Qualification of an issuer

(1) The issuer shall be a duly established and legally existing CLS.

(2) The issuer shall have been operating for three years or more consecutively following the establishment of the CLS.

(3) The production and business of the issuer shall comply with the provisions of the laws, administrative regulations and the articles of association of the company and be in line with the State industrial policy.

(4) There is no significant change in the principal business of the issuer or its directors and senior management personnel or change in actual controller during the past three years.

Independence from the controlling shareholder

(1) The issuer shall have complete assets.

(2) The personnel of an issuer shall be independent. The senior management personnel of the issuer such as the general manager, deputy general manager, chief financial officer and company secretary, etc, shall not hold positions other than as a director or supervisor in the controlling shareholder, actual controller and other enterprises controlled by the controlling shareholder or actual controller, or draw a salary in the controlling shareholder, actual controller and other enterprises controlled by the controlling shareholder or actual controller; the finance personnel of an issuer shall not hold concurrent position in the controlling shareholder, actual controller and other enterprises controlled by the controlling shareholder or actual controller.

(3) The issuer shall be financially independent.

(4) The issuer shall not have joint management with the controlling shareholder, actual controller and other enterprises controlled by the controlling shareholder or actual controller.

(5) The business of the issuer shall not have industry competition or obviously unfair affiliated transactions with the controlling shareholder, actual controller and other enterprises controlled by the controlling shareholder or actual controller.

Compliance

The directors, supervisors and senior management of an issuer shall possess employment qualifications which comply with the provisions of the laws, rules and regulations and shall not:

(1) be barred from entry into the securities market by the CSRC;

(2) have been subject to administrative punishment by the CSRC within the past 36 months or subject to open reprimand by the stock exchange within the past 12 months; and

(3) be a subject of investigation by the judicial authorities for alleged criminal offence or be a subject of investigation by the CSRC for alleged violation and pending specific conclusion.

An issuer shall not:

(1) have issued securities openly or in disguise, without obtaining approval of the statutory authorities within the past 36 months or if the illegal act was committed more than 36 months ago but the violation is ongoing;

(2) have been subject to administrative punishment for violation of industrial and commercial administration, tax collection, land, environmental protection, Customs and other laws and administrative regulations within the past 36 months and where the circumstances are serious;

(3) have submitted an application for issuance to the CSRC within the past 36 months but which application documents contains false records, misrepresentation or major omission, obtained approval for issuance using fraudulent means when it does not satisfy the issuance criteria, used improper means to interfere with the examination of the CSRC and its issuance examination commission, or forged or altered the signatures or seals of the issuer or its directors, supervisors or senior management personnel;

(4) submit application documents which contain false records, misrepresentation or major omission for the current application;

(5) be a subject of investigation by the judicial authorities for alleged criminal offence and pending specific conclusions; and

(6) have been accountable for damage to the legitimate rights and interests of investors and the public interest.

Financial requirements

An issuer shall satisfy the following criteria:

(1) the net profit of the past three accounting years is positive and the aggregate exceeds RMB30 million; when comparing net profits after deduction of extraordinary gains or losses and net profits before deduction, the lower amount shall be the basis of calculation;

(2) the aggregate net cash flow generated from business activities in the past three accounting years exceeds RMB50 million; or the aggregate business revenue of the past three accounting years exceeds RMB300 million;

(3) the total pre-issuance share capital shall not be less than RMB30 million;

(4) the value of intangible assets at the end of the latest period (after deducting land use rights, aquiculture rights and mining rights, etc) does not exceed 20% of net assets; and

(5) there are no unrecovered losses at the end of the latest period.

Right to request buy-back

Shareholders of a LLC have the right to request the company to buy back their equity if they have voted against resolutions adopted by the shareholders' meeting on any of the following matters:

(1) not to distribute profits even if the company has been profitable for five consecutive years;

(2) merger, division or transfer of major assets of the company; and

(3) revision of the company's articles of association for the purpose of continuing the company after the expiration of its operation term (Company Law, Art 75).

Right to bring lawsuits and derivative actions

If the procedures for calling and convening a shareholders' meeting or a meeting of board of directors or the methods of voting in such meetings violate laws, regulations or the company's articles of association, or the relevant resolutions violate the company's articles of association, shareholders may, within 60 days from the date of the relevant resolutions, bring lawsuits before the People's Court for repealing such resolutions (Company Law, Art 22).

Shareholders of a LLC shall have the right to bring lawsuits against directors and senior officers of the company if their activities violate laws, regulations or the company's articles of association and infringe the lawful interest of shareholders (Company Law, Art 153).

Shareholders of a LLC has the right to request the board of directors or supervisory board (as the case may be) of the company to take a legal action against any directors, supervisors or senior officers whose conducts violate laws, regulations and/or the company's articles of association and cause losses to the company or against any other persons for their conducts which infringe upon the company's lawful rights and interests and cause losses to the company. If the board of directors or supervisory board refuses to take the action or fails to take the action within 30 days after receipt of the request, then the shareholders requesting such action may take the action in their own names but for the interests of the company before the People's Court (Company Law, Art 150 and 152).

Companies limited by shares

¶166-610 Minimum number of shareholders

The Company Law does not expressly provide for the minimum number of shareholders of a CLS. However, for the establishment of a CLS, there shall be at least two to two hundred promoters, of which more than half shall have a domicile in China (Company Law, Art 79).

Shareholders who are promoters of the company are prohibited from transferring their shares within one year from the date of establishment of the company (Company Law, Art 142).

¶166-620 Shareholders of a listed CLS

For a listed CLS, shares issued to the public shall amount to at least 25% of the company's total issued shares; if the company's total share capital exceeds RMB400 million, the ratio of shares issued to the public may be lowered to above 10% (Securities Law, Art 50).

If the CLS no longer satisfies the above shareholding requirements, the CSRC may suspend or eventually terminate the listing of the shares of the company (Securities Law, Art 55 and 56).

¶166-630 Types of shares

Shares of a CLS shall be issued in accordance with the principle of equitability and fairness, and the same type of shares shall carry the same rights (Company Law, Art 127). On such basis, different types of shares may be issued depending mainly on the identity of the shareholders.

Shares of a CLS may be divided into promoters' shares, legal person shares and employees' shares. For a listed CLS, its shares may be categorised as State shares, legal person shares, foreign legal person shares, individual shares, "A" shares, "B" shares and "H" shares.

Promoters' shares

Promoters' shares refer to shares of a CLS held by the promoters.

Promoters' names must be clearly indicated on the share certificates of promoters' shares (Company Law, Art 130).

Employees' shares

Employees' shares refer to shares issued by a CLS exclusively to its employees. The requirements for issue and transfer of employees' shares are regulated by laws and administrative regulations independent of the Company Law.

As confusion and irregularities have arisen in the implementation of employee share plans by CLS, the State Commission for Economic Restructuring issued a notice in 1994 to discontinue the approval of issuance of employee shares. Although employees' shares can no longer be issued, holders of employees' shares which have been duly issued still enjoy their rights as

A listed company shall enter into appointment contracts with its directors to provide for the rights and obligations between the company and the director, the term of office, the director's liabilities for breach of laws, regulations or articles of association, and the compensation for early termination of the contract by the company etc (Code, Art 32).

¶181-820 Obligations of directors

Directors shall perform their duties faithfully, honestly and diligently for the best interests of the company and all the shareholders (Code, Art 33).

Directors shall ensure that they have adequate time and energy for the performance of their duties (Code, Art 34).

Directors shall attend the board meetings in a diligent and responsible manner, and shall express clear opinion on the topics discussed. When a director unable to attend a board of directors meeting, he may authorise another director in writing to vote on his behalf and the director who makes such authorisation shall be responsible for the vote (Code, Art 35).

Directors shall abide by relevant laws, rules and regulations, and the company's articles of association, and shall strictly fulfil the undertakings they made publicly (Code, Art 36).

Directors shall take the initiative to attend relevant training on the rights, obligations and duties of a director, familiarise themselves with relevant laws and regulations and master relevant knowledge for acting as directors (Code, Art 37).

Directors responsible for passing a board resolution which is in violation of laws or regulations or the company's articles of association and cause losses to the company shall be liable for compensation. Directors who can prove that they have objected to the resolution by the record of such objections in the minutes shall be excluded from the compensation liability (Code, Art 38).

Upon approval by the shareholders' general meeting, a listed company may purchase liability insurance for directors. Such insurance shall not cover the liabilities arising in connection with directors' violation of laws, regulations or the company's articles of association (Code, Art 39).

¶181-830 Duties and composition of the board of directors

The number and composition of the board of directors shall comply with laws and regulations and shall facilitate effective discussions for efficient and prudent decision-making by the board of directors (Code, Art 40). The corporate governance framework of a listed company shall ensure that the board of directors can exercise its power in accordance with laws, administrative regulations and the company's articles of association (Code, Art 42).

Members of the board shall possess adequate knowledge, skill and quality to perform their duties (Code, Art 41). The board of directors shall be accountable to the shareholders (Code, Art 42).

The board of directors shall perform its duties as stipulated by laws, regulations and the company's articles of association, ensure that the company complies with laws, regulations and its articles of association, treat all the shareholders equally and be attentive to the interests of stakeholders (Code, Art 43).

¶181-840 Rules and procedures of the board of directors

A listed company shall formulate rules and procedures for its board of directors in its articles of association to facilitate efficient functioning and rational decision-making of the board of directors (Code, Art 44).

The board of directors shall meet periodically and convene interim meetings promptly when necessary. Each board meeting shall have a pre-determined agenda (Code, Art 45).

Board meetings of a listed company shall be conducted in strict compliance with prescribed procedures. The board of directors shall send notice to all the directors in accordance with stipulated notice period, and provide sufficient materials, including relevant background materials for the items on the agenda and other information and data that may assist the directors in their understanding of the company's business development. When two or more independent directors deem the materials inadequate or unclear, they may jointly submit a written request to postpone the meeting or discussion of such agenda item, and such request shall be acceded by the board of directors (Code, Art 46).

The minutes of board meetings shall be complete and accurate. The secretary of the board of directors shall organise the minutes and records of discussion properly. Directors who have attended the meetings and the minute taker shall sign the minutes. The minutes of board meetings shall be maintained properly as important records of the company, and may be used as an important basis for clarifying responsibilities of individual directors in the future (Code, Art 47).

Where the board of directors authorises the chairman of the board of directors to exercise part of the board of directors' power of office when the board of directors is not in session, clear rules and principles for such authorisation shall be stated in the articles of association of the listed company. The content of such authorisation shall be clear and specific. All matters related to material interests of the company shall be submitted to the board of directors for collective decision (Code, Art 48).

¶181-850 Independent directors

A listed company shall introduce independent directors to its board of directors in accordance with relevant regulations. Independent directors shall be independent from the listed company and the company's major shareholders. An independent director may not hold any other position in the listed company (Code, Art 49).

flexibility on coupon rates and allowing issuers to have more freedom in using the funds raised. Although the 1993 Enterprise Bond Regulations remain effective, the relevant regulators have in practice, adjusted their policies when implementing the rules to meet the requirements of rapid market development.

On 29 August 2003, the China Securities Regulatory Commission (CSRC) responded to such calls by the bold promulgation of a set of rules to regulate securities firms issuing corporate bond (collectively the "2003 CSRC Rules"). The CSRC was established in October 1992 and has been authorised by the State Council to supervise the securities and futures markets and relevant institutions relating to securities business.

The main objective of the promulgation of the 2003 CSRC Rules is to extricate the heavily depressed securities companies because of the bear markets since 2000. The Rules make no reference to the 1993 Enterprise Bond Regulations and allow certain qualified securities firms to issue corporate bond without the approval of the NDRC and without quota limit.

The promulgation of the 2003 CSRC Rules is considered as a significant breakthrough in the corporate bond area. It suggests a trend that the CSRC will play an increasingly more important role as a major regulator of the non-convertible corporate bond market.

On 31 January 2004, the State Council released the *Several Opinions of the State Council on Promoting the Reform, Opening and Steady Growth of the Capital Markets* which is publicly known as the Nine Points Guidelines. One of the tasks outlined in the Nine Points Guidelines is to provide regulatory framework to encourage qualified enterprises to raise funds through the issuance of corporate bonds, and to further change the unbalance between the stock and bond markets as well as the underdevelopment of direct financing.

To implement the Nine Points Guidelines, on 21 June 2004, the NDRC promulgated the *Notice on Further Improvement and Strengthening of the Administration on Enterprise Bonds* (NDRC Fiscal and Financial Affairs [2004] No 1134) ("2004 NDRC Notice").The 2004 NDRC Notice further confirms that the NDRC is the primary regulator on enterprise bonds issuance and makes a clear statement that the companies which are governed by the 1994 Company Law shall comply with the Law when applying for the issuance of corporate bonds. It also shortens the previously lengthy 12–18 month process time for quota approval and issuance applications to the 3-month. Further, it loosens the control on interest rate of the bond by permitting the issuer and underwriter to negotiate the interest rate in terms of the credit rating of the bond and the market situation before being approved by the PBOC. In addition, it imposes more responsibilities on the relevant intermediary agencies and sets more requirements on timely and full information disclosure relating to the bonds than ever before.

On 27 April 2005, the PBOC promulgated the first regulation to govern the bonds issued by native financial institutions, ie the *Administrative Rules for the Issuance of Financial Bonds in the National Inter-bank Market* (PBOC Decree

No.(2005)1). The PBOC is authorised by the *Law of the People's Bank of China* to supervise the inter-bank market and empowered by the State Council to approve the issuance of financial bonds (State Council Decree No.412). The rules, which become effective as of 1 June 2005, do not set out a direct quota system and have no requirement of guarantee for the issuance.

On 24 May 2005, the PBOC promulgated the *Administrative Rules on Short-term Financing Bills* (Decree No. (2005)2) ("Short-term Financing Bills Rules") and its two supplementary documents, ie the *Procedures for Underwriting Short-term Financing Bills* and the *Procedures for Information Disclosure of Short-term Financing Bills* in the form of Public Notice No. (2005) 10, allowing qualified non-financial enterprises to issue short-term financing bills to qualified institutional investors in the inter-bank bond market without being limited by the quota. These rules become effective on the date of promulgation.

The introduction of short-term financing bills in the inter-bank bond market to widen direct debt financing channel for non-financial enterprises, is an important breakthrough for bond market in China. It is also of strategic significance in changing the disproportion between direct and indirect financing structures and the disequilibrium development between long-term, medium-term and short-term instruments in Chinese corporate bond market.

On 27 October 2005, the NPC amended the 1994 Company Law and 1997 Securities Law and revised the provisions relating to corporate bonds issuance. This created a much more market-oriented legislative environment for the continued development of the corporate bond market.

In order to speed up the development of the corporate bonds market, in January 2007 the third National Financial Work Conference decided that the CSRC shall supervise corporate bond issues and the NDRC shall examine bonds issued by SOEs with the use of funds raised relating to the fixed assets investments. On 14 August 2007, the CSRC promulgated the *Pilot Rules on Issuance of Corporate Bonds* (CSRC Decree No (2007)49, the "CSRC Pilot Rules"). The new rules which took immediate effect allow listed companies, including those listed on domestic and overseas markets, to issue corporate bonds with a maturity of more than one year on a trial basis.

The CSRC Pilot Rules, which are seen as a landmark move towards the take-off corporate bonds, embody the guidance ideology for establishing regulatory system of corporate bond issuance under market orientation, that is, establishing the corporate bond market system centered on credit responsibility system of bond issuer and market-oriented supporting system of credit rating, information disclosure and bond trustees, taking full advantage of functions in risk identification, dispersion and dissolution by intermediaries and investment organisations, and giving a better play to the basic function of market mechanism in corporate securities market.

On 15 August 2007, the CSRC announced the rules on the application documents for public bond issue (ie Guidelines on Contents and Format of Information Disclosure by Companies Making Public Offering of Securities No.

QFII can invest in Renminbi-denominated financial instruments subject to the approved investment quota (CSRC Notice on QFII Measures, Art 9):

(1) shares listed on China's stock exchanges ;

(2) bonds listed on China's stock exchanges;

(3) securities investment funds;

(4) warrants listed on China's stock exchanges; and

(5) other financial instruments as approved by CSRC, eg close-end funds and open-end funds approved by CSRC.

QFII may also subscribe to offers of new shares, convertible corporate bonds, new issues and placement shares.

¶246-160 Restrictions

There are also restrictions on the percentage of shares that can be held by QFII. According to the CSRC Notice on QFII Measures, shares held by a QFII in a single listed company should not exceed 10% of the total outstanding shares of that company, while total "A" shares held by all QFII in a single listed company should not exceed 20% of the total outstanding shares of that company. However, when QFII make strategic investments in listed companies pursuant to the Administrative Measures on Strategic Investment of Foreign Investors in Listed Companies, the shares held by way of such strategic investments shall not be subject to the above ratio restriction (CSRC Notice on QFII Measures, Art 10).

Another important restriction relates to PRC foreign investment industrial policy. QFII Measures (Art 20) require that QFII's domestic securities investment activities comply with the requirements as set out other relevant regulations. This shall include the Investment Catalogue which sets forth the prohibited industries for foreign investment, eg traditional Chinese medicinal products, construction and operation of power grids, etc. QFII are forbidden to invest in listed companies engaging in these businesses.

Even for the restricted or encouraged industries, the investment Catalogue imposes certain restrictions on shareholding by foreign companies (usually only minority shareholdings allowed). It is still not clear how these industry restrictions will be effectively applied to investment by QFII.

These restrictions on the size, industry and liquidity of QFII investment render it a limited vehicle for M&A activities in China.

¶246-170 Approval

An applicant shall apply for QFII status to CSRC its custodian bank. Within 20 days from receipt of the application, CSRC should examine the applicant material, seek the opinion from SAFE and decide whether or not to approve the QFII status and issue the Securities Investment Business Licence if the application is approved (QFII Measures, Art 8).

After receiving the Securities Investment Business Licence, the applicant shall within one year apply to SAFE for approval on its investment quota. SAFE's decision will be made within 20 days after receiving the application. If approved, the applicant will be notified in writing of its permitted investment quota and the Foreign Exchange Registration Certificate will be issued (QFII Measures, Art 9).

CSRC and SAFE will carry out inquiry and inspection of the Securities Investment Business Licence and the Foreign Exchange Registration Certificate (QFII Measures, Art 29). The QFII Measures do not require the approval by MOFCOM, the authority in charge of foreign investment, for obtaining QFII status. The rationale behind this could possibly be that listed companies are mainly subject to CSRC's jurisdiction and therefore, MOFCOM's involvement in regulating listed companies is not required.

¶246-180 Fund management

After receiving the Securities Investment Licence, a QFII should remit principal amount into China within the period stipulated by SAFE. If a QFII has not fully remitted the principal within this period, the QFII shall provide a written explanation to CSCR and SAFE, and the actual amount remitted will be deemed as the approved investment quota. The difference between the approved quota and the actual amount cannot be subsequently remitted without prior approval of SAFE (QFII Measures, Art 26).

¶246-190 Acquisitions of non-tradable shares

Background

Because tradable shares account for only an insignificant percentage of the outstanding shares of listed companies, acquisitions of listed companies have to be achieved mainly through acquisitions of the controlling non-tradable shares at present. Although the State-owned and legal person shares have always been transferable between domestic Chinese legal persons by agreement, the PRC government suspended such transfer to foreign investors (including FIEs) in 1995.

On 1 November 2002, CSRC, MOF and SETC jointly issued the *Notice on Issues relating to the Transfer of State-owned Shares and Legal Person Shares of Listed Companies to Foreign Investors* ("2002 Notice"), effective as of 1 January 2003, which lifted the ban.

Industrial policy

Under the 2002 Notice, the transfer of State-owned and legal person shares to foreign investors must still comply with the industry policy requirements in the Investment Catalogue. In other words, foreign holdings in listed companies, as a result of the share transfer, cannot violate the statutory prohibitions and restrictions on foreign investment in certain business sectors.

parts even more comprehensive than the provisions of the Company Law. As explained above, regional law must in principle not contradict, but can supplement national law.

¶282-620 Grounds for the dissolution of domestic companies without FIE status

As regards the grounds for dissolution, Chinese law distinguishes between voluntary dissolution and compulsory dissolution. The grounds for voluntary dissolution are set out in Art 181 of the Company Law. Pursuant to this provision, a company may be dissolved if:

(1) the company's term of operation as specified in its articles of association has expired or a reason for liquidation as stipulated in its articles of association has occurred;

(2) a shareholder's meeting or a shareholders' general meeting decides on the dissolution;

(3) dissolution becomes necessary in the event of a corporate merger or division; and

(4) the company's business license has been revoked or it has been ordered to close down.

Compulsory dissolution is addressed by Art 183 of the Company law. A People's Court at the place where the company has its main offices (*Provisions on Several Issues Concerning the Application of the PRC Company Law (II)* ("2008 SPC Provisions"), Art 24) may dissolve a company upon the application of shareholders holding at least 10% of the voting rights in the event that "serious difficulties arise in the operation and the management of the company and its continued existence would cause material loss to the interests of the shareholders and the difficulties cannot be resolved through other means". This rather general provision failed to set out the criteria of which People's Courts could deal with related applications. Consequently, in practice, the People's Courts at different levels and locations interpreted Art 183 of the Company Law in very different ways. The enactment of the 2008 SPC Provisions aims to remedy the situation. In its Art 1, it prescribes the deadlock-situations in which the People's Courts shall accept applications of minority shareholders to dissolve a company on the basis of Art 183 of the Company Law. These situations are as follows:

(1) a company has not been able to hold a shareholders' meeting or a shareholders' general meeting for at least two years in succession and the operation and management of the company is in serious difficulty;

(2) shareholders' votes are unable to reach the statutory percentage or the percentage set out in the company's articles of association, making it impossible to pass resolutions for at least two years in succession, and the operation and management of the company is in serious difficulty;

(3) for a long time there has been a dispute between the directors and the company which could not be solved by a shareholders' meeting or a shareholders' general meeting and the operation and management of the company is in serious difficulty; or

(4) the operation and management of the company is in other serious difficulty, and the continued existence of which may cause substantial losses to the shareholders' interests.

The 2008 SPC Provisions expressly stipulate that the following situations will not be accepted by a People's Court as valid reasons to dissolve a company on the basis of a minority shareholders' application (2008 SPC Provisions, Art 1 sec 2):

(1) a violation of shareholders' rights to know about and to participate in profits;

(2) the company is loss-making or the company's assets are insufficient to discharge due debts; or

(3) the company's business license has been revoked.

A People's Court may accept an application for property preservation or evidence preservation made by shareholder(s) who have applied for the dissolution of a company according to Art 183 of the Company Law if security is provided and the preservation does not affect the operation of the company (2008 SPC Provisions, Art 3).

Furthermore, in the court proceedings which are initiated based on Art 183 of the Company Law, the company shall be named the defendant (2008 SPC Provisions, Art 4) and a judgment made by the court shall be binding upon all the shareholders of the company to be dissolved (2008 SPC Provisions, Art 6).

According to Art 182 of the Company Law, the operation of a company may be continued even upon the expiry of its term or upon the occurrence of other liquidation reasons set out in its articles of association if a corresponding amendment of the company's articles of association is supported by shareholders holding at least ⅔ of the voting rights (also see Company Law, Art 22 and 104). In this case a holder of equity interest in a limited liability company who votes against a related resolution may request the company to purchase her or his equity at a reasonable price (Company Law, Art 75 sec 3).

¶282-630 Liquidation proceedings

In case that a company is dissolved due to reasons set out in Art 181 of the Company Law other than merger or division (for mergers and divisions see ¶240-120 to ¶265-110), the company shall set up a Liquidation Committee within 15 days from the date of occurrence of the reason for dissolution (Company Law, Art 184; *Provisions on Several Issues Concerning the Application of the PRC Company Law (II)* ("2008 SPC Provisions"), Art 7 sec 1).

Article 101 A shareholders' general meeting shall be convened once every year. A shareholders' general meeting shall be convened within two months of any of the following events:

(1) the number of directors falls below two-thirds of the quorum stipulated in this Law or articles of association of the company;

(2) the losses of the company which have not been made good equal one-third of the paid-up capital of the company;

(3) requisition of a shareholders' general meeting by a shareholder who holds 10% or more of the company's shares or several shareholders who hold 10% or more of the company's shares jointly;

(4) the board of directors deems it necessary to convene a shareholders' general meeting;

(5) the board of supervisors proposes to convene a shareholders' general meeting; or

(6) other events stipulated by the articles of association of the company.

Article 102 Shareholders' general meetings shall be convened by the board of directors and chaired by the chairman; where the chairman is unable or fails to perform his/her duties, the deputy chairman shall chair the meeting; where the deputy chairman is unable or fails to perform his/her duties, a director appointed by more than half of the board of directors shall chair the meeting.

Where the board of directors is unable to or fails to convene a shareholders' general meeting, the board of supervisors shall convene and chair a meeting promptly; where the board of supervisors fails to convene and chair the meeting, a shareholder who holds 10% or more of the shares of the company or several shareholders who hold 10% or more of the shares of the company jointly for 90 days or more consecutively may convene and chair the meeting.

Article 103 All the shareholders shall be informed in writing 20 days in advance of a shareholders' general meeting of the date and venue of meeting and the agenda. All the shareholders shall be informed 15 days in advance of an extraordinary general meeting; where the agenda includes an issue of bearer shares, a notice of the meeting stating the date and venue of the meeting and the agenda shall be given 30 days in advance.

A shareholder who holds 3% or more of the shares of the company or several shareholders who hold 30% or more of the shares of the company jointly may submit a written proposal of an agenda item ten days before a shareholders' general meeting to the board of directors; the board of directors shall inform other shareholders of the proposal within two days from receipt of the proposal and table the proposal at the shareholders' general meeting for review. The contents of the proposed agenda item shall be within the scope of duties and powers of the shareholders' general meeting and shall contain a specific topic and specific resolution.

The shareholders' general meeting shall not resolve on matters which are not set out in the notice of meeting.

Holders of bearer shares attending a shareholders' general meeting shall deposit their share certificates with the company from five days before the meeting to the conclusion of the shareholders' general meeting.

Article 104 Shareholders attending a shareholders' general meeting shall exercise one vote per share. Company shares held by the company shall not carry voting rights.

Resolutions of a shareholders' general meeting shall be passed by a simple majority of votes cast by shareholders present at the meeting. Resolutions of a shareholders' general meeting on amendment to the articles of association of the company, increase or reduction in registered capital, merger, division, dissolution or change of company structure shall be passed by two-thirds majority of votes cast by shareholders present at the meeting.

Article 105 Where the provisions of this Law and the articles of association of the company require a resolution of the shareholders' general meeting for the transfer of major assets to others or vice versa or provision of guarantee to external parties etc, the board of directors shall convene a shareholders' general meeting promptly for the passing of a resolution on the aforesaid matter.

Article 106 A cumulative voting system may be implemented for the election of directors and supervisors at a shareholders' general meeting in accordance with the provisions of the articles of association of the company or a resolution of the shareholders' general meeting.

The cumulative voting system referred to in this Law shall mean that the voting rights carried by each share shall correspond to the number of directors or supervisors to be elected and the shareholders may use their voting rights collectively for election of directors or supervisors at a shareholders' general meeting.

Article 107 Shareholders may appoint their proxies to attend a shareholders' general meeting; the proxies shall submit a power of attorney to the company and exercise the voting rights within the scope of authorisation.

Article 108 Minutes of shareholders' general meetings shall be recorded and signed by the chairman and directors who attended the meeting. The minutes of meetings shall be kept together with the record of shareholders' signatures and copies of power of attorney.

Section 3 — Board of Directors and Managers

Article 109 The board of directors of companies limited by shares shall comprise five to 19 members.

The board of directors may comprise employees' representatives. Employees' representatives who sit on the board of directors shall be appointed by company employees via an employees' representative congress or employees' congress or other forms of democratic election.

(2) expiry of the term of business operations stipulated in the articles of association of the company or the occurrence of a dissolution event stipulated in the articles of association of the company, except where the company continues to exist after making amendments to the articles of association of the company;

(3) the board of shareholders or the shareholders' meeting has passed a resolution on dissolution of the company or the shareholder of a one-man limited liability company or the board of directors of a foreign-invested company has passed a resolution on dissolution of the company;

(4) the business licence is revoked in accordance with the provisions of the law or the company is revoked or ordered to close down;

(5) the company is ordered to be dissolved by a people's court in accordance with the provisions of the law; and

(6) other dissolution circumstances provided by the laws and administrative regulations.

Article 44 The following documents shall be submitted with an application for deregistration of a company:

(1) application letter for deregistration signed by the person-in-charge of the liquidation group;

(2) bankruptcy ruling or dissolution ruling made by a people's court, a resolution or decision made by the company in accordance with the provisions of the Company Law, the documents issued by the administrative authorities ordering that the company be revoked or closed down;

(3) liquidation report filed or confirmed by the board of shareholders, shareholders' meeting, the shareholder of a one-man limited liability company, the board of directors of a foreign-invested company or a people's court or the company approval authorities;

(4) Enterprise Legal Person Business Licence; and

(5) other documents stipulated in the laws and administrative regulations.

A State-owned wholly-funded company applying for deregistration shall submit the decision by the State-owned assets supervision and administration authorities. Where the State-owned wholly-funded company is a significant State-owned wholly-funded company as determined by the State Council, the approval documents issued by the people's government of counterpart level shall be submitted.

The proof of deregistration of the branch(es) shall be submitted with an application for deregistration by a company with one or more branches.

Article 45 Upon completion of deregistration formalities by the company registration authorities, a company shall be terminated.

CHAPTER VII — REGISTRATION OF BRANCHES

Article 46 A branch shall refer to an organisation incorporated by a company to engage in business activities outside the company address. Branches shall not qualify as an enterprise legal person.

Article 47 Branch registration matters shall include the name, business premises, person-in-charge and scope of business operations.

The name of a branch shall comply with the relevant provisions of the State.

The scope of business operations of a branch shall not exceed the scope of business operations of the company.

Article 48 An application for registration shall be submitted to the company registration authorities at the location of the proposed branch within 30 days from the date of decision on establishment of the branch. Where the laws and administrative regulations or State Council provisions stipulate that approval of the relevant authorities is required, an application for registration shall be submitted to the company registration authorities within 30 days from the date of approval.

The following documents shall be submitted to the company registration authorities with an application for establishment of a branch:

(1) application letter for branch registration signed by the legal representative of the company;

(2) the articles of association of the company and a photocopy of the Enterprise Legal Person Business Licence affixed with the company seal;

(3) proof of use of business premises;

(4) letter of appointment and identity document of the person-in-charge of the branch; and

(5) other documents required by the State Administration for Industry and Commerce.

Where the laws and administrative regulations or State Council provisions stipulate that the establishment of a branch or an item in the scope of business operations of a branch requires approval, the relevant approval documents shall be submitted.

The company registration authorities shall issue a business licence to branches which are granted registration. A company shall present the business licence of its branch to file records with the company registration authorities within 30 days from the date of branch registration.

Article 49 An application for change registration shall be submitted to the company registration authorities for a change in branch registration matters.

An application letter signed by the legal representative of the company shall be submitted with the application for change registration. In the case of a change of name or scope of business operations, a photocopy of the Enterprise Legal Person Business Licence affixed with the company seal shall be submitted.

and dismiss his/her subordinates, and exercise other responsibilities and power as authorised by the board within the joint venture.

Article 37 The general manager and deputy general managers shall be appointed by the board of directors of the joint venture. These positions may be held either by Chinese citizens or foreign citizens.

At the invitation of the board of directors, the chairperson, vice-chairperson or other directors of the board may concurrently be the general manager, deputy general managers or other senior management personnel of the joint venture.

In handling major issues, the general manager shall consult with the deputy general managers.

The general manager or deputy general managers shall not hold posts concurrently as general manager or deputy general managers of other economic organisations. They shall not have any connections with other economic organisations in commercial competition with their own joint venture.

Article 38 Where the general manager, deputy general managers or other senior management personnel practise favouritism or seriously abuse their power, the board of directors shall have the power to dismiss them at any time.

Article 39 Where a joint venture needs to establish branch offices (including sales offices) outside China or in Hong Kong or Macao, it must report to the Ministry of Foreign Trade and Economic Cooperation for approval.

CHAPTER VI — INTRODUCTION OF TECHNOLOGY

Article 40 The introduction of technology mentioned in this chapter refers to the necessary technology obtained by the joint venture by means of technology transfer from a third party or parties to the joint venture.

Article 41 The technology acquired by the joint venture shall be appropriate and advanced and enable the venture's products to display conspicuous social and economic results domestically or to be competitive on the international market.

Article 42 The right of the joint venture to do business independently shall be maintained when making technology transfer agreements, and relevant documentation shall be provided by the technology exporting party in accordance with the provisions of Article 26 of these Regulations.

Article 43 The technology transfer agreements signed by a joint venture shall be submitted for approval to the examination and approval authority.

Technology transfer agreements shall comply with the following stipulations:

(1) The fees for use of technology shall be fair and reasonable;

(2) Unless otherwise agreed upon by both parties, the technology exporting party shall not put any restrictions on the quantity, price or region of sale of the products that are to be exported by the technology importing party;

(3) The term for a technology transfer agreement is generally no longer than ten years;

(4) After the expiry of a technology transfer agreement, the technology importing party shall have the right to use the technology continuously;

(5) Conditions for mutual exchange of information on the improvement of technology by both parties of the technology transfer agreement shall be reciprocal;

(6) The technology importing party shall have the right to buy the equipment, parts and raw materials needed from sources they deem suitable;

(7) No unreasonably restrictive clauses prohibited by the Chinese law and regulations shall be included.

CHAPTER VII — RIGHT TO THE USE OF SITE AND ITS FEE

Article 44 Joint ventures shall implement the principle of efficiency in the use of land. Any joint venture requiring the use of a site shall file an application with local departments of the municipal (county) government in charge of land and obtain the right to use a site only after securing approval and signing a contract. The size, location, purpose and contract period and fee for the right to use a site (hereinafter referred to as site use fee), rights and obligations of the parties to a joint venture and fines for breach of contract should be stipulated in explicit terms in the contract.

Article 45 If the Chinese party already has the right to the use of site for the joint venture, the Chinese party may use it as part of its investment. The monetary equivalent of this investment should be the same as the site use fee otherwise paid for acquiring such site.

Article 46 The standard for a site use fee shall be stipulated by the people's government of a province, autonomous region or centrally administered municipality where the joint venture is located according to such factors as the purpose of use, geographic and environmental conditions, expenses for requisition, demolishing and resettlement and the joint venture's requirements with regard to infrastructure, and shall be filed with the Ministry of Foreign Trade and Economic Cooperation and the state department responsible for land administration.

Article 47 Joint ventures engaged in agriculture and animal husbandry may, with the consent of the people's government of the local province, autonomous region or centrally administered municipality, pay a percentage of the joint venture's business income as site use fees to the local department responsible for land administration.

Projects of a developmental nature in economically undeveloped areas may receive special preferential treatment in respect of site use fees with the consent of the local people's government.

(1) where it would be detrimental to State sovereignty or harmful to the social or public interest;

(2) where it would jeopardise State security;

(3) where it would cause environmental pollution;

(4) in other circumstances in violation of laws, statutory regulations or State industrial policies.

Article 10 The "cooperative enterprise agreement" mentioned in these Detailed Implementing Rules refers to a written document entered into following agreement by the parties to the cooperative enterprise on the principles and main points governing the establishment of a cooperative enterprise.

The "cooperative enterprise contract" mentioned in these Detailed Implementing Rules refers to a written document prepared after the parties to the cooperative enterprise have agreed upon their rights and obligations in relation to the establishment of a cooperative enterprise.

The "cooperative enterprise articles of association" mentioned in these Detailed Implementing Rules refers to a written document agreed upon by the parties to a cooperative enterprise stipulating the organisational principles and method of management of a cooperative enterprise in compliance with the provisions of the cooperative enterprise contract.

If the contents of a cooperative enterprise agreement and cooperative enterprise articles of association conflict with the cooperative enterprise contract, the contract prevails.

The parties to a cooperative enterprise may or may not enter into a cooperative enterprise agreement.

Article 11 The cooperative enterprise agreement, contract and articles of association are valid from the date on which the approval certificate is issued by the examination and approval authority. Any major amendments to the cooperative enterprise agreement, contract or articles of association during the term of the enterprise must be subject to approval by the examination and approval authority.

Article 12 A cooperative enterprise contract must contain provisions on the following:

(1) the names, places of registration and addresses of the parties to the cooperative enterprise, and the names, positions and nationalities of the legal representatives of the cooperative enterprise (if a foreign partner is a natural person, his/her name, nationality and address);

(2) the name, address and business scope of the cooperative enterprise;

(3) the total amount of investment and registered capital of the cooperative enterprise; method and time limit for contributing investment and provision of cooperative terms by each party to the cooperative enterprise;

(4) assignment of investment contributed or terms of cooperation provided by each party to the cooperative enterprise;

(5) method of distribution of profits or products and share of risks or losses to be borne by each party to the cooperative enterprise;

(6) the composition of the board of directors or joint management committee of the cooperative enterprise, the distribution of the number of directors or committee members and the duties of the general manager and other senior management personnel and measures for their appointment and dismissal;

(7) the main production equipment and technology to be adopted and their sources of supply;

(8) arrangements for products to be sold within and outside China;

(9) arrangements for income and expenditure of foreign currency for the cooperative enterprise;

(10) the life of the cooperative enterprise, the method of its dissolution and liquidation;

(11) other obligations of the parties to the cooperative enterprise and their liabilities for breach of contract;

(12) the principles governing the handling of finance, accounting and auditing;

(13) the handling of disputes between the parties to the cooperative enterprise;

(14) the procedures for amendment of the cooperative enterprise contract.

Article 13 The articles of association of a cooperative enterprise must contain provisions on the following:

(1) the name and address of the cooperative enterprise;

(2) the business scope and life of the cooperative enterprise;

(3) the names, places of registration and addresses of the parties to the cooperative enterprise, and the names and nationalities of the legal representatives of the cooperative enterprise (if a foreign partner is a natural person, his/her name, nationality and address);

(4) the total amount of investment and registered capital of the cooperative enterprise, method and time limit for investment or provision of cooperative terms by each party to the cooperative enterprise;

(5) distribution of profits or products and share of risks or losses to be borne by each party to the cooperative enterprise;

(6) the composition, powers of office and rules of procedure of the board of directors or joint management committee of the cooperative enterprise; the terms of office of directors or committee members, and the duties of the chairman and vice-chairman of the board of directors or the head and deputy-head of the joint management committee;

Article 113 Stock exchanges shall ensure secured and equitable centralised trading, announce real time market information for securities trading, and formulate and publish a market chart for each market day.

No organisation or individual shall publish real time securities trading information without the consent of the stock exchange.

Article 114 Where the occurrence of a sudden event affects the normal conduct of securities trading, the stock exchange may take measures to suspend trading for technical failure; in the event of a force majeure event or as a bid to safeguard the normal order of securities trading, the stock exchange may decide to suspend the market temporarily.

A stock exchange which decides on a suspension of trading for technical failure or a temporary suspension of the market shall report to the securities regulatory authorities of the State Council promptly.

Article 115 Stock exchanges shall monitor securities trading at all times and submit reports on irregular trading behaviour in accordance with the requirements of the securities regulatory authorities of the State Council.

Stock exchanges shall supervise prompt and accurate information disclosure by listed companies and the relevant persons liable for making information disclosure in accordance with the provisions of the law.

Stock exchanges may, based on the actual need, impose restrictions on trading by securities accounts which display significant irregularity in trading and file records with the securities regulatory authorities of the State Council accordingly.

Article 116 Stock exchanges shall contribute a certain percentage of the trading fees and membership dues collected to establish a risk fund. The risk fund shall be managed by the council of the stock exchange.

The specific ratio for contribution to the risk fund and its usage shall be formulated jointly by the securities regulatory authorities of the State Council and the finance administration authorities of the State Council.

Article 117 Stock exchanges shall deposit the risk fund into a designated bank account and shall not use the risk fund arbitrarily.

Article 118 Stock exchanges shall formulate listing rules, trading rules, membership rules and other relevant rules in accordance with the provisions of securities laws and administrative regulations and submit the rules to the securities regulatory authorities of the State Council for approval.

Article 119 The person-in-charge and other personnel of a stock exchange shall withdraw from handling a securities transaction in which he/she or any of his/her family members is an interested party.

Article 120 The trading outcome of a securities transaction carried out in accordance with the trading rules promulgated in accordance with the provisions of the law shall not be varied. The civil liability of the parties to an illegal transaction shall not be waived; gains on illegal transactions shall be dealt with pursuant to the relevant provisions.

Article 121 Stock exchange personnel engaging in securities trading in violation of the relevant trading rules of the stock exchange shall be subject to disciplinary action issued by the stock exchange; where the case is serious, the qualifications of the personnel shall be revoked and they shall be prohibited from securities trading.

CHAPTER VI — SECURITIES COMPANIES

Article 122 Establishment of securities companies shall be subject to examination and approval by the securities regulatory authorities of the State Council. No organisation or individual shall engage in securities business without obtaining approval of the securities regulatory authorities of the State Council.

Article 123 Securities companies referred to in this Law shall mean limited liability companies or companies limited by shares established in accordance with the provisions of the *Company Law of the People's Republic of China* and this Law to engage in securities business.

Article 124 Establishment of securities companies shall satisfy the following requirements:

(1) the articles of association of the company shall comply with the provisions of laws and administrative regulations;

(2) the principal shareholder(s) shall be profitable in consecutive periods and reputable, has/have not committed any major violation in the past three years and has/have net assets of not less than RMB200 million;

(3) the registered capital of the company shall comply with the provisions of this Law;

(4) the directors, supervisors and senior management personnel shall be qualified for their appointment and the employees shall possess qualifications to work in the securities industry;

(5) the company has a comprehensive risk management and internal control system;

(6) the company has qualified business premises and operational facilities; and

(7) the application satisfies other requirements stipulated by the laws and administrative regulations and the securities regulatory authorities of the State Council.

Article 125 Subject to approval of the securities regulatory authorities of the State Council, a securities company may engage in all or some of the following businesses:

(1) securities brokerage;

(2) securities investment consultancy;

(3) financial consultancy relating to securities trading and securities investment activities;

Where an overseas company that holds interests in a special-purpose company is used as the overseas listing entity, the domestic company shall submit the following documents:

(1) the proof of commencement of business and articles of association of the overseas company; and

(2) a detailed explanation of the trading arrangement and discount method agreed between the special-purpose company and the overseas company in respect of the equity of the acquired domestic company.

Article 45 Where the Ministry of Commerce grants preliminary consent to the documents stipulated under Article 44, a reply approval in principle will be issued. The domestic company shall jointly present the approval reply for submission with its application documents for listing to the securities regulatory authorities of the State Council. The securities regulatory authorities of the State Council decision to approve or not-approve shall be within 20 working days.

Upon obtaining approval, the domestic company shall apply to the Ministry of Commerce for an approval certificate. The Ministry of Commerce shall issue an approval certificate with an added remark "shareholding by an overseas special-purpose company, valid for a period of one year from the date of issue of business licence".

Where a mergers and acquisitions results in changes in equity, etc, of a special-purpose company, the domestic company or natural person that holds equity in the special-purpose company shall present the approval certificate for foreign investment enterprise with added remark to the Ministry of Commerce to complete approval formalities for overseas investment and establishment of enterprise in respect of the relevant matters of the special-purpose company. The said domestic company or natural person shall also complete change in foreign exchange registration formalities for overseas investment with the foreign exchange administration authorities of their locality.

Article 46 A domestic company shall complete change registration formalities with the registration authorities and the foreign exchange administration authorities within 30 days upon receipt of the approval certificate with added remark; the registration authorities and the foreign exchange administration authorities shall issue a foreign investment enterprise business licence and a foreign exchange registration certificate each respectively stating the remark "valid for a period of 14 months from the date of issue".

When completing change registration formalities with the registration authorities, a domestic company shall, for the purpose of reinstating its equity structure, submit in advance the application form for change in equity duly signed by the legal representative of the domestic company, and also submit the amendments made to the articles of association of the company and the equity transfer agreement, etc.

Article 47 A domestic company shall, within 30 days upon completion of overseas listing of its special-purpose company or overseas associated company of the special-purpose company, submit an overseas listing status report and a

financial proceeds recall plan to the Ministry of Commerce, and also apply for a new approval certificate for foreign investment enterprise without remark.

The domestic company shall simultaneously submit the overseas listing status report to the securities regulatory authorities of the State Council and provide the relevant filing documents within 30 days upon completion of overseas listing. The domestic company shall also submit the financial proceeds recall plan to the foreign exchange administration authorities for administration and implementation.

Upon obtaining an approval certificate without remark, the domestic company shall apply for a new foreign investment enterprise business licence without remark and a new foreign exchange registration certificate without remark, from the registration authorities and the foreign exchange administration authorities respectively.

Where the domestic company fails to submit a report to the Ministry of Commerce within the aforesaid dateline, the approval certificate with added remark issued to the domestic company shall automatically become void. The equity of the domestic company shall be reinstated to the status before the mergers and acquisitions of equity, and change registration formalities shall be completed pursuant to the provisions of Article 36.

Article 48 The financial proceeds from an overseas listing of a special-purpose company shall be channelled back to China pursuant to prevailing foreign exchange regulations according to the recall plan as filed with the foreign exchange administration authorities. The financing proceeds may be recalled by the following means:

(1) by a provision of commercial loans to the domestic company;

(2) an establishment of a new foreign investment enterprise in China; and

(3) mergers and acquisitions of a domestic enterprise.

Overseas financial proceeds of a special-purpose company recalled under the aforesaid circumstances shall comply with the China laws and administrative regulations on foreign investment and administration of foreign debt. Where the recall of overseas financial proceeds of a special-purpose company results in additional holding of interest in the special-purpose company by a domestic company and natural person, or results in an increase in net assets of the special-purpose company, the parties concerned shall disclose information accordingly, and upon completion of the examination and approval formalities, complete the corresponding foreign exchange registration formalities for foreign funds, and change registration formalities for overseas investment.

Foreign exchange income derived by a domestic company and natural person from profits, bonuses and capital changes distributed by a special-purpose company shall be channelled back to China within six months from the date of obtaining such income. The profits or bonuses may be deposited in a foreign exchange account under a current account or converted to Renminbi. The foreign exchange income from capital changes shall be subject to approval

CHAPTER VIII — ONGOING REGULATION

Article 72 During the 12-month period from the completion of takeover of a listed company, the financial consultant engaged by the offeror shall, within 3 days from each ending quarter, submit a report to the CSRC branch, on activities during the past quarter relating to investments which have a relatively significant impact on the listed company, purchase or disposal of assets, interested party transactions, adjustment to principal business, change in directors, supervisors and senior management personnel, staff deployment, and the fulfilment of any undertaking by the offeror.

Where the offeror and the listed company are incorporated in different jurisdictions, a copy of the aforesaid information shall be forwarded simultaneously to the CSRC branch at the location of the offeror.

Article 73 The CSRC branch shall, pursuant to the principle of prudent regulation, hold conversations with the accounting firm engaged to audit the accounts of the listed company, examine the ongoing supervision carried out by the financial consultant, carry out regular or ad hoc on-site inspection, etc, to supervise and examine the conditions of the offeror and the listed company after the completion of a takeover.

Where the CSRC branch discovers significant differences between the actual facts and the contents disclosed by the offeror, the CSRC branch shall closely monitor the offeror and the listed company, and may order the offeror to extend the ongoing supervision period with the financial consultant which shall investigate and handle the matter pursuant to the law.

Where the financial consultant and the offeror terminate the contract during the ongoing supervision period, the offeror shall engage another financial consultant to perform the ongoing supervision duties.

Article 74 The shares of the target company held by the offeror in a takeover of listed company shall not be transferred within 12 months from completion of the takeover.

Transfer of interest in shares in the target company held by the offeror to another entity controlled by the same actual controlling party shall not be subject to the aforesaid 12-month restriction period, but shall comply with the provisions of Chapter VI.

CHAPTER IX — REGULATORY MEASURES AND LEGAL LIABILITY

Article 75 Where a person under an obligation to make information disclosure for takeovers of listed companies and related change activities in shareholding interests fails to fulfil reporting, announcement and other related obligations pursuant to the provisions of these Measures, the CSRC shall, order such person to make correction, hold regulatory talks, issue warning letters or adopt regulatory measures such as an order of suspension or halt of the takeover. Prior to making correction, the person who has the obligation to make the relevant information disclosure shall not exercise voting rights on shares held by or actually controlled by it.

Article 76 Where there is any false record, misrepresentation or major omission in a report or announcement made by a person under an obligation to make information disclosure for takeover of listed companies and related change activities in shareholding interests, the CSRC shall, order the person to make correction, hold regulatory talks, issue warning letter or adopt regulatory measures such as an order of suspension or halt of the takeover. Prior to making correction, the offeror shall not exercise the voting rights on shares held by or actually controlled by it.

Article 77 Where an investor and persons acting in concert with the investor obtain the controlling stake of a listed company but fail to engage a financial consultant pursuant to the provisions of these Measures, or circumvent statutory procedures and obligations, or carry out takeover of a listed company under disguise, or where a foreign investor circumvents jurisdiction, the CSRC shall order such person(s) to make correction or adopt regulatory measures such as the issue of warning letters or orders for a suspension or halt of the takeover. Prior to making correction, the offeror shall not exercise the voting rights on shares held by or actually controlled by it.

Article 78 Where an offeror fails to pay the takeover price or purchase the pre-accepted shares pursuant to the agreement before expiry of the period of the takeover offer, the offeror shall not be allowed to make a takeover of listed company within three years from the date of occurrence of the event and the CSRC shall not accept application documents submitted by the offeror and its interested parties; in the case of an alleged fraudulent information disclosure or manipulation of the securities market, the CSRC shall pursuant to the law investigate the offeror and pursue legal liability against the same.

Where the financial consultant engaged by the offeror pursuant to the provisions of the preceding paragraph does not have adequate evidence to prove that it has acted diligently and responsibly, the CSRC shall pursuant to the law pursue legal liability against the financial consultant.

Article 79 Where at the time of transfer of their controlling stake in the company the controlling shareholders and the actual controlling party of a listed company fail to settle debts owed by them to the company or discharge guarantees provided to them by the company or rectify any other circumstances where they have damaged the interests of the company, the CSRC shall order the controlling shareholders and the actual controlling party of the listed company to make correction and to suspend or halt the takeover activities.

Where the board of directors of the target company fails to take effective measures to cause the controlling shareholders and the actual controlling party of the company to make correction, or upon completion of the takeover, fails to cause the offeror to perform its undertaking, arrangement or assurance, the CSRC may deem the relevant directors as inappropriate candidates.

Article 80 Where a director of a listed company fails to perform his/her duty of loyalty and diligence and utilises the takeover to seek improper gains, the CSRC shall adopt regulatory measures such as hold regulatory talks or issue warning letters and may deem the director as an inappropriate candidate.

that are related to the debtor shall be suspended; such proceedings or arbitration shall continue after the administrator has taken over the administration of the assets.

Article 21 Upon acceptance of a bankruptcy application by the People's Court, civil proceedings which relate to the debtor shall only be initiated in the People's Court that accepted the bankruptcy application.

CHAPTER III — ADMINISTRATOR

Article 22 An administrator shall be appointed by the People's Court.

Where the creditors' meeting believes that an administrator is unable to perform its duties fairly pursuant to the law or is unable to perform its duties for some reason, the creditors' meeting may apply to the People's Court for a new appointment.

The administrator to be appointed and the method for determining the administrator's remuneration shall be stipulated by the Supreme People's Court.

Article 23 An administrator shall perform its duties pursuant to the provisions of this Law, report its work progress to the People's Court, and subject itself to the supervision of the creditors' meeting and the creditors' committee.

An administrator shall attend creditors' meetings, report the performance of its duties and answer enquiries in the creditors' meeting.

Article 24 An administrator may be a liquidation team comprising the relevant departments and organisations or a social intermediary such as a duly established law firm, accounting firm or bankruptcy liquidation firm, etc.

A People's Court may, based on the circumstances of the debtor and upon consultation with the relevant social intermediary, appoint a qualified practitioner possessing the relevant professional knowledge to act as an administrator in such organisations.

The following persons shall not act as an administrator:

(1) a person who has been convicted of an intentional criminal offence;

(2) a person whose relevant practising certificate has been revoked;

(3) a person who is an interested party to the case; and

(4) any other person who is deemed unsuitable to act as an administrator by the People's Court.

An individual who acts as an administrator shall take up professional liability insurance.

Article 25 An administrator shall perform the following duties:

(1) take over the administration of all assets, seals and accounts and documents of the debtor;

(2) investigate the status of the debtor's assets and prepare an asset status report;

(3) decide on the internal management matters of the debtor;

(4) decide on the daily expenditure and other necessary expenditure of the debtor;

(5) decide on the continuation or suspension of business of the debtor before the first creditors' meeting is convened;

(6) manage and dispose assets of the debtor;

(7) represent the debtor in litigation, arbitration or any other legal proceeding;

(8) propose the convening of creditors' meetings; and

(9) perform any other duty that the People's Court deems relevant.

Where this Law otherwise provides for the duties of an administrator, such provisions shall prevail.

Article 26 Where the administrator decides to continue with or suspend the business of the debtor, or carries out any of the acts stipulated in Article 69 prior to the first creditors' meeting is convened, permission by the People's Court must be obtained.

Article 27 An administrator shall be diligent and responsible and shall perform its duties faithfully.

Article 28 Subject to the permission of the People's Court, an administrator may employ the requisite staff.

The administrator's remuneration shall be determined by the People's Court. Where a creditors' meeting does not agree on the administrator's remuneration, it shall have the right to raise an objection with the People's Court.

Article 29 An administrator must not resign from the appointment without a proper reason. The resignation of an administrator shall be subject to the permission of the People's Court.

CHAPTER IV — DEBTOR'S ASSETS

Article 30 All assets that belong to a debtor at the time of acceptance of a bankruptcy application and any asset obtained by the debtor during the time after acceptance of the bankruptcy application and before the termination of bankruptcy procedures, shall be the debtor's assets.

Article 31 The administrator has the right to apply to the People's Court for a declaration of any of the following acts to be invalid if the act involving the debtor's assets was committed within one year before the People's Court accepted the bankruptcy application:

(1) uncompensated transfers of assets;

(2) transactions executed at a clearly unreasonable price;

(3) pledge of assets as collateral for non-secured debts;

in writing, the directors, supervisors and senior management personnel shall not disseminate undisclosed information to external parties.

A listed company shall facilitate the duties performed by the secretary to the board of directors; the person-in-charge of finance shall cooperate with the secretary to the board of directors in information disclosure work related to finance.

Article 46 The shareholders or de facto controllers of a listed company shall actively notify the board of directors of the listed company and cooperate with the listed company in its performance of information disclosure obligations where any of the following events occur:

(1) there is a substantial change in the shareholding or controlling stake of a shareholder with 5% or more of the company's shares or a de facto controller;

(2) the transfer of shares held by a controlling shareholder is prohibited by a court ruling; or the shares of a shareholder with 5% or more of the company's shares are pledged, frozen, put under judicial auction or receivership, placed under a trust, or are restricted in voting rights pursuant to the law;

(3) significant restructuring of assets or business of the listed company is proposed;

(4) any other circumstance stipulated by the CSRC.

Where relevant information has been circulating in the media or there is unusual trading in a company's securities and derivatives prior to the disclosure of information pursuant to the law, the shareholders or de facto controllers shall timely submit an accurate written report to the listed company and timely make an accurate public announcement in cooperation with the listed company.

The shareholders or de facto controllers of the listed company shall not abuse their shareholder rights or dominate their positions or require the listed company to provide them with insider information.

Article 47 When a listed company makes a private issuance of shares, the controlling shareholders, de facto controllers and target audience shall timely provide the relevant information to the listed company and cooperate with the listed company in its performance of information disclosure obligations.

Article 48 The directors, supervisors, senior management personnel, shareholders with 5% or more of shares and persons acting in concert with such shareholders and de facto controllers of a listed company shall timely submit a list of the listed company's interested parties and an explanation of the interested party relationships to the board of directors of the listed company. The listed company shall perform review procedures for interested party transactions and strictly implement a system of vote abstention in interested party transactions. The parties to an interested party transaction must not circumvent the listed company's interested party transaction review procedures and information

disclosure obligations by concealing the interested party relationship or by any other means.

Article 49 Where 5% or more of the shares of a listed company are held by a shareholder or de facto controller through acceptance of an entrustment or by any other means under a trust, the shareholder or de facto controller must timely notify the listed company of the settlor's details and cooperate with the listed company in its performance of information disclosure obligations.

Article 50 Information disclosure obligors shall provide all information relating to the practice of their sponsor or securities services organisation and ensure the veracity, accuracy and completeness of the information without any refusal, concealment or falsehood.

Where a sponsor or securities services organisation discovers at the time of issue of a specialised document for information disclosure that the information provided by a listed company or an obligor of information disclosure contains a false record, misleading statement, major omission or any other major violation of law, it shall request for a supplementation or correction of the information. Where the information disclosure obligor refuses to make a supplementation or correction, the sponsor or securities services organisation shall timely report the matter to the securities regulatory authorities and the stock exchange.

Article 51 Where a listed company terminates the engagement of an accounting firm, the accounting firm must be notified timely after a resolution by the board of directors is passed; the accounting firm shall be allowed to make representations where a resolution for the termination of engagement of the accounting firm is passed at a general meeting of the company. Where a resolution for the termination or change of an accounting firm is passed at a general meeting, the listed company shall specifically state the reasons for change and the representations by the accounting firm.

Article 52 The sponsors and securities services organisations that issue specialised documents to aid information disclosure obligors in their performance of information disclosure obligations shall be diligent, responsible, honest and trustworthy; and issue expert opinions in compliance with the business rules, industry codes of practice and ethics formulated pursuant to the law; and ensure the veracity, accuracy and completeness of the documents issued.

Article 53 Certified public accountants shall practise risk-oriented audits; strictly comply with the practising standards and relevant provisions for certified public accountants; improve authentication procedures; scientifically select identification methods and techniques; fully understand the organisation in question and its environment; carefully examine the risks to significant reporting errors; obtain adequate and appropriate evidence; and issue reasonable examination conclusions.

Article 54 Asset valuation firms shall uphold professional ethics, strictly comply with valuation standards or other valuation norms, and select appropriate valuation methods; ensure that assumptions made during a valuation match