.

Article 139 To handle brokerage business, a securities company shall provide uniform letters of instruction for the trading of securities 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.

Securities Law of the People's Republic of China

Article 140 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. 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 141 Securities sold by a securities company upon acceptance of an instruction shall be securities actually held in the client's securities account. A securities company may not finance its clients' transactions by providing securities.

Securities purchased by a securities company upon acceptance of an instruction shall be paid with funds actually deposited in the client's funds account. A securities company may not finance its clients' transactions by providing funds.

Article 142 When handling brokerage business, a securities company may 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 143 A securities company may 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 144 A securities company and its employees may 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 145 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 therefore.

■ Chapter VII Securities Registration and Clearing Institutions

Article 146 A securities registration and clearing institution is a non-profit legal person that provides centralized registration, custody and clearing services for securities trading.

Securities Law of the People's Republic of China

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

Article 147 To be established, a securities registration and clearing institution shall meet the following conditions:

- (1) it has self-owned funds of not less than 200 million yuan;
- (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 148 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 business; and
- (7) other business approved by the securities regulatory authority under the State Council.

Article 149 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 150 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 may not use its clients' securities as collateral or lend them to others.

Article 151 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.

Securities Law of the People's Republic of China

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 may not forge, alter or destroy such register or records.

Article 152 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 153 A securities registration and clearing institution shall carefully preserve the original evidence relating to registration, custody and clearing. Important original evidence shall be kept for a period of not less than 20 years.

Article 154 A securities registration and clearing institution shall establish a clearing risk fund and deposit the money therein in a dedicated account at a designated bank. The clearing risk fund shall be used for any losses suffered by the securities registration and clearing institution as a result of 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 securities companies 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 155 The money in the securities clearing risk fund shall be controlled as earmarked money.

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

Article 156 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.

■ Chapter VII Securities Trading Service Organizations

Article 157 Professional securities investment consulting organizations and credit - rating institutions may be established, where they are needed for securities investment and trading business.

Securities Law of the People's Republic of China

The conditions for establishment of securities investment consulting organizations and credit - rating institutions, the examination and approval procedures and the business rules of such organizations and institutions shall be prescribed by the securities regulatory authority under the State Council.

Article 158 The business persons of professional securities investment consulting organizations and credit -- rating institutions shall be persons who are armed with professional knowledge of securities and have engaged in the securities 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 159 Employees of a securities investment consulting organization may 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; or
- (4) other activities prohibited by laws or administrative regulations.

Article 160 Professional securities investment consulting organization and credit-rating institutions shall charge service fees in accordance with the rates or measures prescribed by the relevant administrative department under the State Council.

Article 161 Professional institutions and individuals that produce documents such as audit reports, asset appraisal reports and legal opinions for the issuance or listing of securities or for securities trading activities shall do so in accordance with the working procedures prescribed in the rules of their profession. They shall check and verify the truthfulness, accuracy and completeness of the contents of the reports to be produced by them and shall bear joint and several liability for the parts of such reports for which they are responsible.

■ Chapter IX The Securities Industry Association

Article 162 The Securities Industry Association is a self-regulating organization for the securities industry and is a public organization with the status of a legal person.

Securities companies shall join the Securities Industry Association.

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

Article 163 The charter of the Securities Industry Association shall be formulated by its members' general assembly and submitted to the securities regulatory authority under the State Council for the record.

Article 164 The Securities Industry Association shall perform the following functions:

- (1) to assist the securities regulatory authority in enabling members to understand and implement 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 securities regulatory authority under the State Council.

Article 165 The Securities Industry Association shall have a board of governors. The members of the board of governors shall be elected as prescribed in the charter.

■ Chapter X Securities Regulatory Authority

Article 166 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

Securities Law of the People's Republic of China

same.

Article 167 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 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, 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 institutions, securities investment consulting organizations, credit - rating institutions, and those law firms, public accounting firms and asset appraisal organizations that are engaged in securities business;
- (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 and trading;
- (6) to guide and supervise the activities of the Securities Industry 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.

Article 168 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 enter the site where an illegal act is committed to investigate and collect evidence;
- (2) 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;
- (3) 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 or concealed; and
- (4) to examine the fund accounts and securities 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 funds or securities have been removed or concealed, to apply to a judicial organ to freeze the same.

Article 169 When members of the securities regulatory authority under the State Council conduct supervision, inspection or investigation during the lawful performance of their duties, they shall produce the relevant papers and be obligated to maintain the confidentiality of the commercial secrets of units or individuals which they become aware of .

Securities Law of the People's Republic of China

Article 170 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 may not take advantage of their positions to seek illegitimate gains.

Article 171 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 may not refuse to cooperate, obstruct inspection or investigation or conceal relevant documents or materials.

Article 172 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 173 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 offense, it shall hand the case over to a judicial organ for it to handle.

Article 174 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 XI Legal Liability

Article 175 Any unit that issues securities without verification or examination and approval by the statutory authority or that issues securities by forging issuing documents shall be ordered to cease issuance and refund the funds thus raised, together with bank deposit interest for the same period, and

Securities Law of the People's Republic of China

shall also be fined not less than 1 percent but not more than 5 percent of the amount of the illegally raised funds. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also be fined not less than 30,000 yuan but not more than 300,000 yuan. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 176 Where a securities company underwrites or deals as an agent in securities issued without verification or examination and approval, the securities regulatory authority shall have it closed down, 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. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also be fined not less than 30,000 yuan but not more than 300,000 yuan. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 177 Where the issuer of securities listed upon verification pursuant to this Law fails to disclose information in accordance with relevant regulations or the information disclosed contains a falsehood, misleading statement or major omission, the securities regulatory authority shall order the issuer to take remedial measures and impose on it a fine of not less than 300,000 yuan but not more than 600,000 yuan. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also be fined not less than 30,000 yuan but not more than 300,000 yuan. If the offense constitutes a crime, criminal liability shall be pursued according to law.

If the issuer mentioned in the preceding paragraph fails to announce its listing documents or submit the relevant reports on schedule, the securities regulatory authority shall order it to take remedial measures and impose on it a fine of not less than 50,000 yuan but not more than 100,000 yuan.

Article 178 If anyone illegally establishes a stock exchange, the securities regulatory authority shall close down the same, 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, a fine of not less than 100,000 yuan but not more than 500,000 yuan shall be imposed. The persons directly in charge and the other persons directly responsible shall be given a disciplinary warning and also be fined not less than 30,000 yuan but not more than 300,000 yuan. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 179 If anyone establishes a securities company and operates securities business without approval and a business permit, 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, a fine of not less than 30,000 yuan but not more than 100,000 yuan shall be imposed. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 180 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

Securities Law of the People's Republic of China

sold. If the offender is a State functionary, administrative sanctions shall, in addition, be imposed on him according to law.

Article 181 If an employee of a stock exchange, securities company, securities registration and clearing institution or securities trading service organization, or a staff member of the Securities Industry Association or the securities regulatory authority intentionally provides false information, 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 30, 000 yuan but not more than 50, 000 yuan shall be imposed. If the offender is a State functionary, administrative sanctions shall, in addition, be imposed according to law. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 182 If, in violation of the provisions in Article 39 of this Law, a professional institution or individual that produces documents such as audit reports, asset appraisal reports and legal opinions for the issuance or listing 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 183 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, or a fine of not more than the value of the securities illegally purchased or sold. If the offense constitutes a crime, criminal liability shall be pursued according to law.

If a staff member of the securities regulatory authority engages in insider trading, he shall be given a heavier punishment.

Article 184 If anyone, in violation of the provisions in Article 71 of this Law, obtains illegitimate benefits or shifts risks to others by manipulating securities trading prices or fabricating sham securities trading prices or securities trading volumes, 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 the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 185 If anyone, in violation of the provisions of this Law, purchases or sells securities by misappropriating public funds, 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 the offender is a State functionary, administrative sanctions shall, in addition, be imposed according to law. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Securities Law of the People's Republic of China

Article 186 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 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 and also be fined not less than 30, 000 yuan but not more than 300, 000 yuan. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 187 If a securities company, in violation of the provisions of this Law, sells the securities purchased on the same day upon a client's instruction or on its own account, its illegal gains shall be confiscated and a fine of not less than 5 percent but not more than 20 percent of the amount of the illegal securities transaction shall be imposed on it.

Article 188 Anyone who, by fabricating and disseminating false information that affects securities trading, disrupts the order of the securities trading market shall be fined not less than 30, 000 yuan but not more than 200, 000 yuan. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 189 If a stock exchange, securities company, securities registration and clearing institution, securities trading service organization or public intermediary organization or one of their employees, or the Securities Industry Association, the securities regulatory authority or one of their staff members makes a false statement or gives misleading information in the course of securities trading, the offender shall be ordered to set it to rights and be fined not less than 30, 000 yuan but not more than 200, 000 yuan. If the offender is a State functionary, he shall, in addition, be given administrative sanctions according to law. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 190 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 the persons directly in charge or the other persons directly responsible are State functionaries, they shall be given administrative sanctions according to law.

Article 191 If a comprehensive 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 the circumstances are serious, its business on its own account shall be stopped.

Article 192 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, and thus causes losses to the client, it shall be liable for losses according to law and be fined not less than 10, 000 yuan but not more than 100, 000 yuan.

Securities Law of the People's Republic of China

Article 193 If, without the client's instruction, a securities company, securities registration and clearing institution or one of their employees purchases, sells, misappropriates or lends securities in the client's account, uses the client's securities as collateral, or misappropriates the funds in the client's account, it or he shall be ordered to make 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, and the securities company or securities registration and clearing institution shall be ordered to close down, or the professional qualification certificate of the responsible person shall be revoked. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 194 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 rectification and shall be fined not less than 50,000 yuan but not more than 200,000 yuan.

Article 195 If anyone, in violation of the statutory procedures for the takeover of listed companies, gains illegitimate profits by taking advantage of the takeover of a listed company, the offender 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.

Article 196 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, 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.

Article 197 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 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 198 If, after its establishment, a securities company 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 199 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 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 the circumstances are serious, the securities company shall be ordered to close down.

Article 200 If a securities company that operates at the same time securities brokerage business

Securities Law of the People's Republic of China

and securities business on its own account fails to keep the two types of business separate from each other according to law and operates them together, 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 the circumstances are serious, the securities regulatory authority shall revoke the original verification of the securities business.

Article 201 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 and order it to close down.

Article 202 If a professional institution that produces documents such as audit reports, asset appraisal reports and legal opinions for the issuance or listing of securities or for securities trading activities makes false statements in the part of the contents for which it is responsible, its illegal gains shall be confiscated, it shall be fined not less than the amount of but not more than five times the illegal gains, and the relevant authority in charge shall order the said institution to suspend business and shall revoke the qualification certificates of the persons directly responsible therefor. If losses are caused, it shall bear joint and several liability for the losses. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 203 If a securities registration and clearing institution or a securities trading service organization is established without approval of the securities regulatory authority, 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 a securities registration and clearing institution or a securities trading service organization violates the provisions of this Law or the business rules uniformly formulated by the securities regulatory authority, the securities regulatory authority shall order it to make 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 the circumstances are serious, the securities regulatory authority shall order the securities registration and clearing institution or the securities trading service organization to close down.

Article 204 If the securities regulatory authority approves an application for offering or listing of securities that does not conform to the provisions of this Law or approves an application for establishment of a securities company, securities registration and clearing institution or securities trading service organization that does not meet the conditions prescribed in this Law, where the circumstances are serious, the persons directly in charge and the other persons directly responsible shall be given administrative sanctions according to law. If the offense constitutes a crime, criminal liability shall be pursued according to law.

Article 205 If a staff member of the securities regulatory authority or a member of the issuance

Securities Law of the People's Republic of China

examination commission fails to perform his duties prescribed in this Law, engages in malpractices for personal gain, neglects his duties, or intentionally creates difficulties for the parties concerned, he shall be given administrative sanctions according to law. If the offense constitutes a crime, his criminal liability shall be pursued according to law.

Article 206 If a unit issues or underwrites corporate bonds in violation of the provisions of this Law, the department authorized by the State Council shall impose penalties on it in accordance with the provisions in Articles 175, 176 and 202 of this Law.

Article 207 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, is insufficient to pay both the damages and the fine, such person shall first bear the civil liability for damages.

Article 208 If a person, by violence or threat, obstructs the securities regulatory authority in the lawful exercise of its functions and powers of regulation and inspection, his criminal liability shall be pursued according to law. 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 and inspection, such person shall be punished in accordance with the Regulations on Administrative Penalties for Public Security.

Article 209 All the illegal gains from, and fines for, illegal offering and trading of securities which are confiscated and imposed pursuant to this Law shall be turned over to the State treasury.

Article 210 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 reconsideration by or directly institute legal proceedings in a People's Court according to law.

■ Chapter XII Supplementary Provisions

Article 211 Securities whose listing on a stock exchange was approved pursuant to administrative regulations before this Law goes into effect shall continue to be traded according to law.

Securities Law of the People's Republic of China

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 goes 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 212 The measures required to implement the provisions of this Law concerning the funds for clearing of clients' transactions shall be prescribed separately by the State Council.

Article 213 Specific measures in respect of shares of companies in China which are to be subscribed and traded in foreign currencies by persons and organizations outside of China shall be formulated separately by the State Council.

Article 214 This Law shall go into effect as of July 1, 1999.