

Notice of China Banking Regulatory Commission on Printing and Distributing the Guidelines for the Governance of Trust Companies

Promulgation date: 01-22-2007
Effective date: 03-01-2007
Department: CHINA BANKING REGULATORY COMMISSION
Subject: FINANCE & BANKING

Notice of China Banking Regulatory Commission on Printing and Distributing the Guidelines for the Governance of Trust Companies

All banking regulatory bureaus and trust companies directly under the supervision of China Banking Regulatory Commission:

We hereby print and distribute the Guidelines for the Governance of Trust Companies to you for your earnest compliance and implementation.

All banking regulatory bureaus shall, in light of the development situation of the trust companies within your respective jurisdictions and in accordance with the principle of “differential treatment and classified guidance”, strengthen supervision and guidance and urge the trust companies to perfect their corporate governance structure.

All trust companies shall, in light of the actual situation, perfect the corporate governance structure, improve the corporate governance effect and, in accordance with the provisions of the relevant laws and regulations and the requirements of these Guidelines, amend the articles of association before December 31st, 2007.

January 22nd, 2007

Guidelines for the Governance of Trust Companies

Chapter I General Rules

Article 1 For the purpose of further perfecting the governance of trust companies, strengthening risk control, promoting the sound operation and healthy development of trust companies and safeguarding the legitimate rights and interests of the shareholders, beneficiaries and other interested parties of trust companies, these Guidelines are formulated in accordance with the Company Law of the People’s Republic of China, the Banking Supervision Law of the People’s Republic of China, the Trust Law of the People’s Republic of China and other relevant laws and regulations.

Article 2 The governance of a trust company shall realize the principle of maximizing the interests of the beneficiaries. The establishment and operation of such organizational framework as the shareholders’ meeting, the board of directors, the board of supervisors and the senior management level shall be based on the protection of the interests of the beneficiaries. Where the interests of

the trust company, its shareholders or staff conflict with those of the beneficiaries, priority shall be given to the protection of the beneficiaries' interests.

Article 3 The governance of a trust company shall observe the following principles:

- (1) earnestly fulfilling the trustee's duties, following the principles of honesty, credit, prudence and effective management, scrupulously performing its duties and handling the trust affairs for the best interests of the beneficiaries;
- (2) clarifying the duties, rights and obligations of its shareholders, directors, supervisors and senior managers, and perfecting the procedural system and decision-making process of the shareholders' meeting, the board of directors, the board of supervisors and the senior management level;
- (3) establishing perfect inner control system, risk management system, information disclosure system and reasonable performance evaluation system and salary system;
- (4) setting up the philosophy of risk management, determining effective risk management policies, formulating detailed and accurate risk management system, establishing comprehensive risk management program and identifying, measuring, supervising and controlling all kinds of risks; and
- (5) actively encouraging the introduction of qualified strategic investors, excellent management team and professional managers, and optimizing the governance structure.

Article 4 A trust company shall set up a regulation-compliance management mechanism and urge the board of directors, the board of supervisors, the senior management level and other levels of the company to perform their duties on regulation-compliance within their respective scope of duties so as to make the business operations of the trust company consistent with the relevant laws, rules and standards and to make the company operate according to law.

Chapter II Shareholders and the Shareholders' Meeting

Section 1 Shareholders

Article 5 The shareholders of trust companies shall satisfy the qualification requirements prescribed by laws, administrative regulations and China Banking Regulatory Commission (hereinafter referred to as CBRC) and be subject to the approval of the CBRC.

Article 6 A shareholder of a trust company shall make the following promises:

- (1) its purchase of the shares of the company is beneficial to the company's sustainable, sound and stable development;
- (2) it will not transfer the shares it holds in the company within three years, except the shares of a listed trust company;
- (3) it will not pledge the shares it holds in the company;
- (4) it will not establish any trust on the shares it holds;
- (5) it will perform the obligation of financial contribution in strict accordance with the laws, administrative regulations and the provisions of the CBRC.

Article 7 A shareholder of a trust company may not commit any of the following behaviors:

- (1) making false or overrated financial contribution, spiriting capital away either directly or in any disguised form;
- (2) seeking illegitimate interests by using the position of shareholder;
- (3) directly or indirectly intervening in the daily operation and management of the trust company;
- (4) requesting the trust company to make a promise on the lowest return or dividend distribution;
- (5) requesting the trust company to provide guarantee for it;
- (6) conducting affiliated transactions with the trust company by violating the relevant provisions;
- (7) misappropriating the inherent property or trust property of the trust company;
- (8) disposing its financial contribution in the form of equity custody, trust document or secret agreement; or
- (9) other behaviors that damage the legitimate rights and interests of the trust company, other shareholders or the beneficiaries.

Article 8 A shareholder shall inform the trust company in a timely manner in case it is under any of the following circumstances:

- (1) preservative measures in litigation are adopted against the equity it holds in the trust company, or the equity it holds is forcibly executed;
- (2) transfer of the equity it holds in the trust company;
- (3) change of name;
- (4) merger or split-up;
- (5) dissolution, bankruptcy, closure or take-over; or
- (6) other circumstances that may lead to the change of the equity it holds in the trust company.

Article 9 A shareholder of a trust company shall be strictly separated from the trust company in terms of business, personnel, assets, finance and business place, etc, it shall make independent operation and business accounting and undertake liabilities and risks independently.

Section 2 Shareholders' Meeting

Article 10 The convening, voting formula, procedure and limits of the functions and powers of the shareholders' meeting of a trust company shall be clearly stipulated in the articles of association of the company.

Article 11 The detailed rules of procedures of the shareholders' meeting of a trust company shall include the notice, the preparation of documents, the convening form, the voting formula, the minutes, the signature and other contents, which shall be formulated by the board of directors in accordance with the articles of association of the company and implemented after they are deliberated and adopted by the shareholders' meeting.

Article 12 The periodic meeting of the shareholders' meeting of a trust company shall deliberate the issues prescribed in the relevant laws and regulations, moreover, the following items shall also be listed into the scope of deliberation of the shareholders' meeting:

- (1) informing the regulatory department's regulatory opinions on the company and the situation on

the company's implementation and rectification; and
(2) reporting the situation on the realization of the interests of the beneficiaries.

Article 13 Where any shareholder of a trust company holds 50% or more equity of the company either solely or with its affiliated parties, the shareholders' meeting shall apply the cumulative voting system in electing directors and supervisors.

The term "cumulative voting system" as mentioned in these Guidelines means that when electing directors or supervisors in the shareholders' meeting, the number of the votes held by each share shall equal the number of the directors or supervisors to be elected, and all the votes held by a shareholder may be used in a concentrated way.

Article 14 The minutes of the shareholders' meeting of a trust company shall be authentic and complete, and be kept for at least 15 years since the date they are made.

The resolutions and other relevant documents of the shareholders' meeting shall be reported to the CBRC or its dispatched office for record.

Chapter III Directors and the Board of Directors

Section 1 Directors

Article 15 The directors of trust companies shall satisfy the qualification requirements prescribed by laws, administrative regulations and the CBRC.

Article 16 The articles of association of a trust company shall expressly stipulate the number of the directors, selection methods, procedures for appointment and removal, rights and obligations and term of office, etc.

Article 17 A director shall be present at the meeting of the board of directors with an earnest and responsible attitude and express pronounced opinions on the issues deliberated. Any director who can't be present at the meeting of the board of directors in person may entrust, in written form, any other director to vote for him according to his will and to undertake corresponding legal responsibilities.

Article 18 Where a director himself is associated, either directly or indirectly, with any contract, transaction or arrangement of the company that is existing or is under contemplation, he shall notify the board of directors and the board of supervisors of the nature and extent of the associated relationship and withdraw himself from the board of directors when such issue is deliberated and voted in the board of directors.

Section 2 Independent Directors

Article 19 A trust company shall have independent directors, who shall pay attention to and

safeguard the interests of the small and middle shareholders and the beneficiaries. There shall not be any relationship between an independent director and the trust company or any of its shareholders which may affect the independent judgment of the independent director.

The number of independent directors shall not be less than 1/4 of the total number of the members of the board of directors; but as for a trust company in which the equity held by a single shareholder and its affiliated parties accounts for 2/3 of the total equity of the company, the number of its independent directors shall not be less than 1/3 of the total number of the members of its board of directors.

Article 20 An independent director shall have good professional integrity and moral ethics, be familiar with trust principles and trust operating rules and have adequate time and energy to perform his duties.

An independent director of a trust company may not hold any post in any other trust company.

Article 21 A trust company shall clearly stipulate such contents as the selection procedure of independent directors and their rights and obligations, etc.

Article 22 An independent director shall have the following duties or rights:

- (1) proposing to hold the temporary meeting of the shareholders' meeting or the meeting of the board of directors;
- (2) submitting working reports to the shareholders' meeting;
- (3) hiring auditing organ or consultation institution in light of the needs for performing the duties, and the expenses shall be born by the trust company;
- (4) expressing independent opinions on important business, and separately reporting the situation on affiliated transactions, etc, to the CBRC or its dispatched office;
- (5) expressing independent opinions on such issues as the salary plans and incentive plans for the directors and senior managers of the company; and
- (6) other duties and rights endowed by laws and regulations to directors.

Article 23 Where an independent director of a trust company resigns or is removed during his term of office, the independent director himself and the trust company shall respectively submit written explanations to the shareholders' meeting and the CBRC or its dispatched office.

Section 3 Board of Directors

Article 24 The board of directors shall be responsible to the shareholders' meeting and exercise its functions and powers in accordance with the Company Law of the People's Republic of China, the provisions of other laws and regulations and the articles of association of the company. Where the board of directors authorizes some functions and powers to the chairman of the board when the meeting of the board of directors is not in the session, the contents of the authorization shall be clear and specific.

The board of directors and the chairman of the board shall exercise functions and powers according to law, and may not intervene in the specific business operations of the senior management level by exceeding the authority.

Article 25 The board of directors of a trust company shall formulate the strategic development goals and corresponding development programs of the trust company, find out the risk status of the trust company and clarify the risk management policies and administrative regulations of the company.

Article 26 The board of directors shall formulate normative procedures for convening the meeting of the board of directors and rules of procedures and voting, which shall be reported to the CBRC or its dispatched office for record after they are voted and adopted by the shareholders' meeting.

Article 27 The meeting of the board of directors shall be held at least twice a year. The minutes of the meeting of the board of directors shall be authentic, complete and kept for at least 15 years since the date they are made. The directors and recorders that are present at the meeting shall sign on the minutes.

A resolution of the board of directors may only come into force after it is adopted by half or more of the directors of the board of directors, but one on such issues as great investment, great assets disposal, the change of senior managers and the scheme for profits distribution, etc, shall be adopted by 2/3 or more of the directors of the board of directors.

Article 28 In case of any of the following circumstances, the board of directors shall inform all the shareholders in a timely manner and report to the CBRC or its dispatched office:

- (1) the company or any of its senior manager is suspected of involvement in any major illegal or irregular act;
- (2) the company's financial status continues to deteriorate or the company suffers great losses;
- (3) the company plans to change any director, supervisor or senior manager; or
- (4) other issues that may affect the continuous operation of the company.

Article 29 The board of directors shall report the list of the affiliated shareholders that may actually control the trust company when a concerted action is committed to the shareholders' meeting and the CBRC or its dispatched office in a timely manner.

Article 30 The board of directors shall establish a trust committee under it to be responsible for urging the company to perform the trustee's duties according to law. The members of the committee shall be three or more, and the person in charge of the committee shall be an independent director. When the interests of the trust company or its shareholders conflict with those of the beneficiaries, the committee shall guarantee that the company will serve the best interests of the beneficiaries.

In light of the actual situation and demands of the company, the board of directors may establish special committees of personnel, salary, auditing and risk management, etc, under it.

Article 31 The board of directors shall have a secretary of the board of directors or special organ to be responsible for preparation of the shareholders' meeting and the meeting of the board of directors, the safekeeping of the minutes and documents of the meetings, information disclosure and other daily affairs, and for filing the documents of the shareholders' meeting and the meeting of the board of directors with the CBRC or its dispatched office for record.

Chapter IV Supervisors and the Board of Supervisors

Section 1 Supervisors

Article 32 The supervisors of trust companies shall satisfy the qualification requirements prescribed by laws, administrative regulations and the CBRC, and have the qualities necessary for performing the duties.

None of the directors, senior managers and their linear relatives of a trust company may undertake the post of supervisor of the company.

Article 33 A supervisor of a trust company is entitled to know the operation status of the company and shall undertake corresponding obligation of confidentiality.

A trust company shall adopt measures to effectively safeguard its supervisors' right to learn the truth, and provide necessary conditions for the supervisors to perform their duties.

Article 34 Supervisors shall attend the meeting of the board of directors as nonvoting delegates. A supervisor attending the meeting as a nonvoting delegate has the right to express opinions, but has no voting power; where he finds out any significant issue, he may report it to the CBRC or its dispatched office separately.

Section 2 Board of Supervisors

Article 35 A trust company shall establish the board of supervisors.

The board of supervisors shall formulate normative rules of procedure, which shall be implemented and be reported to the CBRC or its dispatched office for record after being deliberated and adopted by the shareholders' meeting.

Article 36 The chairman of the board of supervisors shall be responsible for convening the meeting of the board of supervisors.

The board of supervisors may establish a special organ under it, which shall be responsible for such issues as the preparation of the meeting of the board of supervisors and the safekeeping of the minutes and documents of the meeting, etc, and shall provide services for the board of supervisors to perform its duties according to law.

Article 37 The meeting of the board of supervisors shall be held at least twice a year. The minutes of the meeting of the board of supervisors shall be authentic, complete and kept for at least 15 years since the date they are made. The supervisors and recorders that are present at the meeting shall sign on the minutes.

Article 38 The board of supervisors may require any director or senior manager of the company to attend the meeting of the board of supervisors and answer the questions it cares.

The company shall report the internal auditing reports, regulation-compliance inspection reports, financial statements and other significant issues to the board of supervisors in a timely manner.

Article 39 Based on the needs for performing duties, the board of supervisors may hire external auditing organ or consultant institution upon the consensus of the supervisors, and the expenses shall be born by the company.

Chapter V Senior Management Level

Article 40 The post-holding qualification of senior managers shall conform to laws, administrative regulations and the provisions of the CBRC. No trust company may employ any personnel not obtaining post-holding qualification to assume the post of a senior manager or to undertake the relevant work.

Article 41 A senior manager shall observe the principle of good faith, prudently and diligently exercise functions and powers within the limits of his functions and powers, and may not seek any business opportunity that belongs to the company for himself or anyone else, or accept any profit related to any transaction of the company.

Article 42 The post of the general manager and the post of the chairman of the board of directors of a trust company may not be assumed by a same person. The general manager shall be responsible to the board of directors, and the general manager not assuming the post of director may attend the meeting of the board of directors as a nonvoting delegate.

The general manager shall report the situation on the conclusion and implementation of great contracts, the situation on fund utilization and the situation on the profits and losses of the company to the board of directors or the board of supervisors as required. The general manager shall guarantee the authenticity of the information reported.

Article 43 The senior management level shall earnestly perform the trustee's duties for the best interests of the beneficiaries:

- (1) establishing effective isolating mechanism between the trust business and other businesses of the company to ensure that the personnel, information and accounts of the company be independent from each other and ensure the independency of the trust property; and
- (2) earnestly managing the trust property and arranging at least one trust manager for each trust

plan of assembled funds.

Article 44 The senior management level of a trust company shall evaluate the risks of each level of the company, and the depth and extent of the evaluation shall be fit for the business scope of the company and the duties of each department; at the same time, it shall also strengthen risk management, effectively detect, evaluate, control and manage risks and gradually improve its capacity of risk identification and management.

Article 45 The senior management level shall, in light of the needs of the business operations of the company, establish and improve an inner control mechanism which mainly includes the investment decision-making system, internal rules and regulations, operation risk control system and business examination and approval system and business operation system, and report it to the CBRC or its dispatched office for record.

The inner control mechanism shall cover all businesses, all departments and the personnel of all levels of the trust company and be implemented in each operation link, such as the links of decision-making, implementation, supervision and feedback, and ensure that all departments and posts of the company be independent from each other and at the same time restrict each other.

Article 46 A trust company shall establish an internal auditing department to audit and supervise the business operations of the company. The auditing department shall submit an internal auditing report to the board of directors of the company at least once every half a year, and at the same time, send a copy of the report to the CBRC or its dispatched office.

Article 47 The senior management level of a trust company shall establish a regulation-compliance management department, which shall be responsible for the regulation-compliance check of the company, monitoring the regulation-compliance situation of all the departments and personnel of the company and assisting the senior management level to effectively identify and manage the regulation-compliance risks of the company.

Chapter VI Incentive and Constraint Mechanism

Article 48 A trust company shall formulate open and fair standards and procedure for performance evaluation according to law and establish an incentive and constraint mechanism which connects the salary with the company's efficiency and individual performance.

Article 49 A trust company shall conclude employment agreements with the personnel of the company, which shall stipulate the term of office, performance evaluation, salary and treatment, causes for dismissal, both parties' rights and obligations and liabilities for breach of contract, etc.

Article 50 The salary distribution system of a trust company shall be subject to the approval of the board of directors, which shall make specific explanations on the situation on the fulfillment of duties by the senior management level of the company, situation on their performance evaluation and their salary situation to the shareholders' meeting.

Article 51 A trust company shall draw out plans for providing trainings to its employees and conduct learning and training activities on a regular basis to improve the business capacity, regulation-compliance awareness and moral level of its employees.

Article 52 A trust company shall establish an inner reporting mechanism to encourage the employees to report the defects or illegal acts existing in the inner operation of the company, and separately investigate and handle the problems reported.

Article 53 A trust company may, when having the conditions, establish the professional liability insurance system for its directors, supervisors and senior managers upon the approval of the shareholders' meeting.

Chapter VII Supplementary Rules

Article 54 Trust companies shall, in accordance with laws, regulations and the relevant regulatory provisions, disclose the information on corporate governance in a timely manner and guarantee the authenticity, accuracy and integrity of the information disclosed.

Article 55 The power to interpret these Guidelines shall remain with the CBRC.

Article 56 These Guidelines shall come into force as of March 1st, 2007.