

**Circular on Relevant Issues Regarding Implementing the Trial Measures on the Issuance
of Corporate Bonds**

Zheng Jian Fa [2007] No. 112

All listed companies and sponsors,

In order to meet the need of greatly developing corporate bond market, regulate the issuance of corporate bonds, and expedite the coordinated development of capital markets, we have enacted and promulgated the Trial Measures on the Issuance of Corporate Bonds.

During the initial trial period, companies on trial are confined to companies listed in the Shanghai Stock Exchange and Shenzhen Stock Exchange and domestic joint stock companies issuing foreign currency shares listed offshore.

China Securities Regulatory Commission

14 August 2007

Order 49 of the China Securities Regulatory Commission

The Trial Measures on the Issuance of Corporate Bonds have been examined and passed by the 207th Chairman's Working Meeting of the China Securities Regulatory Commission on 30 May 2007 and hereby promulgated, and shall become effective as from the date of promulgation.

Chairman of the China Securities Regulatory Commission: Shang Fulin

14 August 2007

Trial Measures on the Issuance of Corporate Bonds

CHAPTER 1. GENERAL PROVISIONS

Article 1 These Trial Measures on the Issuance of Corporate Bonds ("**Measures**") are promulgated in accordance with the *Securities Law* and the *Company Law* to regulate the issuance of corporate bonds and to protect the legal interests of investors and the public interest.

Article 2 These Measures apply to the issuance of corporate bonds within the People's Republic of China.

"Corporate bonds" or "bonds" referred to herein mean securities issued by companies in accordance with legal procedures that have a term exceeding one year and that are repayable with interest.

Article 3 A company that applies to issue bonds shall meet the conditions specified in the *Securities Law*, the *Company Law* and these Measures and must be verified by the China Securities Regulatory Commission ("**CSRC**").

Article 4 A company that applies to issue bonds must disclose or provide information in a genuine, accurate, complete, timely and fair manner. The information so provided or disclosed shall be free from false statements, misleading representations or material omissions.

Article 5 A company that has issued bonds shall act in good faith and protect the legal rights of bondholders as well as their rights as set out in the prospectus.

Article 6 The verification by the CSRC of the issuance of corporate bonds shall not represent CSRC's substantive judgment on or guarantee of the investment value of the

corporate bonds or the return of the investors. The risk of investment in the corporate bonds shall be borne by the investors who have subscribed to the bonds.

CHAPTER 2. CONDITIONS OF ISSUANCE

Article 7 In order to issue bonds, a company shall satisfy the following requirements:

- (1) the operations of the company shall comply with the provisions of laws, administrative regulations and its articles of association as well as the industry policies of the State;
- (2) the company has a sound internal control system and is free from material flaws in terms of its completeness, reasonableness and effectiveness;
- (3) the bonds are well-rated by a rating agency;
- (4) the amount of the audited net assets of the company as at the end of the last reporting period conforms to laws, administrative regulations and other relevant requirements of the CSRC;
- (5) the average annual distributable profits of the company in the last three financial years are not less than the amount of one-year's interest on the company's bonds; and
- (6) the total amount of the company's bonds following the current issue does not exceed 40% of the net assets of the company as at the end of the last reporting period; where the issuer is a financial institution, the total amount of the bonds shall be calculated in accordance with relevant regulations on financial institutions.

Article 8 A company is prohibited from issuing corporate bonds if any of the following circumstances exists:

- (1) within the last 36 months, the company's financial and accounting documents contain false statements, or the company has committed other serious breaches of law;
- (2) the company's application documents for the current issue contain false statements, misleading representations or material omissions;
- (3) there is breach or delay in the payment of principal or interest with regard to corporate bonds issued or other debts and such breach or delay continues; or
- (4) it has seriously damaged the legal interests of investors or public interest.

Article 9 The par value of each unit of corporate bond shall be RMB100. The issue price shall be determined by the issuer and the sponsor through market price inquiry.

Article 10 The rating of corporate bonds shall be conducted by a qualified rating agency recognized by the CSRC to engage in securities services.

The company and the rating agency shall agree that the rating agency shall provide at least one follow-up rating report each year during the term of the bonds.

Article 11 Where security is provided on the corporate bonds, the security shall satisfy the following requirements:

- (1) the secured liabilities shall include the principal and interest of the bonds, liquidated damages, damages for compensation and costs of enforcement;
- (2) if security is provided in the form of a guarantee, it shall be a joint and several guarantee provided by a guarantor that owns good quality assets;
- (3) if security is created over collaterals, the title of the collaterals must be clear and free from encumbrances or judicial preservation. The value of the collaterals shall not be less than the secured amount based on the asset valuation results provided by a qualified asset valuation agency; and
- (4) the security shall satisfy the requirements of the *Property Rights Law*, the *Security Law* as well as other relevant laws and regulations.

CHAPTER 3. PROCEDURES OF ISSUANCE

Article 12 The board of directors of a company that intends to issue bonds shall formulate a proposal and its shareholders' meeting or the general meeting of shareholders shall resolve on the following matters:

- (1) the number of bonds to be issued;
- (2) any arrangement for placement to the company's shareholders;
- (3) the term of the bonds;
- (4) the use of the funds raised from the bond issue;
- (5) the validity period of each resolution;
- (6) matters authorized to the board of directors; and
- (7) other matters that need to be specified.

Article 13 Funds raised from the issue of corporate bonds must be used in accordance with the purpose approved by the shareholders' meeting or the general meeting of shareholders, as well as the industry policies of the State.

Article 14 The issue of corporate bonds shall be sponsored by a sponsor and applied with and reported to the CSRC.

The sponsor shall prepare and file a prospectus and application documents for issuance in accordance with the relevant regulations of the CSRC.

Article 15 All the directors, supervisors and the senior management personnel of the issuing company shall affix their signatures on the prospectus, undertake that there are no false statements, misleading representations or material omissions in the prospectus, and acknowledge that they will undertake several and joint legal liabilities on the prospectus.

Article 16 The sponsor shall conduct due diligence on the content of the prospectus. The relevant responsible persons of the sponsor shall affix their signatures on the prospectus and confirm that there are no false statements, misleading representations or material omissions in the prospectus, and acknowledge that they will assume corresponding legal liabilities on the prospectus.

Article 17 The certified public accountants, asset valuation personnel, credit rating personnel and lawyers who issue specified documents in relation to the bond issuance, as well as the institutions to which such personnel belong shall issue the documents in accordance with the relevant business rules formulated according to law as well as the business standards and ethics generally recognized in their industries, and shall acknowledge that they will be liable for the authenticity, accuracy and completeness of the documents they have issued.

Article 18 The audit reports, the asset valuation reports and the rating reports quoted in a prospectus for the issuance of bonds shall be issued by qualified securities service institutions and signed by at least two qualified personnel.

The legal opinion quoted by the prospectus shall be issued by a law firm and signed by at least two lawyers involved in its issue.

Article 19 A prospectus shall remain effective for six months as from its final execution date.

The prospectus shall not use asset valuation reports or credit rating reports that have already expired.

Article 20 The CSRC will verify an application for the bond issuance in accordance with the following procedures:

- (1) the CSRC will decide whether or not to accept the application documents within five working days upon receipt of the application documents;
- (2) the CSRC will carry out an initial examination of the application documents upon accepting the application;
- (3) the Issuance Examination Committee of the CSRC will examine the application documents in accordance with the special procedures specified in

the Measures on the Issuance Examination Committee of the China Securities Regulatory Commission; and

- (4) the CSRC will decide on whether to verify the application or not.

Article 21 A company issuing corporate bonds may apply for multiple issuances upon obtaining one single verification. The company shall launch the first issue within six months upon obtaining verification from the CSRC. The remaining bonds shall be issued within 24 months upon obtaining verification from the CSRC. If no issue is made after the prescribed period specified in the verification document, the company shall only launch further issues upon obtaining a new verification from the CSRC.

The number of bonds in the first issue shall not be less than 50% of the total number of bonds to be issued. The company may solely determine the number of the remaining bonds to be issued subsequently. Each issue shall be filed with the CSRC for record within five working days upon the completion of the relevant issue.

Article 22 A company shall, within two to five working days before its bond issue, publish a summary of its bond prospectus as approved by the CSRC in at least one newspaper or periodical designated by the CSRC, and at the same time publish the full text of the prospectus on a website designated by the CSRC.

CHAPTER 4. PROTECTION OF THE INTERESTS OF BONDHOLDERS

Article 23 A company shall engage an entrusted bond administrator on behalf of the bondholders and enter into an entrusted bond administration agreement with the entrusted bond administrator. During the term of the bonds, the entrusted bond administrator shall protect the interests of the bondholders in accordance with such an agreement.

In the prospectus, the company shall stipulate in the prospectus that the subscription of an investor to the current issue of the bonds shall be deemed as the investor's consent to the entrusted bond administration agreement.

Article 24 The entrusted bond administrator shall be the sponsor of the current issue or an institution recognised by the CSRC. An institution that provides security for an issue shall not act as the entrusted bond administrator for the same issue.

The entrusted bond administrator shall act in the best interest of the bondholders and shall not have any conflict of interest with them.

Article 25 The entrusted bond administrator shall assume the following responsibilities:

- (1) continuously monitor the credit standing of the issuing company and the guarantor, and convene bondholders' meetings upon the occurrence of events which may materially affect the interests of the bondholders;

- (2) if security created over collaterals is provided for the bonds, the entrusted bond administration agreement shall provide that such collaterals are trust assets. The entrusted bond administrator shall obtain certificates or other relevant documents that evidence security rights before the bonds are issued and safekeep them during the term of the security;
- (3) diligently handle negotiations or litigation matters between the bondholders and the issuing company during the term of the bonds;
- (4) request additional security from the issuing company or apply for judicial preservation from statutory institutions in accordance with law, if it predicts that the issuing company may not be able to repay its debts;
- (5) be entrusted to participate in the reorganization, conciliation, restructuring or bankruptcy proceedings of the issuing company when the company fails to repay its debts; and
- (6) undertake other important obligations set out in the entrusted bond administration agreement.

Article 26 An issuing company shall, together with the entrusted bond administrator, formulate rules of the bondholders' meetings and set out the scope, procedures and other important matters relating to the exercise of rights by the bondholders through the bondholders' meetings.

The company shall stipulate in the prospectus that an investor's subscription to the current issue of the bonds shall be deemed as the investor's consent to the rules of the bondholders' meetings.

Article 27 A bondholders' meeting shall be held when:

- (1) any provision of the bond prospectus is to be changed;
- (2) the entrusted bond administrator is to be changed;
- (3) the issuing company fails to pay the principal or interest when due;
- (4) the issuing company reduces its registered capital or experiences merger, division or dissolution or applies for bankruptcy;
- (5) there are material changes to the guarantor or the collaterals; and
- (6) other matters that significantly affect the interests of the bondholders occur.

CHAPTER 5. SUPERVISION AND ADMINISTRATION

Article 28 A company that has violated these Measures, such as failing to perform its information disclosure obligations, failing to convene bondholders' meetings or damaging the

interest of bondholders, may be ordered by the CSRC to carry out a rectification. Administrative penalties such as a regulatory inquiry or disqualification may be imposed on the personnel directly in charge and other personnel who are directly liable.

Article 29 Sponsors that have issued letters of recommendation on bond issues that contain false statements, misleading representations or material omissions, or sponsors or their personnel who have counterfeited or fabricated signatures or seals or failed to perform other legal responsibilities shall be punished in accordance with the relevant provisions of the *Securities Law* and the relevant rules on the sponsorship system.

Article 30 Institutions and their personnel that have issued audit reports, legal opinions, asset valuation reports, credit rating reports and other specified documents shall be punished in accordance with the *Securities Law* and the relevant regulations of the CSRC if the respective specified documents contain false statements, misleading representations or material omissions.

Article 31 An entrusted bond administrator that has violated the Measures, failed to perform its obligations under the entrusted bond administration agreement and consequently damaged the interests of the bondholders may be ordered by the CSRC to carry out a rectification. Administrative penalties such as a regulatory inquiry or disqualification may be imposed on the personnel directly in charge or other personnel who are directly liable, and such penalties may be recorded in the conduct file of the personnel and be published.

CHAPTER 6. SUPPLEMENTARY PROVISIONS

Article 32 The trading of corporate bonds on stock exchanges, the registration and settlement of bonds and other relevant matters shall be handled in accordance with the rules of the stock exchanges and the corresponding securities registration and settlement agencies.

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