Securities Investment Fund Law of the PRC

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Chapter I — General Provisions

Article 1 — This Law is enacted for the purposes of regulating the activities of securities investment funds, protecting the lawful rights and interests of investors and relevant parties, and promoting the sound development of the securities investment fund and capital markets.

Article 2 — This Law shall apply to the formation of securities investment funds through the public or non-public offering of fund shares within the territory of the People's Republic of China; the fund managers shall manage the fund assets by publicly offering funds, and the fund custodians shall hold the fund assets in

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custody for the benefit of the fund share holders, and engage in securities investment activities in the form of asset portfolios.

Article 3 — The rights and obligations of fund managers, fund custodians and fund share holders shall be agreed upon in the fund contract in accordance with this Law. Fund managers and fund custodians shall perform their fiduciary duties in accordance with this Law and the provisions of the fund contract. The fund share holders of a publicly offered fund shall enjoy returns and bear risks to the extent of their respective capital contributions. The fund assets of a publicly offered fund shall be independent of the inherent assets of the fund manager and the fund custodian.

Article 4 — The activities of securities investment funds shall comply with the principles of voluntariness, fairness, honesty and credibility, and shall not harm the public interests or the lawful rights and interests of others.

Article 5 — The securities regulatory authority under the State Council shall exercise centralized supervision and administration over the activities of securities investment funds in accordance with the law. The other relevant departments under the State Council shall perform their respective duties relating to the supervision and administration of fund activities in accordance with their functions and the provisions of the State Council.

Article 6 — Industry self-regulatory organizations of the fund industry shall exercise self-regulatory administration in accordance with the law and accept the guidance and supervision of the securities regulatory authority under the State Council.

Chapter II — Fund Managers

Article 7 — A fund manager shall be a company or a partnership enterprise established in accordance with the law. To act as a fund manager for a publicly offered fund, the entity shall be a fund management company or any other institution recognized by the securities regulatory authority under the State Council.

Article 8 — The establishment of a fund management company shall meet the following conditions and be subject to the approval of the securities regulatory authority under the State Council: (1) having articles of association that comply with the provisions of this Law and the Company Law of the People's Republic of China; (2) having a registered capital of not less than RMB 100 million and the registered capital shall be paid-in monetary capital; (3) having directors, supervisors and senior management personnel who have good professional records and meet the qualifications prescribed by the securities regulatory authority under the State Council, and having the required number of personnel qualified to engage in fund business; (4) having the business premises, security and prevention facilities and other facilities commensurate with the fund management business; and (5) having a sound internal governance structure, and sound systems for internal audit and monitoring, risk control and other internal controls.

Article 9 — The securities regulatory authority under the State Council shall, within six months from the date of acceptance of an application for the establishment of a fund management company, conduct an examination and make a decision on whether to approve or not approve the application in accordance with the statutory conditions and the principle of prudent regulation. Where an application is approved, the applicant shall be notified; where an application is not approved, the applicant shall be notified with reasons stated.

Article 10 — A fund manager shall establish a sound internal governance structure, specify the scope of functions and powers of the shareholders' meeting, the board of directors, the board of supervisors and the senior management personnel, ensure the independence between the fund manager, the fund custodian and other fund managers, and maintain the independence of the fund assets.

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Article 11 — The senior management personnel of a fund manager shall be loyal to their duties, familiar with the relevant laws and regulations on securities and funds, and have the required fund practice qualifications and more than three years of work experience in fund management or other relevant work experience.

Article 12 — Where a director, supervisor or senior management personnel of a fund management company is appointed, the appointment shall be submitted to the securities regulatory authority under the State Council for examination. The securities regulatory authority under the State Council shall examine whether the proposed appointee meets the qualifications prescribed in this Law and other relevant provisions.

Article 13 — The directors, supervisors, senior management personnel and other employees of a fund manager shall not concurrently hold positions in a fund custodian or other fund managers, nor shall they engage in securities investment or other activities that harm the interests of the fund assets or fund share holders.

Article 14 — A fund manager shall perform the following duties: (1) raising funds in accordance with the law and handling the registration of fund shares; (2) managing and operating the fund assets in accordance with the law; (3) determining the fund's return distribution plan and distributing returns to fund share holders in a timely manner; (4) preparing fund financial and accounting reports; (5) preparing periodic reports on the fund; (6) calculating and announcing the net asset value of the fund and determining the subscription and redemption prices of fund shares; (7) handling information disclosure matters relating to the fund management activities; (8) convening the fund share holders' meeting in accordance with the provisions; (9) keeping the records, account books, statements and other relevant materials of the fund asset management business; and (10) other duties specified in the fund contract or prescribed by the securities regulatory authority under the State Council.

Article 15 — A fund manager shall not commit any of the following acts: (1) mixing its inherent assets or the assets of other funds with the fund assets for securities investment; (2) unfairly treating the fund assets under its management; (3) using the fund assets to seek benefits for a third party other than the fund share holders; (4) illegally promising returns or assuming losses to fund share holders; (5) misappropriating the fund assets; (6) divulging undisclosed information obtained by taking advantage of the fund assets or using such information to engage in insider trading; or (7) other acts prohibited by laws or administrative regulations.

Chapter III — Fund Custodians

Article 16 — A fund custodian shall be a commercial bank or any other financial institution recognized by the securities regulatory authority under the State Council. To act as a fund custodian, the entity shall meet the following conditions: (1) having net assets and risk control indicators that comply with the relevant provisions; (2) having a specialized department for fund custody; (3) having the required number of full-time personnel qualified to engage in fund custody business; (4) having the conditions for the safe custody of fund assets; (5) having safe and efficient clearing and settlement systems; and (6) other conditions prescribed by the securities regulatory authority under the State Council.

Article 17 — A fund custodian shall perform the following duties: (1) safekeeping the fund assets in accordance with the law; (2) opening accounts for the fund assets such as fund accounts and securities accounts; (3) executing the investment instructions of the fund manager in accordance with the provisions, and handling the clearing and settlement matters relating to the fund in accordance with the law; (4) reviewing whether the net asset value of the fund and the subscription and redemption prices of fund shares calculated by the fund manager are in compliance with the provisions; (5) handling information disclosure matters relating to the fund custody business activities; (6) keeping records, account books, statements and other relevant materials of the fund custody business activities; (7) convening the fund share holders' meeting in accordance with the provisions; and (8) other duties prescribed by the securities regulatory authority under the State Council.

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Article 18 — A fund custodian shall be separated from the fund manager in terms of administration, operations and finance. The employees of a fund custodian shall not concurrently hold positions in a fund manager.

Article 19 — Where a fund custodian discovers that the investment instructions of the fund manager violate laws, administrative regulations or other relevant provisions, or the provisions of the fund contract, it shall refuse to execute the instructions, immediately notify the fund manager, and report to the securities regulatory authority under the State Council in a timely manner.

Chapter IV — Operation and Information Disclosure of Funds

Article 20 — A fund manager shall manage and operate the fund assets in accordance with the principle of prudence and diligence. The scope of investment in fund assets shall be limited to listed securities such as stocks and bonds, and other types of securities prescribed by the securities regulatory authority under the State Council.

Article 21 — A fund manager shall not commit any of the following acts in managing and operating the fund assets: (1) underwriting securities; (2) lending funds or providing guarantees to other persons; (3) engaging in unlimited liability investments; (4) trading the shares or bonds of other funds, unless otherwise prescribed by the securities regulatory authority under the State Council; (5) making capital contributions to the fund manager or the fund custodian, or trading the shares or bonds of the fund manager or the fund custodian; (6) engaging in insider trading or manipulating the securities trading markets or other improper securities trading activities; (7) transferring the fund assets for purposes other than fund investment; or (8) other acts prohibited by laws or administrative regulations.

Article 22 — A fund manager and a fund custodian shall faithfully perform their duties in the calculation of the net asset value of the fund and the subscription and redemption prices of fund shares, ensure that the net asset value of the fund and the subscription and redemption prices of fund shares can be calculated in a fair and timely manner, and ensure that the net asset value of the fund and the subscription and redemption prices of fund shares can be announced in a timely manner.

Article 23 — A fund manager shall pay fund returns to the fund share holders in accordance with the provisions of the fund contract. The fund returns shall be distributed in cash, unless otherwise provided in the fund contract.

Article 24 — The fund manager, the fund custodian and other fund information disclosure obligors shall disclose fund information in accordance with the law and ensure that the information disclosed is truthful, accurate and complete. The fund information disclosure obligors shall disclose fund information within the statutory time limit and ensure that investors can review or copy the publicly disclosed information in accordance with the provisions of the fund contract.

Article 25 — The information to be disclosed to the public by fund information disclosure obligors shall include: (1) the fund prospectus, fund contract and fund custody agreement; (2) the fund offering status; (3) the net asset value of the fund and the net value of fund shares; (4) the subscription and redemption prices of fund shares; (5) the quarterly reports, semi-annual reports and annual reports on the fund assets; (6) the interim reports on the fund; (7) the resolutions of the fund share holders' meeting; (8) material changes in the fund manager, the fund custodian or the fund assets; and (9) other information required to be disclosed by the securities regulatory authority under the State Council.

Chapter V — Fund Contracts

Article 26 — The offering of fund shares shall be subject to the verification and approval of the securities regulatory authority under the State Council. The fund manager shall, within six months from the date of verification and approval of the fund offering, commence the offering. Where the offering is not commenced

within six months, the original verified and approved items shall become invalid, unless otherwise provided by the securities regulatory authority under the State Council.

Article 27 — A fund manager shall announce the fund prospectus, the fund contract and other relevant documents three days before the offering of fund shares. The documents specified in the preceding paragraph shall be truthful, accurate and complete. The fund manager shall bear the obligation to ensure the truthfulness, accuracy and completeness of the fund prospectus, the fund contract and other relevant documents.

Article 28 — A fund manager shall raise funds within the time limit specified in the fund contract. Where the number of fund share holders and the total amount of the fund meet the statutory conditions, the fund manager shall complete the filing with the securities regulatory authority under the State Council in accordance with the law. Where the fund fails to meet the statutory conditions, the fund manager shall bear the liability for the refund of the funds and the return of the subscription monies with interest.

Article 29 — After the completion of the fund offering, fund share holders shall have the right to subscribe for and redeem fund shares in accordance with the provisions of the fund contract. The fund manager shall complete the payment of the redemption monies on time and in full in accordance with the provisions.

Chapter VI — Fund Shareholders' Meetings

Article 30 — The fund share holders' meeting shall be composed of all fund share holders. The fund share holders' meeting shall exercise the following functions and powers: (1) to decide on matters such as the expansion of the fund or the extension of the fund contract term; (2) to decide on the change of the fund manager or the fund custodian; (3) to decide on the adjustment of the remuneration of the fund manager or the fund custodian; (4) to decide on the termination of the fund contract; and (5) other matters specified in the fund contract.

Article 31 — The fund share holders' meeting shall be convened by the fund manager. Where the fund manager fails to convene the meeting in accordance with the provisions, the fund custodian shall convene the meeting. The fund share holders' meeting may be convened by the fund share holders representing more than 10 percent of the fund shares on their own. The fund share holders' meeting shall be held on-site or by means of correspondence.

Article 32 — Each fund share shall have one voting right. A resolution of the fund share holders' meeting shall be adopted by more than half of the voting rights held by the fund share holders attending the meeting. However, a resolution on the change of the fund manager or the fund custodian, the termination of the fund contract, or the change of the mode of operation of the fund shall be adopted by fund share holders representing more than two-thirds of the voting rights attending the meeting.

Chapter VII — Supervision and Administration

Article 33 — The securities regulatory authority under the State Council shall perform the following duties in accordance with the law: (1) to formulate the provisions and rules on the supervision and administration of securities investment fund activities, and to exercise examination and approval or verification and approval powers in accordance with the law; (2) to complete the relevant procedures such as examination and approval, verification and approval, and filing; (3) to conduct supervision and administration of fund managers, fund custodians and other institutions engaged in fund service activities, and to investigate and deal with illegal acts; (4) to formulate the standards for the qualifications and professional code of conduct for fund practitioners, and to supervise their implementation; (5) to supervise and inspect the disclosure of fund information; (6) to guide and supervise the activities of fund industry associations; and (7) other duties prescribed by laws or administrative regulations.

Article 34 — The securities regulatory authority under the State Council may take the following measures in performing its duties: (1) to conduct on-site inspections of fund managers, fund custodians and fund service institutions; (2) to enter the place where the suspected illegal act occurs to conduct investigation and collect evidence; (3) to inquire the parties involved in and the entities and individuals related to the matter under investigation, and require them to make explanations regarding the matters under investigation; (4) to consult and copy the securities trading records, registration and transfer records, financial and accounting materials and other relevant documents and materials of the matter under investigation; and (5) to inquire about the fund accounts or securities accounts of the entities and individuals under investigation.

Chapter VIII — Legal Liability

Article 35 — Where a fund manager, fund custodian or fund service institution violates the provisions of this Law by misappropriating fund assets, using fund assets to seek benefits for a third party other than fund share holders, or engaging in other acts harming the interests of fund share holders, the securities regulatory authority under the State Council shall order rectification, confiscate the illegal gains, and impose a fine of not less than one time and not more than five times the illegal gains. Where no illegal gains are derived, a fine of not less than RMB 100,000 and not more than RMB 1,000,000 shall be imposed.

Article 36 — Where a fund manager fails to pay the redemption monies on time and in full in accordance with the provisions, the securities regulatory authority under the State Council shall order rectification and impose a fine of not less than RMB 30,000 and not more than RMB 300,000. The directly responsible persons in charge and other directly responsible persons shall be given a warning and a fine of not less than RMB 30,000 and not more than RMB 300,000 may be imposed.

Article 37 — Where a fund manager provides false information in the fund information disclosure, the securities regulatory authority under the State Council shall order rectification, confiscate the illegal gains, and impose a fine. The directly responsible persons in charge and other directly responsible persons shall be given a warning and a fine may be imposed.

Article 38 — Where an entity, without approval, engages in fund management business or fund custody business, the securities regulatory authority under the State Council shall ban the entity, confiscate the illegal gains, and impose a fine of not less than one time and not more than five times the illegal gains. Where no illegal gains are derived, a fine of not less than RMB 100,000 and not more than RMB 1,000,000 shall be imposed.

Chapter IX — Supplementary Provisions

Article 39 — This Law shall apply to the offering of fund shares to specified targets by fund managers, fund custodians and other institutions. The specific measures shall be prescribed by the securities regulatory authority under the State Council.

Article 40 — The matters relating to the investment of securities investment funds in the securities market shall be governed by the Securities Law of the People’s Republic of China and other relevant laws and administrative regulations.

Article 41 — This Law shall come into force as of June 1, 2004. The amendments to this Law shall come into force as of the date of promulgation.

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