Announcement of the China Securities Regulatory Commission

(No.38 [2008])

The Guiding Opinions on Further Regulating the Valuation Business of Securities Investment Funds are hereby promulgated, and shall come into force on September 12, 2008.

September 12, 2008

Guiding Opinions on Further Regulating the Valuation Business of Securities Investment Funds

For the purpose of ensuring the smooth implementation of the new Accounting Standards for Enterprises (hereinafter referred to as the "New Standards"), China Securities Regulatory Commission (CSRC) promulgated successively such documents as the Notice on the Relevant Transitional Issues in the Implementation of the Accounting Standards for Enterprises by Securities Investment Funds (No. 15 [2007] of China Securities Regulatory Commission) and the Notice on the Relevant Issues concerning the Valuation Business and Calculation of Price on the Basis of the Net Value of Fund Shares in the Implementation of the Accounting Standards for Enterprises by Securities Investment Funds (No.21 [2007] of China Securities Regulatory Commission). According to the recent changes in the market and the problems in the fair value determination and measurement in the implementation of the New Standards by fund management companies, we have made further provisions on such issues as the fund valuation business, especially the valuation of the investment varieties with no market value including the stocks that have been suspended for long, and have formulated these Guiding Opinions:

I. Fund management companies shall, in strict accordance with the New Standards, the relevant provisions of the CSRC and the stipulations on valuation in the fund contracts, conduct valuation on the investment varieties held by funds according to the following principles:

(1) For an investment variety whose market is vigorous, if it has market value on the valuation date, the fair value shall be the market value; if it has no market value on the valuation date, but the economic environment has undergone no material changes after the recent transaction day and no major events affecting the securities price have happened to the securities issuing institution, the fair valuation shall be the most recent transaction price.

(2) For an investment variety whose market is vigorous, if it has no market value on the valuation date, and the economic environment has undergone material changes in the most recent transaction day or major events affecting the securities price have happened to the securities issuing institution, which has produced an effect of 0.25% or more on the potential valuation adjustment as compared to the fund net asset value of the previous valuation date, the fund management company shall adjust the most recent transaction price and determine the fair value with reference to the current market value of similar investment varieties and the material changes, etc.

(3) If an investment variety whose market is not active anymore, and has produced an effect of 0.25% or more on the potential valuation adjustment as compared to the net asset value of the fund of the previous valuation date, the fund management company shall determine the fair value of the investment variety by adopting the valuation techniques which are generally acknowledged by market participants and which have been proved by the past actual transaction prices of the market as reliable.

II. In fund valuation, especially in the valuation according to the provisions of the aforesaid Article I (2) or (3), the fund management companies shall follow the following principles and procedures:

(1) The fund management companies shall ensure the fairness and reasonability of fund valuation, especially ensure that the valuation is not distorted so as to avoid disadvantageous effects on the fund shareholders.

(2) The fund management companies shall work out sound and effective valuation policies and procedures, and implement them upon the authorization of their management team. The valuation policies and procedures shall clarify the division of work and functions of all the parties and personnel participating in the valuation process, and clarify the valuation methods of all fund investment varieties, and shall especially formulate provisions on the valuation models, hypotheses, parameters and verification mechanisms adopted in the valuation in accordance with the provisions of Article I (2) or (3).

(3) The fund management companies shall keep the consistency of the valuation policies and procedures when conducting valuation on investment varieties. Under the premise of considering the investment strategies, the valuation policies, procedures and relevant methods of the same security holding by different funds that are managed by the same fund management company shall be consistent. The determined valuation policies and procedures shall continue to be applicable

unless it is necessary to update the valuation policies or procedures. To ensure the implementation of the consistency principle, the fund management companies shall establish relevant internal control mechanisms.

(4) The fund management companies shall make regular assessments on the valuation policies and procedures, and timely revise the valuation methods after anything that affect the effectiveness and applicability of the valuation policies and procedures has happened so as to ensure their continuous applicability. The opinions on revising the valuation policies and procedures shall not be implemented until they have been examined and approved by the management team of the fund management company. When the fund is adopting new investment strategies or investing in new varieties, the applicability of the current valuation policies and procedures shall be appraised.

(5) When adopting any valuation policy or procedure, a fund management company shall fully consider the experiences, professional competence and independency of all the parties and personnel participating in the valuation process, and reduce or avoid valuation deviation by effectively combining one or more means, such as establishing a valuation committee, referring to the valuation opinions of the industrial associations, and referring to the valuation data of an independent third party.

III. Fund management companies shall perform the obligation of disclossure relating to fund valuation in accordance with laws and regulations, and shall disclose at least the following information in the regular reports: valuation policies and major changes, and if the valuation is conducted according to the principle specified in the aforesaid Article I (2) or (3), the valuation models, hypotheses, parameters, effects on the net asset value of the fund, and the profits and losses of current period shall be involved; a description of the division of functions, professional competence, and related working experiences of all the parties and personnel participating in the valuation process; the extent of fund managers participating in or determining the valuation; any of the major interest conflicts that exists among all the parties participating in the valuation process; the nature and extent of any of the priced services for which contracts have been concluded, and so on.

If, in the process of valuation, a fund management company changes the principle as provided for in the aforesaid Article I (1) into that of Article (2) or (3), it shall timely make a temporary announcement under the principle of protecting the interests of the fund shareholders to the maximum.

IV. The custodian banks shall practically perform the duty of reviewing the valuations and net value calculations as required by law or regulation. In case a fund management company changes the principle as provided for in Article I (1) into that provided in Article I (2) or (3) in the process of valuation, it shall timely inform the custodian bank. The custodian bank shall earnestly check the valuation policies and procedures adopted by the fund management company. When there are objections, the custodian bank shall require the fund management company to make reasonable explanations, and an agreement shall be reached through active discussions.

V. In case a fund management company changes the principle as provided for in Article I (1) into that provided in Article I (2) or (3) in the process of valuation, which causes the change of the net asset value of the fund by 0.25% or more, it shall invite an accounting firm to carry out an audit. The accounting firm shall give its audit opinions on the appropriateness of the relevant valuation models, hypotheses and parameters adopted by the fund management company, and shall issue a report.

When issuing the audit report on the fund annual financial report, the accounting firm shall fully consider the valuation policies of the fund and the major changes thereof during the reporting period, especially the applicability for using the principle specified in the aforesaid Article I (2) or (3), the objectivity and reliability to use the external information in valuation, and the sufficiency and timeliness of the relevant disclosures.

VI. The Working Group of Funds Valuation of the Securities Association of China shall organize the securities industry to actively study the valuation methods applicable to the provisions of the aforesaid Article I (2) or (3) for the reference and use of the fund management companies, but the fund management companies shall not be exempted from the relevant valuation responsibilities. In case a fund management company adopts any other valuation method, it shall disclose the reasons for the adoption and the difference between this method and the valuation method generally adopted by the industry in its regular report.

VII. If there are new specific provisions on the accounting and valuation of securities investment fund in the Accounting Standards, the Working Group of Funds Valuation of the Securities Association of China shall timely guide the fund management companies in revising the valuation methods.