

Announcement of the China Securities Regulatory Commission

(No. 41 [2008])

For the purpose of regulating the issuance of exchangeable corporate bonds by shareholders of listed companies, this Commission formulated the Trial Provisions on the Issuance of Exchangeable Corporate Bonds by Shareholders of Listed Companies according to the Pilot Rules on the Issuance of Corporate Bonds (Order No. 49 of the China Securities Regulatory Commission), which are hereby promulgated to you, and shall come into force on the date of promulgation.

October 17, 2008

Trial Provisions on the Issuance of Exchangeable Corporate Bonds by Shareholders of Listed Companies

For the purpose of regulating the issuance of exchangeable corporate bonds by shareholders of listed companies, and in accordance with the Pilot Rules on the Issuance of Corporate Bonds, the provisions on the relevant matters are made as follows:

I. A shareholder holding shares of a listed company may file an application with the China Securities Regulatory Commission for issuing exchangeable corporate bonds upon the recommendation of a recommender.

The term “exchangeable corporate bonds” refers to the company bonds issued by the shareholders of a listed company according to law which can be exchanged with the shares of the listed company held by the shareholders under the stipulated conditions and within a certain time limit.

II. To apply for issuing exchangeable corporate bonds, the following provisions shall be met:

1. The applicant shall be a limited liability company or a joint-stock limited company, which satisfies the requirements of the Company Law and the Securities Law.

2. The company shall have a sound organizational structure and good performances and the internal control system of which shall be free of any material defect;

3. The latest term-end net asset value of the company shall be no less than RMB 300 million;

4. The average annual distributable profits of the company in the last three fiscal years shall not be less than the one-year interest on the corporate bonds;

5. The cumulative corporate bond balance of the company after the present issuance shall not exceed 40% of the latest term-end net asset value;

6. The value of the present issuance shall not exceed 70% of the market value of the stock to be exchanged as calculated based on the average price of the said stock of 20 transaction days prior to the announcement of the prospectus, and the stock to be exchanged shall be set as a security for the corporate bonds of the present issuance;

7. The company shall enjoy a good bond credit rating as made by a credit rating institution; and

8. The company shall be immune from any of the circumstances that shall not issue corporate bonds as prescribed by Article 8 of the Pilot Rules on the Issuance of Corporate Bonds.

III. The stock of a listed company to be exchanged shall comply with the following provisions:

1. The latest term-end net assets of this listed company shall be no less than RMB 1.5 billion in value, or the average of the weighted average net asset yield rates for the recent 3 fiscal years shall not be lower than 6%. The weighted average net asset yield rates shall be calculated on the basis of the net profits after deducting the non-recurring profits and losses or the pre-

deduction net profits, whichever is smaller;

2. The stock to be exchanged shall be the shares not restricted for sale when the application for issuance is made, and the transfer of these shares by the shareholder during the stipulated exchanging period shall not violate the commitments made by the listed company to other shareholders;

3. Before the present issuance of exchangeable corporate bonds, the stock for exchange shall not fall into any of the circumstances of restricted property rights, such as seal-up, detainment, or freezing, and shall be free from ownership disputes, and shall not fall into any other circumstances under which such stock shall not be transferred, or be posted with security according to laws.

IV. The minimum time period of exchangeable corporate bonds shall be 1 year, and the maximum shall be 6 years. The par value of each exchangeable corporate bond shall be RMB 100 yuan, and the issuance price shall be determined by the shareholders of the listed company and the recommenders based on market survey.

A prospectus may stipulate the redemption clauses, stating that the shareholders of the listed company may redeem the exchangeable corporate bonds that have not been exchanged for stock according to the conditions and price as stipulated in advance.

A prospectus may stipulate the sell-back clauses, stating that the bondholders may sell the bonds they hold back to the shareholders of the listed company under the conditions and price as stipulated in advance.

V. With regards to the exchangeable corporate bonds that shall not be exchanged for the stock which may not be traded until 12 months have lapsed as of the time when the issuance ends, the bondholder shall have the option to exchange the corporate bonds for stock or not to do so.

The price per share at which a corporate bond is exchanged shall not be lower than the average price of the company's stock prices of the 20 transaction days prior to the announcement of the prospectus and the average price of the transaction day prior to the transaction. A prospectus shall stipulate in advance the exchange price, and the principle for adjusting or amending the price. If the adjustment or amendment of exchange price has caused the number of stock shares to

be exchanged less than the number of stock shares needed for the exchange of all unredeemed exchangeable corporate bonds for such stock, the company shall retroactively provide the stock shares to be exchanged in advance, set a security on these stock shares and go through the relevant formalities of registration.

VI. The procedures for issuing exchangeable corporate bonds shall be governed by the provisions of Chapter III of the Pilot Rules on the Issuance of Corporate Bonds.

The protection of the rights and interests of a bond custodian and a bondholder shall be governed by the provisions of Chapter IV of the Pilot Rules on the Issuance of Corporate Bonds.

The credit rating of exchangeable corporate bonds shall be governed by the provisions of Article 10, Chapter II of the Pilot Rules on the Issuance of Corporate Bonds.

The provision of a separate security for the corporate bonds of the present issuance shall be governed by the provisions of Article 11, Chapter II of the Pilot Rules on the Issuance of Corporate Bonds, with the exception of the surety created on the stock shares to be exchanged.

VII. The stock shares to be exchanged and the yield thereof (including the increase of principal converted with capital accumulation fund, gift shares, and dividends distribution, etc.) shall be the security for the exchangeable corporate bonds of the present issuance, which will be used as security for the exchange of stock by the bondholders and for the payment of the principal and interest of the present bonds.

Before the issuance of exchangeable corporate bonds, a corporate bond custodian shall conclude a contract of guarantee with the shareholder of the listed company on the stocks to be used for exchange, and establish a surety according to the business rules of the securities depository and clearing institution, go through the relevant registration formalities, keep it in a special account, and obtain the supporting documents for surety rights.

When a bondholder exchanges for his shares according to the stipulated conditions, an equivalent amount drawn from the stock as surety shall be paid to such bondholder; if some or all bondholders do not choose to exchange their bonds for stock, and the shareholders of the listed company could not pay off the debts at maturity, the proceeds obtained from the disposition of the surety stocks and the yields thereof shall be used in priority to pay off the debts it owes

to the bondholders.

VIII. In case an exchangeable corporate bondholder applies for exchanging his bonds for stock, he shall give his instruction to the stock exchanges via its entrusted securities company, and the instruction shall be deemed as an instruction to discharge the guarantee approved by the bond custodian and the issuer as well.

IX. To apply for issuing exchangeable corporate bonds, the company shall prepare the application documents as required by these Provisions, and continue disclosing information according to the Securities Law. The making of prospectus shall be governed by both the relevant requirements in the summary of the prospectus on the issuance of exchangeable corporate bonds by the listed company to disclose the important information of the listed company and the Criteria for Contents and Formats of Information Disclosure by Companies Making Public Offerings No.23--Prospectus of Public Issuance of Corporate Bonds (No.224 [2007] of the China Securities Regulatory Commission).

X. In case a shareholder in control of a listed company issues exchangeable corporate bonds, it shall make a rational issuance plan, and shall not directly transfer the control to anyone else through the present issuance. In case an investor holding exchangeable corporate bonds increases its shareholding in the listed company as a result of exercising its stock-exchanging rights, or any change occurs to the shareholders not in control of the listed company as a result of exercising the stock-exchanging rights by an investor holding such exchangeable corporate bonds, the relevant parties concerned shall perform the obligations prescribed in the Measures for the Administration of the Merger and Acquisition of Listed Companies (Order No.35 of the China Securities Regulatory Commission).

XI. For the listing, trading, sell-back, redemption, and registration of exchangeable bonds and the exchange for stock as well as the clearing and other matters relating to the exchangeable corporate bonds, the relevant provisions of the stock exchange and the securities depository and clearing institution shall apply.

XII. Any matter failing to be set forth in the present Provisions shall be handled according to other relevant provisions of the CSRC.

XIII. These Provisions shall come into force as of the date of promulgation.

Annex:

Catalogue of Application Documents for Issuing Exchangeable Corporate Bonds

- I. A prospectus signed by the relevant persons-in-charge;
  
- II. An issuance recommendation report issued by the recommenders;
  
- III. A commitment made by the issuer on establishing a surety on the stock to be exchanged at a securities depository and clearing institution, and on handling the relevant formalities of registration;
  
- IV. A credit rating report issued by a rating institution;
  
- V. An agreement on corporate bond custodianship and rules on the corporate bondholders' meeting;
  
- VI. A contract of guarantee of the present bonds (if any) and documents of asset assessment on the mortgaged property (if any); and
  
- VII. Any other important documents.