

# 「Law of the People's Republic of China on Securities」

[Law, 2005.8.31., Revised]

## Chapter I General Provisions

Article 1 This Law is enacted for the purpose of regulating the issuing and trading of securities, protecting the lawful rights and interests of investors, safeguarding the economic order and public interests of the society, and promoting the socialist market economy.

Article 2 Within the territory of the People's Republic of China, this Law is applicable to the issuing and trading of shares, corporate bonds and such other securities as may be so described by the State Council pursuant to law; where not stipulated hereunder, the provisions of the Companies Law of People's Republic of China and other laws and administrative regulations shall govern.

This Law shall be applicable to the listing and trading of government bonds and units of securities investment funds; where otherwise stipulated under other laws or administrative regulations, the provisions thereof shall be applicable.

The regulatory measures for the issuing and trading of the derivative

varieties of securities shall be formulated by the State Council in adherence to the principles of this Law.

Article 3 The principles of openness, fairness and justice must be carried out in issuing and trading securities.

Article 4 All parties involved in the issuing and trading of securities shall stand equally in law and shall observe the principles of free will, compensation and honesty and trustworthiness.

Article 5 Securities shall be issued and traded in conformity with laws and administrative regulations. Fraud, insider trading and manipulation of the securities market are prohibited.

Article 6 The operation and administration of the securities industry shall be separated from the operation and administration of the industries of banking, trust and insurance and securities companies shall be established individually and separately from the institutions of banking, trust and insurance businesses, unless otherwise stipulated by the State.

Article 7 The securities regulatory authority under the State Council shall exercise centralized and unified regulation over the securities markets nationwide pursuant to law.

The securities regulatory authority under the State Council may establish local offices according to its needs, which shall perform regulatory functions as authorized.

Article 8 Subject to the centralized and unified regulation of the State over the issuing and trading of securities, an association of the

securities industry shall be formed pursuant to law implementing self-regulatory governance.

Article 9 The State audit authority shall exercise auditing supervision over the stock exchanges, securities companies, securities registrar and clearance institutions and securities regulatory authorities pursuant to law.

## **Chapter II Issuing of Securities**

Article 10 The conditions set forth by laws or administrative regulations must be satisfied in the public issuance of securities, and such issuance must, pursuant to law, be submitted to the securities regulatory authority under the State Council or the departments authorized by the State Council for examination and approval. Without such examination and approval pursuant to law, no entities or individuals shall issue securities publicly.

Any one of the following circumstances shall constitute a public issuance:

- (1) issuing securities to non-specific persons;
- (2) issuing securities to more than 200 specific persons in the aggregate; and
- (3) such other issuing activities as may be so prescribed by laws or administrative regulations.

Where securities are issued in non-public manners, no advertising,

public solicitation or any other covert ways in disguised form shall be employed.

Article 11 When an application is made for public issuance of shares or corporate bonds convertible into shares and such issuance shall take place by way of underwriting pursuant to law, or when an application is made for public issuance of other securities which is subject to the sponsorship system as prescribed by laws or administrative regulations, the issuer shall engage the institution with sponsorship qualifications to act as a sponsor. A sponsor shall observe business rules and industrial norms, act with integrity and good faith, discharge its responsibilities diligently and dutifully, scrupulously examine the issuer's application documents and disclosure materials, and supervise and encourage the issuer to operate properly.

The qualifications of sponsors and the regulatory measures governing sponsors shall be formulated by the securities regulatory authority under the State Council.

Article 12 To establish a company limited by shares for public issuance of shares, the conditions set forth by the Companies Law of People's Republic of China and such other conditions as may be so prescribed by the securities regulatory authority under the State Council and so approved by the State Council shall be met, and an application for share offering and the following documents shall be submitted to the securities regulatory authority under the State

Council:

- (1) the articles of association of the company;
- (2) the agreement of promoters;
- (3) the personal or business names of the promoters, the numbers of shares subscribed for by the promoters, the types of investment contribution and the verification documents of the investment;
- (4) the prospectus;
- (5) the name and address of the agent bank for the subscription funds; and
- (6) the name of underwriting institution and relevant agreements.

Where a sponsor is engaged in accordance with the provisions of this Law, the instrument of sponsorship for issuance produced by such sponsor shall also be furnished.

Where the establishment of a company is subject to approval as required by laws or administrative regulations, the approving document thereof shall also be submitted accordingly.

Article 13 Where a company makes a public issuance of new shares, it shall meet the following conditions:

- (1) having a sound and well-functioning organizational structure;
- (2) having sustainable profitability and being financially sound;
- (3) having had no false entries in its financial and accounting documents for three years immediately preceding the application, and no other major illegal activities attributable to it; and
- (4) such other conditions as may be so prescribed by the securities

regulatory authority under the State Council and so approved by the State Council.

Where a listed company is to make a non-public issuance of new shares, it shall meet the conditions as prescribed by the securities regulatory authority under the State Council and so approved by the State Council and it shall submit an application therefor to the securities regulatory authority under the State Council for examination and approval.

Article 14 Where a company is to make a public issuance of new shares, it shall submit an application for share offering and the following documents to the securities regulatory authority under the State Council:

- (1) the business license of the company;
  - (2) the articles of association of the company;
  - (3) the resolution of the shareholders general assembly;
  - (4) the prospectus;
  - (5) the financial statements;
  - (6) the name and address of the agent bank for subscription funds;
- and
- (7) the name of underwriting institution and relevant agreements.

Where a sponsor is engaged in accordance with the provisions of this Law, the instrument of sponsorship for issuance produced by such sponsor shall also be furnished.

Article 15 The funds raised from public issuance of shares by a

company must be used in conformity with the stated purposes in the prospectus. Any diversion of the purposes of the raised funds stated in the prospectus shall be subject to resolution adopted by the shareholders general assembly. Where a diversion is made in the stated purposes without approval, which is not rectified or is not reconciled by the shareholders general assembly, the company shall not be permitted to make any subsequent public issuance of new shares.

Article 16 Where a company publicly issues corporate bonds, it shall meet the following conditions:

- (1) In the case of a company limited by shares, its net asset value is not less than RMB30 million yuan; in the case of a company with limited liability, its net asset value is not less than 60 million yuan;
- (2) The aggregated outstanding balance of the company's corporate bonds does not exceed 40% of its net asset value;
- (3) The average distributable profits of the company for each of the three years immediately preceding the application is adequate to pay for one-year interest on its outstanding corporate bonds;
- (4) The intended use of the funds raised is in conformity with the industrial policies of the State;
- (5) The interest rates of the bonds do not exceed the interest-rate levels set by the State Council; and
- (6) Such other conditions as may be so prescribed by the State Council.

The funds raised from public issuance of corporate bonds must be used for the purposes approved, and shall not be used to make up losses or to cover the costs for non-productive purposes.

Where a listed company issues corporate bonds convertible into shares, in addition to the conditions provided for in the first paragraph of this Article, it shall also meet the conditions for the public issuance of shares under this Law, and it shall submit an application to the securities regulatory authority under the State Council for examination and approval.

Article 17 To apply for public issuance of corporate bonds, a company shall submit the following documents to the department authorized by the State Council or the securities regulatory authority under the State Council:

- (1) the business license of the company;
- (2) the articles of association of the company;
- (3) the method for raising funds through issuance of corporate bonds;
- (4) the reports of asset valuation and investment verification; and
- (5) such other documents as may be so prescribed by the department authorized by the State Council or the securities regulatory authority under the State Council.

Where a company engages a sponsor in accordance with the provisions of this Law, it shall also submit the instrument of sponsorship for issuance produced by such sponsor.

Article 18 Under any one of the following circumstances, no



subsequent public issuance of corporate bonds shall be permitted:

- (1) The amount of funds to be raised in the preceding public offering of corporate bonds has not been fully raised;
- (2) There are such situations as defaults or delayed payments of the principal and interest on the publicly-issued corporate bonds or other debts and the situations still exist; and
- (3) The stated purposes of use of the funds raised from public issuance of corporate bonds are diverted in violation of the provisions of this Law.

Article 19 The ways of preparing and presenting the application documentations for issuers applying for examination and approval of securities issuance pursuant to law shall be prescribed by the authorities or departments responsible for such examination and approval pursuant to law.

Article 20 The application documents of securities issuance submitted by an issuer to the securities regulatory authority under the State Council or the department authorized by the State Council must be truthful, accurate and complete.

The securities service institutions and their staff members that certify relevant instruments to endorse securities issuance must strictly perform their statutory duties and guarantee the truthfulness, accuracy and completeness of the instruments so certified.

Article 21 Where an issuer applies for public issuance of shares for the first time, it shall make a preliminary disclosure of the relevant

documents pursuant to the rules of the securities regulatory authority under the State Council after submitting its application documents.

Article 22 The securities regulatory authority under the State Council shall establish an issuance examination commission which shall, pursuant to law, examine the applications for share issuance.

The issuance examination commission shall be composed of professionals from the securities regulatory authority under the State Council and specialists engaged from outside, who shall decide by vote on an application for share issuance and offer their opinions after examination.

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

Article 23 The securities regulatory authority under the State Council shall be in charge of the examination and approval process in respect of the applications for share issuance in accordance with the statutory conditions. The procedures for examination and approval shall be made public and supervised pursuant to law.

The persons involved in the examination and approval process in respect of share issuance applications shall not have any interests to share with the applicants, shall not directly or indirectly accept any gifts from the applicants, shall not hold any shares issued by the

applicants whose applications have been examined and approved by them, and shall not have any contact with the applicants in private.

The department authorized by the State Council shall examine and grant the applications for issuance of corporate bonds on the basis of the provisions of the two preceding paragraphs.

Article 24 The securities regulatory authority under the State Council or the department authorized by the State Council shall, within three months from the date of acceptance of application documents for securities issuance, decide in accordance with the statutory conditions and procedures whether to grant or not to grant approval. The time used by an issuer to supplement or to revise the application documents in compliance with the requirements shall not be calculated into the aforementioned three-month period; where it decides not to grant approval, it shall state the reasons.

Article 25 Once an application for securities issuance is approved, the issuer shall, in accordance with the provisions of laws or administrative regulations, release the documents of public offering and solicitation prior to effecting the public issuance of the securities, and place such documents at designated places for public information. Before the information of a securities issuance is made known to the public pursuant to law, no one who possesses such information shall make public or disclose such information.

No issuer shall issue its securities before the documents of public offering and solicitation are released.

Article 26 Where the securities regulatory authority under the State Council or the department authorized by the State Council finds that the decision it has made on granting approval to the issuance of securities is not in conformity with the statutory conditions or procedures, if the issuance in question has not been effected, it shall revoke the approval and call off the issuance; if the issuance in question has been effected but the listing has not, it shall revoke the decision on approval, and the issuer shall return the proceeds to the holders of the securities at the offering price plus the interest at the equivalent bank deposit rate for the corresponding period; the sponsor shall be jointly and severally liable together with the issuer, unless the former can establish a lack of fault on its part; and the controlling shareholders or the persons in practical control of the issuer at fault shall be jointly and severally liable together with the issuer.

Article 27 After completion of share issuance pursuant to law, any changes in the business and earnings of the issuer shall be taken care of by the issuer itself, whereas the investment risks resulting from such changes shall be borne by the investors themselves.

Article 28 Where an issuer is to issue securities to non-specific persons, which according to laws or administrative regulations should be underwritten by a securities company, the issuer shall enter into an underwriting agreement with the securities company. Securities underwriting business may be conducted on an agency basis or a

principal basis.

A securities underwriting on an agency basis refers to such a situation where the underwriting securities company sells the securities for account of the issuer and returns all the unsold securities to the issuer at the end of the underwriting period.

A securities underwriting on a principal basis refers to such a situation where the securities company, according to the underwriting agreement, purchases all of the securities to be offered by the issuer, or purchases all of the unsold securities of the issuer at the end of the underwriting period.

Article 29 An issuer that is to issue securities publicly shall have the right to make its own decision in selecting securities companies for underwriting pursuant to law. Securities companies shall not employ any means of illegitimate competition in soliciting securities underwriting business.

Article 30 To underwrite securities, a securities company shall enter into to an agreement of underwriting on an agency basis or an agreement of underwriting on a principal basis with the issuer, specifying the following matters:

- (1) the names and domiciles of the parties and the names of their legal representatives;
- (2) the types, quantities, amounts of money and offering prices of the securities underwritten on an agency basis and on a principal basis respectively;

- (3) the period of underwriting on an agency basis or a principal basis and the starting and ending dates thereof;
- (4) the methods of payment of subscription money for underwriting on an agency basis or on a principal basis and the dates thereof;
- (5) the fees for underwriting on an agency basis or on a principal basis and the settlement methods thereof;
- (6) the liabilities for breach of agreement; and
- (7) such other matters as may be so prescribed by the securities regulatory authority under the State Council.

Article 31 For underwriting securities, a securities company shall check the offering and solicitation documents for public issuance as to their truthfulness, accuracy and completeness; it shall not carry out any sales activities if it finds any false entries, misleading statements or major omissions therein; and in the event that the sales activities thereof have already begun, such activities must be suspended immediately and remedial measures must be taken accordingly.

Article 32 Where the overall face value of securities to be issued to non-specific persons exceeds 50 million yuan, the underwriting thereof shall be conducted by an underwriting syndicate. An underwriting syndicate shall be composed of the securities companies acting as lead-underwriters and the others as participating underwriters.

Article 33 The longest allowable duration for underwriting securities

on an agency basis or on a principal basis shall not exceed 90 days.

During the periods of underwriting on an agency basis or on a principal basis, a securities company shall ensure that the securities so underwritten first go to the subscribers and shall not pre-allot the securities underwritten on an agency basis to itself, or purchase in advance and retain the securities underwritten on a principal basis itself.

Article 34 Where an issuer offers shares at a premium, the offering price thereof shall be determined through negotiation between the issuer and the securities underwriting companies.

Article 35 Where shares are offered through underwriting on an agency basis, if the shares actually sold to investors are less than 70% of the shares intended to be publicly issued by the end of the underwriting period, the offering shall be deemed a failure. The issuer shall return the proceeds to the subscribers of the shares at the offering price plus interest at the equivalent bank deposit rate for the corresponding period.

Article 36 At the expiration of the period of time for publicly offered shares underwritten on an agency basis or on a principal basis, the issuers shall, within the prescribed time limit, submit a report accounting for the share issuance to the securities regulatory authority under the State Council for the record.

## Chapter III Trading of Securities

### Section 1 General Regulations

Article 37 Securities purchased and sold pursuant to law by the parties to a securities transaction must be securities issued and delivered pursuant to law.

Securities not issued pursuant to law shall not be purchased and sold.

Article 38 No shares, corporate bonds or other securities issued pursuant to law, restrictive provisions on the periods of transfer of which have been stipulated by law, shall be purchased or sold within such periods.

Article 39 Shares, corporate bonds and other securities publicly issued pursuant to law shall be listed for trading on lawfully established stock exchanges, or transferred at other securities trading sites approved by the State Council.

Article 40 The trading of securities listed on the stock exchanges shall be carried out in an open and centralized manner or in such other manners as may be so approved by the securities regulatory authority under the State Council.

Article 41 Securities purchased and sold by the parties to a securities transaction may take the form of scrip or such other forms as may be so prescribed by the securities regulatory authority under the State Council.

Article 42 Securities shall be traded in spot transaction or such other ways as may be so prescribed by the State Council.



Article 43 The business persons of the stock exchanges, securities companies and securities registrar and clearance institutions, the staff members of the securities regulatory authorities, and other persons prohibited by laws or administrative regulations from participating in share trading shall not, while in office or within the statutory periods of time, hold, purchase or sell any shares directly or under assumed names or names of other persons, nor shall they receive or accept any shares given by others.

At the time of becoming a person as described in the preceding paragraph, one must have his previously held shares transferred pursuant to law.

Article 44 The stock exchanges, securities companies and securities registrar and clearance institutions shall keep their clients' accounts confidential pursuant to law.

Article 45 Securities service institutions and their staff members that produce such documents as auditing reports, asset valuation reports and legal opinions for share issuance shall not purchase or sell such shares during the period of underwriting and within six months thereafter.

In addition to the provisions in the preceding paragraph, securities service institutions and their staff members that produce such documents as auditing reports, asset valuation reports and legal opinions for listed companies shall not purchase or sell the shares concerned from the date of accepting the entrustment of the listed

companies until five days after such documents are made known to the public.

Article 46 The fees charged for securities transactions must be reasonable and the items for which fees are charged, the rates of the fees and methods of fee collection must be made known to the public. The uniformed charging items, standards and measures for securities trading shall be prescribed by the relevant departments in charge under the State Council. Article 47 Where a director, supervisor or senior manager of a listed company, or a shareholder who holds 5% or more of the shares of a listed company sells the shares of the company within six months of purchasing such shares, or repurchases the shares within six months of selling such shares, the gains therefrom, if any, shall belong to the company, and the board of directors of the company shall recover such gains. However, if a securities company comes to hold 5% or more of the shares as a result of absorbing the unsold shares under the terms of an underwriting on a principal basis, it shall not be subject to the restriction of the six-month period when selling such shares.

Where the board of directors of the company fails to take action in accordance with the provisions of the preceding paragraph, the shareholders of the company shall have the right to demand it to act within 30 days. Where the board of directors of the company fails to take action within the said time limit, the shareholders shall have the right to initiate, in their own name, a lawsuit directly in a people's

court for the benefit of the company.

Where the board of directors of the company fails to take action in accordance with the provision of the first paragraph, the directors who are accountable thereto shall be held jointly and severally liable pursuant to law.

## Section 2 Listing of Securities

Article 48 To apply for the listing and trading of securities, the applicant shall submit an application to a stock exchange, which shall, pursuant to law, examine and the application before giving consent, both sides shall enter into a listing agreement.

Stock exchanges shall arrange the listing and trading of government bonds according to the decision of the department authorized by the State Council.

Article 49 For applying for the listing and trading of shares, corporate bonds convertible into shares or such other securities which are subject to the sponsorship system as prescribed by laws or administrative regulations, it is necessary to engage the institutions with sponsorship qualifications to act as sponsors thereof.

The provisions of the second and third paragraph of Article 11 of this Law are applicable to sponsors for listing.

Article 50 To apply for the listing of shares, a company limited by shares shall meet the following conditions:

(1) Its shares have been issued publicly with the approval of the securities regulatory authority under the State Council;

(2) The total share capital of the company is not less than 30 million yuan;

(3) Its publicly-offered shares amount to 25% or more of the total shares of the company; where the total share capital of the company exceeds 400 million yuan, the percentage of the publicly-offered shares is 10% or more; and

(4) The company has not committed any major violations of law and has made no false entries in its financial statements in the three years immediately preceding the application.

Stock exchanges may set higher conditions for listing than the ones provided under the preceding paragraph, and submit them to the securities regulatory authority under the State Council for approval.

Article 51 The State encourages the companies that conform to the industrial policies and meet the conditions for listing to have their shares listed for trading.

Article 52 To apply for the listing and trading of shares, a company shall submit the following documents to a stock exchange:

- (1) the listing submission;
- (2) the resolution of the shareholders general assembly on applying for the listing of shares;
- (3) the articles of association of the company;
- (4) the business license of the company;
- (5) the financial statements of the company covering the three years immediately preceding the application which are audited by an

accounting office pursuant to law;

(6) the legal opinions and instrument of sponsorship for listing;

(7) the most recent prospectus; and

(8) such other documents as may be so prescribed in the listing rules of the stock exchange.

Article 53 Once an application for the listing and trading of shares is examined and granted by the stock exchange, the company that has entered into a listing agreement shall, within the specified time limit, release the relevant documents for share listing and place such documents at the designated places for public information. Article 54

In addition to the release of the documents provided under the preceding Article, a company that has entered into a listing agreement shall also make the following matters known to the public:

(1) the designated commencing date for the shares to be traded on the stock exchange;

(2) the name list of the top 10 shareholders of the company and their respective shareholdings;

(3) the persons in practical control of the company; and

(4) the names of the directors, supervisors and senior managers and their respective holdings of the shares and bonds of the company.

Article 55 Where a listed company is under any one of the following circumstances, the stock exchange shall decide to suspend the listing for trading of its shares:

(1) It no longer meets the conditions for listing due to the changes in

the total share capital, shareholding distribution, etc. of the company;

(2) It fails to follow the rules to disclose its financial position, or makes false entries in its financial statements, which may mislead investors;

(3) It has committed major violations of law;

(5) It has recorded losses for each of the three immediately preceding years; and

(6) Such other circumstances as may be so prescribed in the listing rules of the stock exchange.

Article 56 Where a listed company is under any one of the following circumstances, the stock exchange shall decide to terminate the listing for trading of its shares:

(1) It no longer meets the conditions for listing due to the changes in the total share capital, shareholding distribution, etc. of the company and has failed to meet such conditions within the specified time limit set by the stock exchange;

(2) It fails to follow the rules to disclose its financial position, or makes false entries in its financial statements and refuses to make corrections thereto;

(3) It has recorded losses for each of the three immediately preceding years and has failed to generate profit in the fiscal year thereafter;

(4) It has been dissolved or declared bankrupt; and

(5) Such other circumstances as may be so prescribed in the listing

rules of the stock exchange. Article 57 To apply for the listing and trading of corporate bonds, a company shall meet the following conditions:

- (1) The maturity of the corporate bonds is not less than one year;
- (2) The actually issued amount of the corporate bonds is not less than 50 million yuan; and
- (3) It continues to meet the statutory conditions for issuing corporate bonds at the time of applying for listing.

Article 58 To apply for the listing and trading of corporate bonds, a company shall submit the following documents to a stock exchange:

- (1) the listing submission;
- (2) the resolution of the board of directors on applying for the listing of corporate bonds;
- (3) the articles of association of the company;
- (4) the business license of the company;
- (5) the method for raising funds through issuance of corporate bonds;
- (6) the amount of the corporate bonds actually issued; and
- (7) such other documents as may be so prescribed in the listing rules of the stock exchange.

To apply for the listing and trading of corporate bonds convertible into shares, a company shall also furnish an instrument of sponsorship for listing produced by a sponsor.

Article 59 Once an application for the listing and trading of corporate bonds is examined and granted by the stock exchange, the company

that has entered into a listing agreement shall, within the specified time limit, release the documents for the listing of corporate bonds and other relevant documents and place its application documents at the designated places for public information. Article 60 Where a company is under any one of the following circumstances after the listing and trading of its corporate bonds, the stock exchange shall decide to suspend the listing and trading of the company's corporate bonds:

- (1) It has committed major violations of law;
- (2) It no longer meets the conditions for listing of corporate bonds due to a drastic change in the company's situation;
- (3) The funds raised from the issuance of the corporate bonds are not used in accordance with the examined and approved purposes;
- (4) It fails to perform its duties in conformity with the method for raising funds through issuance of corporate bonds; and
- (5) It has recorded losses for each of the two immediately preceding years.

Article 61 Where a company is under any one of the circumstances specified in Subparagraphs (1) and (4) of the preceding Article and the seriousness of the consequences thereof has been established, or where a company is under any one of the circumstances specified in Subparagraph (2), (3) and (5) of the preceding Article and such circumstances have not been dispelled within the specified time limit, the stock exchange shall decide to terminate the listing and trading



of the company's corporate bonds.

Where a company is dissolved or declared bankrupt, the stock exchange shall terminate the listing and trading of the company's corporate bonds.

Article 62 Where a company is not satisfied with the decision made by a stock exchange on denial, suspension or termination of listing, it may apply for reconsideration to the review body established under the stock exchange.

### Section 3 Continuous Disclosure of Information

Article 63 The information disclosed by an issuer or a listed company pursuant to law must be truthful, accurate and complete and shall not contain any false entries, misleading statements or major omissions.

Article 64 Once public issuance of shares pursuant to law is examined and approved by the securities regulatory authority under the State Council, or public issuance of corporate bonds pursuant to laws is examined and approved by the department authorized by the State Council, the prospectus of share offering or the method for raising funds through issuance of corporate bonds shall be released. Where new shares or corporate bonds are to be issued publicly pursuant to laws, the financial statements of the issuer shall also be released.

Article 65 A listed company and a company whose corporate bonds are listed for trading shall, within two months immediately 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 its interim report containing the following contents and release the same:

- (1) the financial statements and state of business of the company;
- (2) any major litigation involving the company;
- (3) any changes in the shares or corporate bonds issued by the company;
- (4) any important matters presented for consideration to the shareholders general assembly of the company; and
- (5) such other matters as may be so prescribed by the securities regulatory authority under the State Council.

Article 66 A listed company and a company whose corporate bonds are listed for trading shall, within four months immediately following the end of each fiscal year, submit to the securities regulatory authority under the State Council and the stock exchange its annual report containing the following contents and release the same:

- (1) the general situation of the company;
- (2) the financial statements and state of business of the company;
- (3) a brief introduction to the directors, supervisors and senior managers of the company and their respective shareholdings in the company;
- (4) the shares or corporate bonds already issued by the company, including the name list of the top 10 shareholders of the company

and their respective shareholdings;

(5) the persons in practical control of the company; and

(6) such other matters as may be so prescribed by the securities regulatory authority under the State Council.

Article 67 If a major event occurs that may have a considerable effect on the share trading price of a listed company and such event has not become known to investors, the listed company shall immediately submit a provisional report about the situation of such event to the securities regulatory authority under the State Council and the stock exchange and release the same, explaining the causes, current status and possible legal consequences of such event.

One of the following circumstances shall constitute a major event referred to in the preceding paragraph:

(1) a major change in the company's business policy or scope of business;

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

(3) an important contract concluded by the company which may have a significant effect on the assets, liabilities, rights and interests, or business results of the company;

(4) the incurrence of significant debts by the company, or its default on significant debts at maturity through its breach of contract;

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

(6) a major change in the external conditions relating to the

production or business operation of the company;

(7) replacement of the directors, one-third or more of the supervisors or managers of the company;

(8) a considerable change relating to the respective shareholdings of the persons who hold 5% or more of the shares of the company, or to the control of the company by the persons in practical control;

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

(10) a major litigation in which the company is involved, or a resolution made by the shareholders general assembly or the board of directors of the company is rescinded or nullified pursuant to law;

(11) the initiation of an investigation by a judiciary organ on grounds of a suspected crime involving the company, or the imposition of a compulsory measure by a judiciary organ on grounds of a suspected crime involving a director, supervisor or senior manager of the company; and

(12) such other events as may be so prescribed by the securities regulatory authority under the State Council.

Article 68 The directors and/or senior managers of a listed company shall sign off their written opinions to confirm the periodical reports of the company.

The board of supervisors of a listed company shall review the periodical reports of the company prepared by the boards of directors and provide its written opinions after review.

The directors, supervisors and senior managers of a listed company shall ensure the truthfulness, accuracy and completeness of the information disclosed by the company. Article 69 Where there are false entries, misleading statements or major omissions in the prospectus of share offering, the method for raising funds through issuance of corporate bonds, the financial statements, the listing submission documents, the annual reports, the interim reports, the provisional reports and other materials for information disclosure released by an issuer or a listed company, thus causing losses to investors in securities trading, the issuer or listed company shall be liable for compensation; the directors, supervisors, senior managers and other directly accountable persons of the issuer or listed company as well as the sponsors and securities companies engaged for underwriting shall be jointly and severally liable for compensation together with the issuer or listed company, unless one can establish a lack of fault on one's part; the controlling shareholders or persons in practical control of the issuer or listed company at fault shall be jointly and severally liable for compensation together with the issuer or listed company.

Article 70 The information which must be disclosed pursuant to law shall be released through the media designated by the securities regulatory authority under the State Council, and shall be placed simultaneously at the domicile of the company and stock exchange for public information. Article 71 The securities regulatory authority

under the State Council shall exercise supervision in respect of the annual reports, interim reports, provisional reports of listed companies and the release thereof, in respect of their allocation or placement of new shares, and in respect of the activities of the controlling shareholders of listed companies and the persons who are obligated to disclose information.

Before release which must be made by a company in accordance with laws or administrative regulations, the securities regulatory authorities, stock exchanges, sponsors, securities companies engaged for underwriting and the persons concerned shall not disclose the contents thereof.

Article 72 Where a stock exchange decides to suspend or terminate the listing and trading of a security, it shall make an announcement thereof in a timely manner and report such decision to the securities regulatory authority under the State Council for records.

#### Section 4 Prohibited Trading Activities

Article 73 Persons possessing inside information relating to securities trading and persons obtaining such information unlawfully are prohibited from making use of such inside information in securities trading activities.

Article 74 Persons possessing inside information relating to securities trading include:

- (1) the directors, supervisors and senior managers of an issuer;
- (2) the shareholders holding 5% or more of the shares of a company

and the directors, supervisors and senior managers of such shareholders, as well as the persons in practical control of a company and the directors, supervisors and senior managers of such persons;

(3) a company held by an issuer and the directors, supervisors and senior officers of such company;

(4) the persons with access to the relevant inside information by virtue of their positions in a company;

(5) the staff members of the securities regulatory authorities and other persons who perform their statutory administrative duties in respect of the issuance and trading of securities;

(6) the relevant staff members of the sponsors, securities companies engaged for underwriting, stock exchanges, securities registrar and clearance institutions and securities service institutions; and

(7) such other persons as may be so prescribed by the securities regulatory authority under the State Council.

Article 75 In the course of securities trading, any unpublished information relating to the business or financial position of a company, or carrying significant effect on the market price of the securities of a company, shall constitute inside information.

All of the following information falls into the category of inside information:

- (1) the major events specified in the second paragraph of Article 67 of this Law;
- (2) a company's plan for profit distribution or capital increase;

- (3) a major change in the share capital structure of a company;
- (4) a major change in the surety for debts of a company;
- (5) any pledge, disposition or retirement of a principal business asset of a company, the value of a single transaction of which exceeds 30 percent of the total value of such asset;
- (6) potential liability for major losses to be assumed in accordance with law as a result of the activities of a director, supervisor or senior manager of a company;
- (7) the plans relating to the acquisition of a listed company; and
- (8) such other important information having an obvious effect on the trading price of securities as may be so defined by the securities regulatory authority under the State Council.

Article 76 Persons possessing inside information relating to securities trading and persons obtaining inside information unlawfully shall not, prior to the publication of such inside information, purchase or sell the securities of the company concerned, or disclose such information, or suggest other persons trade in such securities.

Where, with respect to the acquisition of the shares of a listed company by a natural person, legal person or other organization that holds 5% or more of the shares of the company individually or jointly with others through agreements or other arrangements, there are other provisions under this Law, such other provisions shall govern.

Where insider trading causes losses to investors, the traders shall be held liable for the losses pursuant to law.



Article 77 No one is allowed to manipulate the securities markets in the following ways:

- (1) conducting allied or incessant purchasing and selling individually or in conspiracy with another person by building up an ascendancy of funds or shareholdings or taking advantage of information, thus manipulating the price or volume of securities trading;
- (2) conducting bidirectional securities transactions in collusion with another person by following previously fixed timing, price and manner, thus affecting the price or volume of securities trading;
- (3) conducting securities transactions among the accounts actually controlled by oneself, thus affecting the price or volume of securities trading; and
- (4) manipulating the securities markets by other means.

Where manipulation of the securities markets causes losses to investors, the manipulator shall be held liable for compensation pursuant to law.

Article 78 State functionaries and employees and the relevant persons of the media are prohibited from fabricating or disseminating false information so as to disrupt the securities markets.

In the course of securities trading, stock exchanges, securities companies, securities registrar and clearance institutions, securities service institutions and their employees as well as the association of securities industry and the securities regulatory authorities and their staff members are prohibited from making misrepresentation or

rendering misleading information.

The media must disseminate information of the securities markets in a truthful and objective manner and are prohibited from misleading the public.

Article 79 Securities companies and their employees are prohibited from conducting any of the following fraudulent activities to the detriment of the interests of clients:

- (1) purchasing and selling securities for clients against their entrustment;
- (2) failing to provide, within the specified period of time, to clients written documents to confirm transactions;
- (3) misappropriating the securities entrusted by clients for trading, or the funds in the accounts of clients;
- (4) purchasing or selling securities for clients without their entrustment, or purchasing and selling securities by making use of the names of clients;
- (5) inveigling clients into pursuing unwarranted securities transactions in order to charge commissions;
- (6) via the media or other means, giving or spreading false information or information that misleads investors; and
- (7) other activities against the clients' expression of their true intention to the detriment of the interests of clients.

Where defrauding of a client causes losses to the client, the wrongdoer shall be held liable for the losses pursuant to law.

Article 80 Legal persons are prohibited from making illegal use of the accounts of other persons' to conduct securities transactions, and are prohibited from lending the securities accounts of their own or other persons'.

Article 81 The channels for funds to flow into the markets shall be broadened pursuant to law, and funds are prohibited from flowing into the stock markets unlawfully.

Article 82 No one is allowed to misappropriate public funds for securities trading.

Article 83 Where enterprises owned by the State or controlled by State assets purchase and sell the shares listed for trading, they must observe the relevant provisions of the State.

Article 84 Where stock exchanges, securities companies, securities registrar and clearance institutions, securities service institutions and their employees find any prohibited trading activities in securities trading, they shall report such activities to the securities regulatory authorities without delay.

#### **Chapter IV Acquisition of Listed Companies**

Article 85 An investor may acquire a listed company through a tender offer, a negotiated acquisition, or other lawful means.

Article 86 When, through securities trading on a stock exchange, the shareholding of an investor, or the deemed joint-shareholding of an

investor and others in virtue of agreements or other arrangements, has reached 5% of the issued shares of a listed company, the investor shall, within three days from the date on which such shareholding becomes a fact, report in writing to the securities regulatory authority under the State Council and the stock exchange, inform the said listed company of the fact and make an announcement thereof. The investor shall not continue to purchase or sell the share of the said listed company during the period of time mentioned above. When the shareholding of an investor, or the deemed joint-shareholding of an investor and others in virtue of agreements or other arrangements, has reached 5% of the issued shares of a listed company, every 5% increase or decrease in such shareholdings thereafter shall be reported and announced in accordance with the provisions of the preceding paragraph. During the period of report and within two days after the report and announcement, the investor shall not further purchase or sell the shares of the listed company.

Article 87 The written report and announcement made in accordance with the provisions in the preceding Article shall include the following contents:

- (1) the names and domiciles of the shareholders;
- (2) the description and quantity of the shares held; and
- (3) the date on which shareholding or the increase or decrease in shareholdings has reached the statutory percentage.

Article 88 Where through securities trading on a stock exchange, the

shareholding of an investor, or the deemed joint-shareholding of an investor and others in virtue of agreements or other arrangements, has reached 30% of the issued shares of a listed company, if further acquisition is to be pursued, a tender offer of acquisition shall be launched pursuant to law to all of the shareholders of the listed company for acquiring all or part of the shares of the listed company. In the tender offer for acquiring part of the shares of a listed company shall be stated that in case the number of the shares committed to sell by the shareholders of the company to be acquired exceeds the number of the shares proposed to acquire, the acquirer shall proceed on a prorating basis.

Article 89 In order to launch a tender offer of acquisition in accordance with the provisions in the preceding Article, the acquirer must submit a report on acquisition of the listed company in advance to the securities regulatory authority under the State Council clearly stating the following items:

- (1) the name and domicile of the acquirer;
- (2) the decision of the acquirer concerning the acquisition;
- (3) the name of the listed company intended to acquire;
- (4) the purposes of the acquisition;
- (5) the detailed description of the shares under acquisition and the number of the shares proposed to acquire;
- (6) the period and price of the acquisition;
- (7) the funds needed for the acquisition and the assurance thereof;

and

(8) the shareholding percentage of the acquirer in the total shares of the company to be acquired at the time of submitting the report on acquisition of the listed company.

The acquirer shall simultaneously submit the report on acquisition of the listed company to the stock exchange.

Article 90 After 15 days from the date of submitting its report on acquisition of a listed company in accordance with the provision in the preceding Article, the acquirer shall announce its tender offer of acquisition. During the period of time mentioned above, if the securities regulatory authority under the State Council finds that the said report is not in conformity with the provisions of laws or administrative regulations, it shall, in a timely manner, inform the acquirer of the fact, and the acquirer shall not announce its tender offer of acquisition.

The period of acquisition stated in a tender offer of acquisition shall be not less than 30 days but not more than 60 days.

Article 91 An acquirer shall not rescind its acquisition offer within the committed period of time stated in the tender offer of acquisition. In case the acquirer deems it necessary to modify the terms of its acquisition offer, it must submit a report in advance to the securities regulatory authority under the State Council and the stock exchange, and make the announcement thereof upon approval.

Article 92 All the terms stated in a tender offer of acquisition shall

be equally applicable to all the shareholders of the company to be acquired.

Article 93 Where a tender offer of acquisition is pursued, the acquirer shall not, within the period of acquisition, sell the shares of the company to be acquired, or purchase the shares of the said company in a manner other than the one as stipulated in the tender offer of acquisition, or on terms more favorable than the ones as stipulated in such offer. Article 94 Where negotiated acquisition is pursued, the acquirer and the shareholders of the company to be acquired may effect an assignment of shares through negotiation in accordance with the provisions of laws or administrative regulations.

When acquiring a listed company by way of negotiation, the acquirer shall, within three days upon reaching an agreement, submit a written report to the securities regulatory authority under the State Council and the stock exchange, and make an announcement thereof.

An acquisition agreement shall not be executed prior to its announcement.

Article 95 Where negotiated acquisition is pursued, the parties to the agreement may provisionally entrust a securities registrar and clearance institution with the safekeeping of the shares to be assigned under the agreement and deposit the funds for acquisition with the designated banks.

Article 96 Where negotiated acquisition is pursued, when the shareholding of an acquirer, or the deemed joint-shareholding of an

acquirer and others in virtue of agreements or other arrangements, has reached 30% of the issued shares of a listed company and the acquirer intends to pursue further acquisition, a tender offer of acquisition shall be launched to all of the shareholders of the listed company for acquiring all or part of the shares of the company, except where exempted by the securities regulatory authority under the State Council from launching a tender offer of acquisition.

When acquiring the shares of listed company by way of a tender offer in accordance with the provisions in the preceding paragraph, the acquirer shall observe the provisions of Articles 89 through 93 of this Law.

Article 97 Where at the expiration of the period of acquisition, the spread of share ownership of the acquired company is no longer in conformity with the conditions for listing, the stock exchange shall, pursuant to law, terminate the listing and trading of the shares of the listed company; and the remaining holders of the shares of the acquired company shall have the right to sell their shares to the acquirer on the same terms as stipulated in the tender offer of acquisition, and the acquirer shall acquire such shares accordingly.

Where, after completion of the acquisition, the acquired company no longer possesses the qualifications of a company limited by shares, it shall be transformed into another form of enterprise pursuant to law.

Article 98 The shares of an acquired listed company held by the acquirer in the course of acquisition of a listed company shall not be



assigned within 12 months after completion of the acquisition.

Article 99 Where, after completion of the acquisition, the acquired company is to be merged into the acquirer and is therefore to be dissolved, the original shares of the dissolved company shall be replaced by the acquirer pursuant to law.

Article 100 An acquirer shall, within 15 days after completion of the acquisition, submit a report on the acquisition to the securities regulatory authority under the State Council and the stock exchange, and make an announcement thereof.

Article 101 With respect to acquisition of the shares of listed companies which are held by the investment institutions authorized by the State, such acquisition shall be pursued in accordance with the provisions of the State and shall be subject to approval by the relevant department in charge.

The securities regulatory authority under the State Council shall formulate specific measures for acquisition of listed companies in accordance with the principles of this Law.

## **Chapter V Stock Exchanges**

Article 102 A stock exchange is a legal person performing self-regulatory governance which provides the premises and facilities for centralized trading of securities, organizes and supervises such securities trading.

The establishment and dissolution of a stock exchange shall be subject to decision by the State Council.

Article 103 The articles of association must be formulated where a stock exchange is established.

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

Article 104 The words “stock exchange” shall be included in the name of a stock exchange. No other units or individuals shall use “stock exchange” or similar words in their names.

Article 105 A stock exchange may allocate fee-generated revenues at its discretion, and such revenues shall first be used to ensure the regular operation and gradual improvement of the premises and facilities of the stock exchange.

The accumulated property of a stock exchange applying a membership system shall belong to the members and the rights and interests embodied in such property shall be jointly enjoyed by the members. Such property shall not be distributed to the members so long as the stock exchange exists.

Article 106 A stock exchange shall have a board of governors.

Article 107 A stock exchange shall have a general manager, to be appointed and removed by the securities regulatory authority under the State Council.

Article 108 A person who is in one of the following circumstances or

the circumstances as described in Article 147 of the Companies Law of the People's Republic of China shall not be appointed a person in charge of a stock exchange:

(1) being a person in charge of a stock exchange or securities registrar and clearance institution or a director, supervisor or senior manager of a securities company who has been removed from office due to violations of law or rules of discipline, and a five-year period has not elapsed ever since; and

(2) being a lawyer, certified public accountant or a professional of an investment consultancy institution, financial advisory institution, credit rating institution, asset appraisal institution or verification institution who has been disqualified as such due to violations of law or rules of discipline, and a five-year period has not elapsed ever since.

Article 109 An employee of a stock exchange, securities registrar and clearance institution, securities service institution or securities company or a staff member of a State organ who has been expelled due to violations of law or rules of discipline shall not be recruited as an employee of a stock exchange.

Article 110 A person who enters a stock exchange for centralized trading of securities must be a member of the stock exchange.

Article 111 In order to trade securities, an investor shall enter into an entrustment agreement of securities trading with a securities company and open a securities trading account with the company, and

entrust the company with the purchasing and selling of securities on his behalf in writing, through telephone or by other means.

Article 112 Upon entrustment by an investor, a securities company shall, in accordance with the rules of securities trading, put forward a transaction order and participate in the centralized floor trading at the stock exchange and shall bear the liabilities of clearance and settlement corresponding to the transaction completed; on the basis of the completed transaction and in accordance with the rules of clearance and settlement, the securities registrar and clearance institution shall process the clearance and settlement of securities and funds with the securities company and effect the procedure of securities registration and transfer for the client of the securities company.

Article 113 The stock exchanges shall ensure fairness of the centralized trading of securities, make available the real-time quotations and prices of securities trading, and formulate and publish the daily charts thereof.

No entities or individuals shall publish the real-time quotations and prices of securities trading without permission of the stock exchanges.

Article 114 In the event of an unexpected incident that prevents securities trading from operating regularly, the stock exchanges may take the measure of a technical halt on the markets; in the event of an unexpected incident which occurs due to force majeure, or for the

purposes of maintaining the regular order of securities trading, the stock exchanges may decide to suspend the markets.

When stock exchanges take the measure of technical halt or decide to suspend the markets; they must report to the securities regulatory authority under the State Council in a timely manner.

Article 115 Stock exchanges shall exercise real-time monitoring of securities trading and submit reports on suspicious trading situations in accordance with the requirements of the securities regulatory authority under the State Council.

Stock exchanges shall oversee the information disclosure by listed companies and by persons obligated to make such disclosure, and urge them to disclose information in a timely and accurate manner in accordance with law.

Where securities accounts display significantly suspicious trading situations, the stock exchange may, if necessary, impose restrictions on trading by such accounts and shall report such restrictions to the securities regulatory authority under the State Council for the record.

Article 116 A stock exchange shall allocate certain proportions of its revenues from transaction fees, membership dues and access fees to set up risk funds. The risk funds shall be administered by the board of governors of the stock exchange.

The specific proportion for allocation and the measures for use of the risk funds shall be prescribed by the securities regulatory authority under the State Council in conjunction with the finance department of

the State Council.

Article 117 Stock exchanges shall deposit the collected and accumulated risk funds into the designated accounts at their current transaction banks, and shall not make use of the funds without authorization.

Article 118 Stock exchanges shall, in accordance with laws or administrative regulations, formulate rules for listing, trading, membership administration and other relevant rules and submit such rules to the securities regulatory authority under the State Council for approval.

Article 119 In performing his duties related to securities trading, the person in charge or the employee of a stock exchange shall recuse himself where he himself or one of his relatives is an interested party.

Article 120 Where trade is conducted in accordance with the trading rules formulated in accordance with law, the transaction results thereof shall not be altered. The civil liabilities to be borne by the persons who violate the rules in the course of trading shall not be exempted; and the gains obtained from trading in violation of the rules shall be dealt with according to relevant provisions.

Article 121 The persons conducting securities transactions inside stock exchanges who violate the relevant trading rules of the stock exchanges shall be imposed on disciplinary sanctions by the stock exchanges; if the circumstances are serious, they shall be deprived

of their qualifications and banned from entering the floor for securities trading.

## **Chapter VI Securities Companies**

Article 122 The establishment of a securities company shall be subject to examination and approval by the securities regulatory authority under the State Council. No entities or individuals shall engage in securities business without approval by the securities regulatory authority under the State Council.

Article 123 A securities company referred to under this Law means a company with limited liability or a company limited by shares established in accordance with the provisions of the Companies Law of the People's Republic of China to engage in securities business.

Article 124 The following conditions shall be met for the establishment of a securities company:

- (1) It has the articles of association which are in conformity with the provisions of laws or administrative regulations;
- (2) Its major shareholders possess sustainable profitability and enduring trustworthiness and have no record of major illegal activities for the three immediately preceding years, and the net assets of each of them are not less than 200 million yuan;
- (3) Its registered capital is in conformity with the provisions of this Law;

- (4) Its directors, supervisors and senior managers possess the requisite qualifications for those posts, and its employees possess the requisite qualifications for securities business;
- (5) It has sufficient risk management and internal control mechanism;
- (6) It has up-to-standard operating premises and business facilities; and
- (7) Such other conditions as may be so stipulated by laws or administrative regulations or by the securities regulatory authority under the State Council and so approved by the State Council.

Article 125 Subject to approval by the securities regulatory authority under the State Council, a securities company may engage in all or part of the following businesses:

- (1) securities brokerage;
- (2) securities investment consultancy;
- (3) financial advising relating to securities trading or investment ;
- (4) securities underwriting and sponsorship;
- (5) proprietary account transactions;
- (6) securities asset management; and
- (7) other securities businesses.

Article 126 A securities company must have the words “securities company with limited liability” or “securities company limited by shares” included in its name. Article 127 A securities company that engages in one or all of the businesses specified in Subparagraphs (1) through (3) of Article 125 of this Law, its registered capital shall be



50 million yuan at the minimum; if it engages in one of the businesses specified in Subparagraphs (4) through (7), its registered capital shall be 100 million yuan at the minimum; and if it engages in two or more of the businesses specified in Subparagraphs (4) through (7), its registered capital shall be 500 million yuan at the minimum. The registered capital of a securities company is the actual paid-in capital.

The securities regulatory authority under the State Council may adjust the minimum amount of the registered capital on the basis of the principle of prudent regulation and the varying degrees of risk of the different securities businesses, but not less than the limits as provided for under the preceding paragraph.

Article 128 The securities regulatory authority under the State Council shall, within six months from the date it accepts an application for establishment of a securities company, examine the application in compliance with the statutory conditions and procedures and on the basis of the principle of prudent regulation, make a decision on whether to grant or not to grant the application, and notify the applicant of the decision. Where an application is not granted, the reasons therefor shall be given.

After obtaining approval for establishment of a securities company, the applicant shall, within the specified time limit, submit an application to the company registration authority for registration and business license.

A securities company shall, within 15 days from the date it receives its business license, apply to the securities regulatory authority under the State Council for a securities business permit. The securities company shall not commence its securities business without obtaining a securities business permit.

Article 129 To establish, acquire or close a branch office, to alter its business scope or registered capital, to replace the shareholders who hold 5% or more interests therein or the persons in practical control thereof, to modify a key clause in the articles of association of the company, to merge, divide, change the form of the company, to suspend business, to dissolve or go bankrupt, a securities company must obtain approval of the securities regulatory authority under the State Council.

To establish, acquire or participate in a securities business institution abroad, a securities company must apply to the securities regulatory authority under the State Council for approval. Article 130

The securities regulatory authority under the State Council shall set the norms for risk control of securities companies with respect to the net capital, the ratio of net capital to debt, the ratio of net capital to net assets, the ratio of net capital to the business scales of proprietary account transactions, underwriting and asset management, the ratio of liabilities to net assets, the ratio of current assets to current liabilities, etc.

A securities company shall not provide finance or guarantee to its

shareholders or the parties related to the shareholders.

Article 131 Directors, supervisors and senior managers of a securities company shall be persons of integrity and honesty and be of good conduct, being well-versed in laws and administrative regulations governing securities, possessing the abilities of business operation and management needed for performing their duties and, before taking office, having acquired the post qualifications approved by the securities regulatory authority under the State Council.

A person who is in one the following circumstances or the circumstances as prescribed in Article 147 of the Companies Law of the People's Republic of China shall not be appointed to the position of director, supervisor or senior manager of a securities company:

(1) being a person in charge of a stock exchange or securities registrar and clearance institution or a director, supervisor or senior manager of a securities company who has been removed from office due to violations of law or rules of discipline, and a five-year period has not elapsed ever since; and

(2) being a lawyer, certified public accountant or a professional of an investment consultancy institution, financial advisory institution, credit rating institution, asset appraisal institution or verification institution who has been disqualified as such due to violations of law or rules of discipline, and a five-year period has not elapsed ever since.

Article 132 An employee of a stock exchange, securities registrar

and clearance institution, securities service institution or securities company or a staff member of a State organ who has been expelled due to violations of law or rules of discipline shall not be recruited as an employee of a securities company.

Article 133 Staff members of State organs and other persons who are prohibited by laws or administrative regulations from holding concurrent positions in companies shall not concurrently hold any posts in any securities companies.

Article 134 The State maintains a fund for protection of securities investors. The fund for protection of securities investors shall be composed of the funds contributed by securities companies and other funds so raised pursuant to law. The specific measures for raising, control and use of the fund shall be formulated by the State Council.

Article 135 A securities company shall allocate reserve funds against trading risks from its annual after-tax profits, which shall be used for making up the losses in securities trading. The specific proportion of the allocation thereof shall be prescribed by the securities regulatory authority under the State Council.

Article 136 A securities company shall maintain a comprehensive system of internal control and adopt effective partitioning measures against conflict of interests between the company and clients and among different clients.

A securities company shall conduct brokerage, underwriting, proprietary account transaction and securities asset management

separately and shall not mix them up in operation.

Article 137 A securities company must conduct its proprietary account transactions in its own name and shall not make use of the name of another entity or the name of a natural person.

A securities company must use its self-owned funds or lawfully raised funds to conduct proprietary account transactions.

A securities company shall not let others use its accounts for proprietary account transactions.

Article 138 A securities company enjoys the right of business autonomy under the law and its legitimate business operation shall be subject to no interference.

Article 139 The funds for trade settlement of the clients of securities companies shall be deposited with commercial banks, and an individual account shall be opened in the name of each client for management of such funds. The specific measures and implementation thereof shall be formulated by the State Council.

Securities companies shall not calculate or include their clients' funds for trade settlement and their clients' securities as part of their own assets. No entity or individual shall misappropriate in any manner their clients' funds for trade settlement and their clients' securities. In case of bankruptcy or winding-up of a securities company, the clients' funds for trade settlement and the clients' securities shall not belong to the bankruptcy property or property for liquidation. The clients' funds for trade settlement and their securities shall not be

sealed up, frozen, withheld or alienated, or subjected to compulsory enforcement, except for the purposes of satisfying the debts of the clients themselves or under such other circumstances as provided for by law.

Article 140 To conduct brokerage business, a securities company shall make available at its premises the uniformly printed forms of entrustment for the entrusting parties to purchase or sell securities. Where other ways of entrustment are adopted, such entrustment must be recorded.

With respect to clients' entrustment for purchasing or selling securities, no matter whether a transaction is completed, the records of entrustment shall be kept at the securities company for the period of time as specified.

Article 141 Upon accepting the entrustment for purchasing or selling securities, a securities company shall, following the rules for trading, process the securities transactions as an agent according to the specifications, quantities, bid-ask manners, price ranges of the securities, etc. as clearly indicated in the forms of entrustment, and shall record the transactions accordingly. Upon completion of the transactions, the securities company shall produce the confirmation reports of transactions in accordance with relevant rules and deliver the same to the clients.

The corresponding slips confirming the activities and results of securities transactions must be true and authentic and reviewed and

verified one by one by persons other than the ones processing the transactions so as to ensure correspondence between the balance of the securities on the book and the securities actually held. .

Article 142 The services provided by a securities company to its clients in terms of funds or securities for securities trading must be in conformity with the provisions of the State Council and approved by the securities regulatory authority under the State Council.

Article 143 When conducting brokerage business, a securities company shall not accept the entrustment of discretionary power by a client to decide on the timings, types, quantities and prices of securities transactions.

Article 144 A securities company shall not undertake in any manner to secure gains or make up losses to its clients of securities trading.

Article 145 A securities company and its employees shall not in private accept clients' entrustment to purchase or sell securities circumventing the legally established business premises of the company.

Article 146 Where in the course of securities trading, an employee of a securities company follows the instructions of the company, or violates the trading rules by making use of his position, the company shall be fully responsible for the consequences thereof.

Article 147 A securities company shall properly preserve the account data, entrustment and transaction records of its clients and the various data relating to its internal procedures and business operation.

No one shall conceal, forge, distort or destroy those data. The aforementioned data shall be preserved for a period of not less than 20 years.

Article 148 Securities companies shall, in accordance with relevant regulations, submit information and materials relating to their business management, including their business operations and financial affairs, to the securities regulatory authority under the State Council. The securities regulatory authority under the State Council has the power to demand securities companies, their shareholders or persons in practical control to provide relevant information and materials within the designated period of time.

The information and materials submitted or provided by a securities company, its shareholders or persons in practical control to the securities regulatory authority under the State Council must be truthful, accurate and complete.

Article 149 Where the securities regulatory authority under the State Council considers necessary, it shall entrust an accounting office or an asset appraisal institution to audit or appraise a securities company with respect to its financial position, internal control and asset value of the company. The specific measures thereof shall be formulated by the securities regulatory authority under the State Council in conjunction with the relevant departments in charge.

Article 150 Where the net capital level or other risk control thresholds of a securities company is not in conformity with the



specified level or thresholds, the securities regulatory authority under the State Council shall order the company to rectify within a specified time limit; if the company fails to do so at the expiration of the time limit, or its behavior severely threatens the steady operation of the company or jeopardizes the lawful rights and interests of the clients of the company, the securities regulatory authority under the State Council may take the following measures against the company as the case may be:

- (1) to impose restrictions on the business activities of the company, order it to suspend part of its businesses, or to withhold approval with respect to its application for new businesses;
- (2) to withhold approval with respect to its application for increasing or acquiring business branches;
- (3) to impose restrictions on the profit distribution of the company, or on the compensation payments or benefit availabilities to its directors, supervisors or senior managers;
- (4) to impose restrictions on the alienation of the property of the company, or the creation of other rights on its property;
- (5) to order the company to replace its directors, supervisors or senior managers, or to impose restrictions on their rights;
- (6) to order the controlling shareholders to divest their interests in the company or to impose restrictions on the exercise of the shareholder rights of relevant shareholders; or
- (7) to revoke the relevant business permits.

Upon completion of rectification, the securities company shall submit a report to the securities regulatory authority under the State Council. The securities regulatory authority under the State Council shall go through the procedure of check and acceptance thereupon. Where the risk control thresholds are met, the relevant measures taken against the company under the provisions of the preceding paragraph shall be removed within three days after completion of check and acceptance.

Article 151 Where a shareholder of a securities company makes false capital contribution to or illegally draws back capital contribution from the company, the securities regulatory authority under the State Council shall order him to set it right within a specified time limit, and may also order him to divest his interests in the company. Before the shareholder mentioned under the preceding paragraph sets right his illegal activities or divests his interests in the company, the securities regulatory authority under the State Council may impose restrictions on his shareholder rights.

Article 152 Where a director, supervisor or senior manager of a securities company fails to perform his duties diligently, resulting in the company's gross violation of laws or rules or exposing the company to tremendous risks, the securities regulatory authority under the State Council may disqualify him for the post and order the company to replace him.

Article 153 Where a securities company conducts business against

law or incurs tremendous risks, thus severely undermining the order of the securities markets or jeopardizing the interests of investors, the securities regulatory authority under the State Council may take such regulatory measures as ordering the company to suspend business operation for rectification, putting the company under the trusteeship of, or having it taken over by, a designated institution, or terminating the company.

Article 154 During the period when a securities company is ordered to suspend business operation for rectification, or is put under trusteeship or, is to be taken over by, a designated institution, or is to go into liquidation pursuant to law, or incurs tremendous risks, with the approval of the securities regulatory authority under the State Council, the following measures may be taken against the directors, supervisors or senior managers who are directly accountable to the company and other persons who are directly responsible:

- (1) to notify the border control authorities to prevent them, pursuant to law, from leaving the country; and
- (2) to apply to the judicial organ for banning them from removing or alienating their property or disposing of the property by other means, or creating other rights on their property.

## Chapter VII Securities Registrar and Clearance Institutions

Article 155 A securities registrar and clearance institution is a not-for-profit legal person that provides centralized registration, depository and clearance services for securities trading.

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

Article 156 The following conditions shall be met to establish a securities registrar and clearance institution:

- (1) Its self-owned funds are not less than 200 million yuan;
- (2) It has the premises and facilities essential to services for securities registration, depository and clearance;
- (3) Its principal managers and employees possess the requisite qualifications for securities business; and
- (4) Such other conditions as may be so prescribed by the securities regulatory authority under the State Council.

The name of a securities registrar and clearance institution shall include the words “securities registrar and clearance”.

Article 157 A securities registrar and clearance institution shall perform the following functions:

- (1) to open securities accounts and clearing accounts;
- (2) to process the deposit and transfer of securities;
- (3) to maintain the registers of securities holders;
- (4) to process the clearance and settlement of securities listed and traded on stock exchanges;

- (5) to distribute the gains from securities as entrusted by an issuer;
- (6) to respond to inquiries regarding the aforementioned businesses;
- and
- (7) such other businesses as may be so approved by the securities regulatory authority under the State Council.

Article 158 Registration and clearance of securities shall be done in a centralized and unified manner nationwide.

The articles of association and the rules of business of a securities registrar and clearance institution shall be formulated in accordance with law and shall be subject to approval by the securities regulatory authority under the State Council.

Article 159 Prior to listing for trading, the holder of securities shall have all of his securities deposited with a securities registrar and clearance institution.

The securities registrar and clearance institution shall not misappropriate the securities of its clients’.

Article 160 A securities registrar and clearance institution shall furnish the issuers of securities with the register of securities holders and related materials.

The securities registrar and clearance institution shall, based on its processed results of securities registration and clearance, confirm the fact that an identified securities holder does own the securities, and make available the registration materials of securities holders.

The securities registrar and clearance institution shall ensure the

truthfulness, accuracy and completeness of the register of securities holders and the records of registration and transfer, and shall not conceal, forge, distort or destroy these materials.

Article 161 A securities registrar and clearance institution shall adopt the following measures to ensure the regular operation of business:

- (1) to maintain indispensable service equipment and sufficient procedures to protect data safety;
- (2) to maintain sufficient management systems for its business, finance and safety precautions; and
- (3) to maintain a sufficient system for risk control.

Article 162 A securities registrar and clearance institution shall properly preserve the original vouchers of registration, depository and clearance and the related documents and materials. The aforementioned materials shall be preserved for a period of not less than 20 years.

Article 163 A securities registrar and clearance institution shall establish a fund for securities clearing risks, which is to be used to pay for or make up the losses suffered by the securities registrar and clearance institution due to settlement breach, technical failures, operational errors or force majeure.

The fund for securities clearing risks shall be allocated from the business revenues and gains of the securities registrar and clearance institution, and may also be contributed by the clearing participants

on a proportional basis reflecting their respective volumes of securities traded.

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

Article 164 The proceeds of the fund for securities clearing risks shall be deposited in a special account at a designated bank and managed under a separate entry.

After settling compensation claims with the proceeds of the securities clearing fund, the securities registrar and clearance institution shall seek recovery from the relevant liable persons.

Article 165 The application for dissolution submitted by a securities registrar and clearance institution shall be subject to approval by the securities regulatory authority under the State Council.

Article 166 To entrust a securities company with the processing of securities trading, an investor shall apply for opening a securities account. A securities registrar and clearance institution shall, in accordance with relevant regulations, open a securities account for the investor in the investor's own name.

In applying for opening an account, the investor must present the legal documentations to establish his identity as a Chinese citizen or his qualifications as a Chinese legal person, except as may otherwise be prescribed by the State.

Article 167 When providing settlement netting services for securities trading, a securities registrar and clearance institution shall request the participants in clearing to adhere to the principle of delivery versus payment, to deliver securities and funds in full and to pledge performance bonds.

No one shall use the securities, funds or performance bonds for a settlement prior to completion of the settlement.

Where a participant in clearing fails to discharge its settlement obligations, the securities registrar and clearance institution shall have the right to dispose of the property, mentioned in the preceding paragraph, in accordance with its business rules.

Article 168 The funds and securities collected for clearance by a securities registrar and clearance institution in accordance with the business rules must be deposited in the special accounts for clearance and settlement, may only be used in accordance with the business rules for the clearance and settlement of the completed securities transactions, and shall not be subject to compulsory enforcement.

## **Chapter VIII Securities Service Institutions**

Article 169 To engage in securities service business, investment consultancy institutions, financial advisory institutions, credit rating institutions, asset valuation institutions and accounting offices must



obtain approval of the securities regulatory authority under the State Council and the relevant departments in charge.

The administrative measures for examination and approval of investment consultancy institutions, financial advisory institutions, credit rating institutions, asset valuation institutions and accounting offices, which intend to engage in securities service business, shall be formulated by the securities regulatory authority under the State Council and the relevant departments in charge.

Article 170 Persons from investment consultancy institutions, financial advisory institutions and credit rating institutions, who engage in securities service business, must possess the professional knowledge of securities and have at least two years of experience in securities business or in securities service business. The standards for determining the qualifications for securities business and the administrative measures in this regard shall be formulated by the securities regulatory authority under the State Council.

Article 171 When conducting securities service business, an investment consultancy institution and its employees shall not engage in the following activities:

- (1) making securities investment as an agent of entrusting parties;
- (2) undertaking to share the gains and losses from securities investment with the entrusting parties;
- (3) purchasing and selling the shares of the listed companies to which the consultancy institution provides services;

(4) via the media or by other means, giving or spreading false information or information that misleads investors; and

(5) such other activities as may be so prohibited by laws or administrative regulations.

Where the institution causes losses to investors due to any of the activities mentioned under the preceding paragraph, it shall be liable for compensation pursuant to law.

Article 172 Investment consultancy institutions and credit rating institutions engaged in securities service business shall charge service fees in compliance with the rates or the measures therefor prescribed by the relevant department in charge under the State Council.

Article 173 When preparing and producing such documents as audit reports, asset valuation reports, financial advisory reports, credit rating reports or legal opinions for such securities business activities as securities issuing, listing and trading, a securities service institution shall perform its duties diligently in examining and verifying the truthfulness, accuracy and completeness of the contents of the documents and materials on which their report, etc. are based. Where there are false entries, misleading statements, or major omission in the documents prepared and produced by them, which cause losses to others, they shall be held jointly and severally liable for compensation together with the issuers or listed companies, unless they can establish that they are faultless.

## Chapter IX Securities Industry Association

Article 174 The securities industry association is a self-regulatory organization of 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 power of the securities industry association is the assembly composed of all members.

Article 175 The charter of the securities industry association shall be drawn up by the assembly of the members and submitted to the securities regulatory authority under the State Council for the record.

Article 176 The securities industry association shall perform the following functions:

- (1) to enable members to understand and adhere to the laws and administrative regulations governing securities;
- (2) to safeguard the lawful rights of members according to laws and to present their suggestions and requests to the securities regulatory authority pursuant to law;
- (3) to collect and sort out information on securities in the service of members;
- (4) to formulate rules for members to follow, to organize vocational training among the employees of member units, and to promote professional exchange among members ;

- (5) to mediate disputes over securities business that arise among members or between members and their clients;
- (6) to organize members to study the evolution, operation and related topics of the securities industry;
- (7) to supervise and inspect the behaviors of members and to impose disciplinary sanctions on the members for their violation of laws, administrative regulations or the charter of the association; and
- (8) such other functions as may be so prescribed in the charter of the securities industry association.

Article 177 The securities industry association shall have a board of governors. The members of the board of governors shall be elected in accordance with provisions of the charter of the association.

## **Chapter X Securities Regulatory Authority**

Article 178 The securities regulatory authority under the State Council shall exercise regulation over the securities markets, maintain order of the markets and ensure the lawful operation of the markets pursuant to law.

Article 179 The securities regulatory authority under the State Council shall perform the following functions in exercising regulation over the securities markets:

- (1) to formulate regulations and rules for the regulation of the securities markets and exercise the power of examination or

approval pursuant to law;

(2) to exercise the regulation over the issuance, listing, trading, registration, depository and clearance of securities pursuant to law;

(3) to exercise regulation over the securities business of securities issuers, listed companies, securities companies, management companies of securities investment funds, securities service institutions, stock exchanges and securities registrar and clearance institutions pursuant to law;

(4) to formulate the standards for the qualifications and code of conduct for professionals in the securities business pursuant to law, and to supervise the implementation thereof;

(5) to supervise and inspect, pursuant to law, the publication of information concerning the issuance, listing and trading of securities;

(6) to guide and supervise the activities of the securities industry association pursuant to law;

(7) to investigate and penalize, pursuant to law, violations of laws or administrative regulations governing the securities markets; and

(8) such other functions as may be so prescribed by laws or administrative regulations.

The securities regulatory authority under the State Council may establish a mechanism for cooperative regulation with the securities regulatory authorities of other countries or regions, to facilitate cross-boarder regulation.

Article 180 When performing its duties pursuant to law, the

securities regulatory authority under the State Council shall have the power to adopt the following measures:

(1) to conduct on-the-spot inspection of a securities issuer, listed company, securities company, management company of securities investment funds, securities service institution, stock exchange and securities registrar and clearance institution pursuant to law;

(2) to enter the site where suspected violations of law are committed to conduct investigation and collect evidence;

(3) to inquire the parties concerned, the units and individuals related to the events under investigation and require them to give explanations to the matters related to the events under investigation;

(4) to check and duplicate such materials as property registration and communication records related to the events under investigation;

(5) to check and duplicate the securities transaction records, registration and transfer records, financial and accounting materials of the units and individuals related to the events under investigation and other related documents and materials; to seal up for safekeeping the documents and materials which may be transferred to another place, concealed or destroyed;

(6) to inquire about the accounts of funds and securities and bank accounts of the parties concerned and of the units and individuals related to the events under investigation; where there is evidence to substantiate the fact that the property involved such as illegal funds and securities has been or is liable to be transferred to another place

or concealed, or that important evidence has been or is liable to be concealed, forged or destroyed, to freeze or seal up the said accounts with the approval of the chief person in charge of the securities regulatory authority under the State Council; and

(7) when investigating serious violations of the law governing securities, such as manipulation of securities markets and insider trading, with the approval of the chief person in charge of the securities regulatory authority under the State Council, to impose restrictions on the purchasing and selling of the securities by the parties involved in the event under investigation, provided that the period of restriction does not exceed 15 trading days; in complicated cases, such period may be extended for another 15 trading days.

Article 181 When exercising supervision or inspection or conducting investigation in performing the duties of the securities regulatory authority under the State Council pursuant to law, the officials sent for the purpose shall be not less than two persons, and they shall show their lawful identifications and the notifications of supervision, inspection or investigation. Where the officials sent for supervision, inspection or investigation are less than two persons, or such officials fail to show their lawful identifications and the notifications of supervision, inspection or investigation, the unit under inspection or investigation shall have the right to refuse.

Article 182 Staff members of the securities regulatory authority under the State Council must be devoted to their duties, act in

accordance with law, and be impartial and honest. They shall not take advantage of their positions to seek illegitimate gains, or disclose the commercial secrets of the relevant units and individuals they get to know.

Article 183 When the securities regulatory authority under the State Council performs its duties pursuant to law, the units and individuals under inspection or investigation shall cooperate, provide truthful documents and materials required, and shall not refuse to cooperate, place obstacles or conceal such documents and materials.

Article 184 The rules and regulations formulated, and the work system for regulation established, by the securities regulatory authority under the State Council pursuant to law shall be made public.

The decisions made by the securities regulatory authority under the State Council, on the basis of the results of its investigations, to punish violations of the law governing securities, shall be made public.

Article 185 The securities regulatory authority under the State Council shall, together with other financial regulatory authorities under the State Council, establish a mechanism for sharing regulatory information.

When the securities regulatory authority under the State Council performs its duties and conducts supervision, inspection or investigation pursuant to law, the departments concerned shall



cooperate with it.

Article 186 When in performing its duties pursuant to law, the securities regulatory authority under the State Council discovers that a violation of the law governing securities constitutes a suspected criminal offense, it shall transfer the case to a judicial organ for handling.

Article 187 Staff members of the securities regulatory authority under the State Council shall not hold any positions concurrently in any institutions which are subject to its regulation.

## Chapter XI Legal Liability

Article 188 Where an entity, without approval of the statutory authority, publicly issues securities or does so in disguised form, it shall be ordered to cease such issuing and return the funds thus raised, plus the bank deposit interest for the same period, and shall be fined not less than one percent but not more than five percent of the amount of the illegally raised funds; the company incorporated through public issuance of securities without approval or in disguised form shall be banned by the authority or department performing the regulatory duties pursuant to law, in conjunction with the local people's government at or above county level. The person directly in charge and the other persons directly responsible shall be given a warning and, in addition, be fined not less than 30,000 yuan but not

more than 300,000 yuan each.

Article 189 An issuer that does not meet the conditions for issuance and has not started the issuing of securities although it has obtained approval by fraudulent means shall be fined not less than 300,000 yuan but not more than 600,000 yuan; if it has started such issuing, it shall be fined not less than one percent but not more than five percent of the amount of the illegally raised funds. The person directly in charge and the other persons directly responsible shall be fined not less than 30,000 yuan but not more than 300,000 yuan each. Where the illegal act mentioned in the preceding paragraph is instigated by a controlling shareholder or a person in practical control of the issuer, punishment shall be meted out pursuant to the provisions of the preceding paragraph.

Article 190 Where a securities company underwrites or purchases and sells as an agent the securities issued to the public without approval, it shall be ordered to cease such underwriting or purchasing and selling, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 300,000 yuan, it shall be fined not less than 300,000 yuan but not more than 600,000 yuan; where losses are caused to investors, it shall be held jointly and severally liable for the losses with the issuer. The person directly in charge and the other persons directly responsible shall be given a warning, be disqualified for their

posts or for the securities business and, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 191 Where a securities company commits one of the following acts in underwriting, it shall be ordered to rectify, be given a warning, its illegal gains shall be confiscated, and it may, in addition, be fined not less than 300,000 yuan but not more than 600,000 yuan; if the circumstances are serious, its business permits in question shall be suspended or revoked; if losses are caused to other securities underwriting institutions or investors, it shall be held liable for the losses pursuant to law; the person directly in charge and the other persons directly responsible shall be given a warning and may, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each; and if the circumstances are serious, they shall be disqualified for their posts or for the securities business:

- (1) issuing false advertisements or advertisements that mislead investors, or conducting other promotion activities to the same effect;
- (2) soliciting underwriting business through illegitimate competition; and
- (3) other acts in violation of the provisions governing securities underwriting business.

Article 192 Where a sponsor produces instruments of sponsorship with false entries, misleading statements or major omissions, or fails to perform its other obligatory duties, it shall be ordered to rectify and be given a warning, its illegal gains shall be confiscated, and it

shall, in addition, be fined not less than one time but not more than five times its business earnings; and if the circumstances are serious, its business permits in question shall be suspended or revoked. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each; and if the circumstances are serious, they shall be disqualified for their posts or for the securities business.

Article 193 Where an issuer, a listed company or any other entity that is obligated to disclose information fails to disclose information according to the relevant regulations, or there are false entries, misleading statements or major omissions in the information disclosed, it shall be ordered to rectify, be given a warning, and shall, in addition, be fined not less than 300,000 yuan but not more than 600,000 yuan. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each. Where an issuer, a listed company or any other entity that is obligated to disclose information fails to submit relevant reports in accordance with the relevant regulations, or there are false entries, misleading statements or major omissions in the reports submitted, it shall be ordered to rectify, be given a warning, and shall, in addition, be fined not less than 300,000 yuan but not more than 600,000 yuan. The person directly in charge and the other persons directly

responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Where the illegal act mentioned in the preceding two paragraphs is instigated by a controlling shareholder or a person in practical control of the issuer, listed company or the entity that is obligated to disclose information, the instigator shall be punished in accordance with the provisions of the preceding two paragraphs.

Article 194 Where an issuer or listed company, without approval, diverts the funds raised through public issuance of securities from the purpose set for their use, it shall be ordered to rectify, and the person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Where the illegal act mentioned in the preceding paragraph is instigated by a controlling shareholder or a person in practical control of the issuer or listed company, the instigator shall be given a warning and shall, in addition, be fined not less than 300,000 yuan but not more than 600,000 yuan. The person directly in charge and the other persons directly responsible shall be punished in accordance with the provisions of the preceding paragraph.

Article 195 Where the director, supervisor or senior manager of a listed company, or the shareholder holding 5% or more of the shares of the listed company sells or repurchases the shares of the said company in violation of the provisions of Article 47 of this Law, he

shall be given a warning and may, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan.

Article 196 Where a securities trading site is illegally established, it shall be banned by the people's government at or above county level, its illegal gains shall be confiscated, and it shall be fined not less than one time but not more than five times the illegal gains; where there are no illegal gains or the illegal gains are less than 100,000 yuan, it shall be fined not less than 100,000 yuan but not more than 500,000 yuan. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 197 Where a securities company is established without approval, or securities business is conducted illegally, it shall be banned by the securities regulatory authority, its illegal gains shall be confiscated, and it shall be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 300,000 yuan, it shall be fined not less than 300,000 yuan but not more than 600,000 yuan. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 198 Where a company, in violation of the provisions of this Law, engages a person who does not possess the qualifications for a particular post or for securities business, it shall be ordered by the

securities regulatory authority to rectify, be given a warning and may, in addition, be fined not less than 100,000 yuan but not more than 300,000 yuan; and the person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 199 Where a person who is prohibited by the provisions of laws or administrative regulations from participating in share trading holds or trades in shares directly or under an assumed name or in the name of another person, he shall be ordered to divest his illegally held shares, his illegal gains shall be confiscated, and he shall be fined not more than the equivalent value of the shares traded in; if the person is a State functionary, he shall, in addition, be given an administrative sanction in accordance with law.

Article 200 Where the employee of a stock exchange, securities company, securities registrar and clearing institution or securities service institution, or a staff member of the securities industry association intentionally provides false materials, conceals, forges, distorts or destroys transaction records, or inveigles investors into purchasing or selling securities, he shall be disqualified for securities business and shall, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan; if he is a State functionary, he shall, in addition, be given an administrative sanction in accordance with law.

Article 201 Where securities service institutions and their staff

members that produce such documents as audit reports, asset valuation reports or legal opinions to support share issuing, listing and trading purchase or sell shares in violation of the provisions of Article 45 of this Law, they shall be ordered to divest their illegally held shares, their illegal gains shall be confiscated, and they shall be fined not more than the equivalent value of the shares traded in.

Article 202 Prior to the publication of the information concerning securities issuance or trading or of other information that may have a considerable effect on the price of certain securities, a person with inside information about securities trading or a person who illegally obtains such inside information purchases or sells the securities in question, divulges such information, or suggests another person purchase or sell such securities, he shall be ordered to divest his illegally held securities according to law, his illegal gains shall be confiscated, and he shall, in addition, be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 30,000 yuan, he shall be fined not less than 30,000 yuan but not more than 600,000 yuan. Where a unit engages in insider trading, the person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each. Where a staff member of the securities regulatory authority engages in insider trading, he shall receive a heavier punishment.



Article 203 An entity that, in violation of the provisions of this Law, manipulates the securities markets shall be ordered to divest its illegally held securities, its illegal gains shall be confiscated, and it shall be fined not less than one time but not more than five times the illegal gains; and if there are no illegal gains or the illegal gains are less than 300,000 yuan, it shall be fined not less than 300,000 yuan but not more than 3,000,000 yuan. Where the manipulator is a unit, the person directly in charge of the unit and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 100,000 yuan but not more than 600,000 yuan each.

Article 204 Where an entity, in violation of the provisions of this Law, purchases or sells securities within the restricted period of their assignment, it shall be ordered to rectify, be given a warning and shall, in addition, be fined not more than the equivalent value of the securities illegally purchased or sold. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 205 Where a securities company, in violation of the provisions of this Law, provides funds or securities to finance their clients to trade in securities, its illegal gains shall be confiscated, its business permits in question shall be suspended or revoked, and it shall be fined not more than the equivalent value of the illegally

provided funds or securities. The person directly in charge and the other persons directly responsible shall be given a warning, be disqualified for the posts or for the securities business, and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 206 Where a unit or individual that, in violation of the provisions of the first or the third paragraph of Article 78 of this Law, disrupts the securities markets, it/he shall be ordered to rectify, the illegal gains shall be confiscated, and it /he shall, in addition, be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 30,000 yuan, it/he shall be fined not less than 30,000 yuan but not more than 200,000 yuan.

Article 207 Where a unit or individual that, in violation of the provisions of the second paragraph of Article 78 of this Law, makes false statements or gives misleading information in the course of securities trading, it/he shall be ordered to rectify 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 an administrative sanction in accordance with law.

Article 208 Where a legal person opens an account in another person's name or makes use of another person's account to trade in securities, it shall be ordered to rectify, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than one time

but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 30,000 yuan, it shall be fined not less than 30,000 yuan but not more than 300,000 yuan. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan each.

Where a securities company provides its own or another person's securities trading account for the illegal acts mentioned in the preceding paragraph, in addition to the punishments specified in the preceding paragraph, the person directly in charge and the other person directly responsible shall be disqualified for the posts or for the securities business.

Article 209 Where a securities company, in violation of the provisions of this Law, conducts securities proprietary account transactions by using another person's name or in the name of a natural person, it shall be ordered to rectify, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 300,000 yuan, it shall, in addition, be fined not less than 300,000 yuan but not more than 600,000 yuan; and if the circumstances are serious, its permit for securities proprietary account transaction shall be suspended or revoked. The person directly in charge and the other persons directly responsible shall be given a warning, they shall be disqualified for

the posts or for securities business, and shall, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan each.

Article 210 Where a securities company trades in securities or processes transactions at variance with the entrustment of a client or handles matters other than transactions against the client's expression of his true intention, it shall be ordered to rectify and shall be fined not less than 10,000 yuan but not more than 100,000 yuan. If it causes losses to the client, it shall be held liable for the losses in accordance with law.

Article 211 Where a securities company or a securities registrar and clearing institution misappropriate its clients' funds or securities, or trades in securities for its clients without their entrustments, it shall be ordered to rectify, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 100,000 yuan, it shall be fined not less than 100,000 yuan but not more than 600,000 yuan; and if the circumstances are serious, it shall be ordered to close down, or its business permits in question shall be revoked. The person directly in charge and the other persons directly responsible shall be given a warning, they shall be disqualified for the posts or for securities business, and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 212 Where a securities company that conducts brokerage

business accepts the entrustment of discretionary power of a client to trade in securities, or undertakes to secure gains or make up losses to a client in securities trading, it shall be ordered to rectify, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than 50,000 yuan but not more than 200,000 yuan, and its business permits in question may be suspended or revoked. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan each, and they may be disqualified for the posts or for securities business. Article 213 Where an acquirer fails to discharge its obligations of announcing its acquisition of a listed company, tendering an acquisition offer, submitting a report on its acquisition of the listed company, etc., as is required by the provisions of this Law, or amends the tendered acquisition offer without approval, it shall be ordered to rectify, be given a warning, and shall, in addition, be fined not less than 100,000 yuan but not more than 300,000 yuan; pending rectification, the acquirer shall not exercise the right to vote otherwise vested through the shares acquired by itself or jointly with another entity through agreement or other arrangements. The person directly in charge and the other persons directly responsible shall be given a warning, and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 214 Where an acquirer or its controlling shareholder, by

making use of the acquisition of a listed company, impairs the lawful rights and interests of the company acquired and its shareholders, it shall be ordered to rectify and be given a warning; if the circumstances are serious, it shall, in addition, be fined not less than 100,000 yuan but not more than 600,000 yuan. Where losses are caused to the company acquired and its shareholders, it shall be held liable for the losses. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 215 Where a securities company or its employee, in violation of the provisions of this Law, accepts a client's entrustment in private to trade in securities, it/he shall be ordered to rectify and be given a warning, the illegal gains shall be confiscated, and it/he shall be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 100,000 yuan, it/he shall be fined not less than 100,000 yuan but not more than 300,000 yuan.

Article 216 Where a securities company, without approval, engages in the trading of non-listed securities, it shall be ordered to rectify, the illegal gains shall be confiscated, and it shall be fined not less than one time but not more than five times the illegal gains.

Article 217 Where a securities company, without justifiable reasons, fails to commence business three months after its incorporation, or

ceases business for three consecutive months or longer after the commencement of business, its corporate business license shall be revoked by the company registration authority.

Article 218 Where a securities company, in violation of the provisions of this Law, establishes, acquires or closes a branch office, or merges with another company, divides, suspends business, dissolves or goes bankrupt, or establishes or acquires a securities business institution abroad or becomes a shareholder of such an institution, it shall be ordered to rectify, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 100,000 yuan, it shall be fined not less than 100,000 yuan but not more than 600,000 yuan. The person directly in charge shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan.

Where a securities company, in violation of the provisions of Article 129 of this Law, alters the relevant matters, it shall be ordered to rectify and shall, in addition, be fined not less than 100,000 yuan but not more than 300,000 yuan. The person directly in charge shall be given a warning and shall, in addition, be fined not more than 50,000 yuan.

Article 219 Where a securities company operates securities business beyond the licensed business scope, it shall be ordered to rectify, its

illegal gains shall be confiscated, and it shall, in addition, be fined not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 300,000 yuan, it shall be fined not less than 300,000 yuan but not more than 600,000 yuan; and if the circumstances are serious, it shall be ordered to close down. The person directly in charge and the other persons directly responsible shall be given a warning, they shall be disqualified for the posts or for securities business, and shall, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan each.

Article 220 Where a securities company fails to separate its securities brokerage, underwriting, proprietary account transaction and securities asset management from each other, as is required by law, but mixes them up in operation, it shall be ordered to rectify, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than 300,000 yuan but not more than 600,000 yuan; if the circumstances are serious, its business permits in question shall be revoked. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan each; and if the circumstances are serious, they shall be disqualified for the posts or for the securities business.

Article 221 Where an entity obtains a securities business permit by submitting false certificates or by such other fraudulent means as



concealing important facts, or a securities company commits a serious illegal act in the course of securities trading, thus it ceases to possess the qualifications for the business, its business permit shall be revoked by the securities regulatory authority.

Article 222 Where a securities company or its shareholder or a person in practical control, in violation of the relevant provisions, refuses to submit or provide information and materials of business management to the securities regulatory authority, or submits or provides such information and materials with false entries, misleading statements or major omissions, it shall be ordered to rectify, be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan, and its securities business permits in question may be suspended or revoked. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not more than 30,000 yuan, and they may be disqualified for the posts or the securities business.

Where a securities company provides finance or guaranty for its shareholder or a person connected with the shareholder, it shall be ordered to rectify, be given a warning and shall, in addition, be fined not less than 100,000 yuan but not more than 300,000 yuan. The person directly in charge and the other persons directly responsible shall be fined not less than 30,000 yuan but not more than 100,000 yuan each. If the shareholder is at fault, pending its rectification as

required, the securities regulatory authority under the State Council may restrict his shareholder rights; and if he refuses to rectify, the said authority may order him to divest the shares he holds of the securities company.

Article 223 Where a securities service institution fails to perform its duties diligently so that there are false entries, misleading materials or major omissions in the documents it prepares and produces, it shall be ordered to rectify, its business revenues in question shall be confiscated, its business permit for securities service business shall be suspended or revoked, and it shall, in addition, be fined not less than one time but not more than five times the business revenues in question. The person directly in charge and the other persons directly responsible shall be given a warning, they shall be disqualified for the securities business, and shall, in addition, be fined not less than 30,000 yuan but not more than 100,000 yuan each.

Article 224 Where an entity issues or underwrites corporate bonds in violation of the provisions of this Law, it shall be punished in accordance with the relevant provision of this Law by the department authorized by the State Council.

Article 225 Where a listed company, securities company, stock exchange, securities registrar and clearing institution or securities service institution fails to preserve the relevant documents and materials in accordance with the relevant provisions, it shall be ordered to rectify, be given a warning, and shall, in addition, be fined

not less than 30,000 yuan but not more than 300,000 yuan; and if it conceals, forges, distorts or destroys relevant documents and materials, it shall be given a warning and shall, in addition, be fined not less than 300,000 yuan but not more than 600,000 yuan.

Article 226 Where a securities registrar and clearing institution is established without approval of the securities regulatory authority under the State Council, it shall be banned by the securities regulatory authority, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than one time but not more than five times the illegal gains.

Where an investment consultancy institution, financial advisory institution, credit appraisal institution, asset valuation institution or accounting office engages in securities service business without approval, it shall be ordered to rectify, its illegal gains shall be confiscated, and it shall, in addition, be fined not less than one time but not more than five times the illegal gains.

Where a securities registrar and clearing institution or securities service institution violates the provisions of this Law or the business rules formulated according to law, the securities regulatory authority shall order it to rectify, confiscates its illegal gains and, in addition, impose on it a fine of not less than one time but not more than five times the illegal gains; if there are no illegal gains or the illegal gains are less than 100,000 yuan, the said authority shall impose on it a fine of not less than 100,000 yuan but not more than 300,000 yuan;

and if the circumstances are serious, the authority shall order it to close down, or revoke its securities service business permit.

Article 227 Where the securities regulatory authority under the State Council or the department authorized by the State Council commits one of the following acts, the person directly in charge and the other persons directly responsible shall be given administrative sanctions according to law:

- (1) giving approval to an application for securities issuance, establishment of securities company, etc. that is not in conformity with the provisions of this Law;
- (2) in violation of the relevant provisions, adopting the measures specified in Article 180 of this Law such as conducting on-the-spot inspection, investigation for collecting evidence, making inquiries, freezing funds or securities, and sealing up documents and materials for safekeeping;
- (3) imposing administrative penalties on relevant institutions and persons in violation of provisions; and
- (4) other acts committed when failing to perform its duties in accordance with law.

Article 228 Where the staff member of a securities regulatory authority or the member of an issuance examination commission fails to perform his duties as provided for by this Law, or abuses his power, or neglects his duty, or seeks illegitimate gains by taking advantage of his position, or discloses the commercial secrets of a

unit or individual which he comes to know, he shall be investigated for his legal liabilities in accordance with law.

Article 229 Where a stock exchange, after examination, grants an application for listing securities that does not meet the conditions specified by this Law, it shall be given a warning, its business revenues shall be confiscated, and it shall, in addition, be fined not less than one time but not more than five times the business revenues. The person directly in charge and the other persons directly responsible shall be given a warning and shall, in addition, be fined not less than 30,000 yuan but not more than 300,000 yuan each.

Article 230 Where an entity, without resorting to violence or threat, refuses to let the securities regulatory authority and its staff members exercise the powers of supervision, inspection and investigation according to law, or prevent them from doing so, it shall be given an administrative penalty for public security according to law.

Article 231 Where a violation of the provisions of this Law constitutes a crime, criminal responsibility shall be investigated for according to law.

Article 232 Where, for violation of the provisions of this Law, an entity is held liable for civil compensation and is required to pay a fine or penalty, but the enforceable property is not sufficient to satisfy both simultaneously, it shall bear the civil compensation first.

Article 233 Where an entity violates laws, administrative regulations

or the relevant regulations of the securities regulatory authority under the State Council, if the circumstances are serious, the securities regulatory authority under the State Council may impose the measure of denying the persons held responsible access to securities markets.

Denying access to the securities markets, mentioned in the preceding paragraph, is a system under which a person is barred from engaging in the securities business or serving as a director, supervisor or senior manager of a listed company for a certain period of time or permanently.

Article 234 The fines collected and the illegal gains confiscated according to this Law shall all go to the State treasury.

Article 235 Where a party is not satisfied with the decision on punishment made by the securities regulatory authority or the department authorized by the Stated Council, it may apply for an administrative reconsideration or bring a lawsuit directly in a people's court according to law.

## Chapter XII Supplementary Provisions

Article 236 Securities the listing and trading of which on stock exchanges have been approved according to administrative regulations before this Law goes into effect shall continue to be traded according to law.

Securities business institutions which have been established upon approval pursuant to administrative regulations and regulations of the finance department under the State Council before this Law goes into effect and which do not fully conform to the provisions of this Law shall, within the specified time limit, work to meet the requirements provided for by this Law. The specific measures in this regard shall be formulated separately by the State Council.

Article 237 To apply for approval for public issuance of shares or corporate bonds, the issuer shall pay examination fees in accordance with relevant rules.

Article 238 Direct or indirect issuance of securities abroad by domestic enterprises, or listing and trading of securities abroad by such enterprises, shall be subject to approval given by the securities regulatory authority under the State Council in accordance with the regulations of the State Council.

Article 239 The specific measures for the shares of domestic companies subscribed and traded in foreign currencies shall be formulated separately by the State Council.

Article 240 This Law shall go into effect as of January 1, 2006.