

December 2, 2002

China - Shanghai and Shenzhen Stock Exchanges Promulgated Rules for QFII Program

In what promises to be one of the last key enactments in China's new qualified foreign institutional investor ("QFII") system, on December 1, 2002 each of the Shanghai and Shenzhen Stock Exchanges promulgated substantially identical Implementing Rules for Securities Transactions by Qualified Foreign Institutional Investors ("QFII Stock Exchange Rules"). The QFII Stock Exchange Rules are the necessary complement to other recent enactments establishing the QFII regime, which to date include:

- Interim Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors, promulgated by the China Securities Regulatory Commission ("CSRC") and the People's Bank of China on November 5, 2002 and effective December 1, 2002 ("QFII Measures");
- Interim Regulations for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors, promulgated by the State Administration of Foreign Exchange ("SAFE") on November 28, 2002, also effective December 1, 2002;
- Implementing Regulations for the Registration and Settlement Business of Domestic Securities Investment by Qualified Foreign Institutional Investors, promulgated by CSRC and the China Securities Registration and Settlement Company and effective on December 1, 2002; and
- Application Forms for QFII Applicants and Custodian Banks, posted by the CSRC and effective December 1, 2002.

The QFII Stock Exchange Rules for Shanghai and Shenzhen address exchange and transactional issues arising from the QFII program. The rules of the two Exchanges are substantially identical. The Paul, Weiss translation of QFII Stock Exchange Rules for the Shanghai Exchange is attached to this memorandum.

Taken in the context of the entire QFII program, the most important aspects of the QFII Stock Exchange Rules are:

- Reiteration of the QFII Measures prohibition against the holdings of a QFII in a single A share listed company exceeding 10% of issuer's total shares
- Reiteration of the QFII Measures prohibition against the holdings of all QFIIs in a single A share listed company exceeding 20% of such issuer's total shares
- A provision mandating public notification (by the Exchange) whenever QFII holdings in a single A share listed company exceed 16% and upon any incremental increase of 2% thereafter
- A temporary ban on QFIIs dealing in state bonds (treasuries) or corporate bonds

It is also interesting to note that the QFII Stock Exchange Rules, although promulgated by the local Exchanges themselves, are issued with the explicit prior approval of the CSRC, and may be amended only with the prior approval of the CSRC, an acknowledgment of how the national securities authority has in fact gained some authority over the local Exchanges.

As stated above, the Shanghai (translation attached) and the Shenzhen QFII Stock Exchange Rules are substantially the same, the only differences being in the specific descriptions of qualified securities companies able to trade for QFIIs.

The Shanghai Stock Exchange Implementing Rules for Securities Transactions by Qualified Foreign Institutional Investors have been approved by the China Securities Regulatory Commission and are hereby promulgated. These Rules will be effective on the date of their promulgation.

Shanghai Stock Exchange

December 1, 2002

The Shanghai Stock Exchange Implementing Rules for Securities Transactions by Qualified Foreign Institutional Investors

Chapter One General Principles

Article 1. These implementing rules are formulated in accordance with the relevant provisions of the Interim Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors (hereinafter referred to as the "Interim Measures") to regulate the securities transaction activities of qualified foreign institutional investors on the Shanghai Stock Exchange (hereinafter referred to as the "Exchange"), and to maintain the order of securities market.

Article 2. These implementing rules shall apply to securities transaction activities by qualified foreign institutional investors (hereinafter referred to as "Qualified Investors") on the Exchange. Where these implementing rules do not make provision for certain matters, the provisions of the Exchange Trading Rules and other relevant operating rules shall apply.

Article 3. The Exchange shall monitor the securities transactions activities of Qualified Foreign Institutional Investors on a real time basis.

Chapter Two Administration of Qualified Investor Investment Operation

Article 4. Qualified Investors shall entrust a domestic securities company qualified as a member of the Exchange to handle relevant securities transactions business.

Article 5. When with respect to a Qualified Investor one of the following circumstances occurs, domestic commercial banks acting as their asset custodians (hereinafter referred to as "Custodians") shall report the relevant circumstances to the Exchange within five (5) business days after the occurrence of such fact:

- (1) Obtaining of Securities Investment Business Permit;
- (2) Receipt of investment quota approval and obtaining of a Foreign Exchange Registration Certificate;
- (3) Designation or change of Custodian;
- (4) Designation or change of the securities company engaging in domestic securities transaction activities;

- (5) Change of institutional name or legal representative;
- (6) Increase or reduction of registered capital;
- (7) Litigation-related events or becoming subject to serious penalty outside the PRC;
- (8) Failure to pass the annual inspection with respect to the Securities Investment Business Permit or the Foreign Exchange Registration Certificate;
- (9) Being subject to penalty by the China Securities Regulatory Commission ("CSRC"), the People's Bank of China or the State Administration of Foreign Exchange due to breach of the Interim Measures;
- (10) Other circumstances prescribed by the Exchange.

Article 6. With respect to the shares held by Qualified Investors engaging in domestic securities transactions, the listed A shares owned by each individual Qualified Investor in a single listed company shall be no more than 10% of the total amount of shares of such company. The aggregate listed A shares held by all Qualified Investors in a single listed company shall be no more than 20% of the total amount of shares of such company.

Article 7. Where the aggregate listed A shares held by all Qualified Investors in a single listed company amounts to 16% of the total amount of shares of such company and for every 2% increase thereafter, the Exchange will, after the transaction day close, publicly announce through the Exchange web site the total number of listed A shares already held by Qualified Investors in such company and the ratio [of such holdings] to the total amount of shares of such company.

Article 8. After the transaction day close, in the event that the aggregate listed A shares owned by an individual Qualified Investor in a single listed company is more than the prescribed ratio, the Exchange will notify the securities company and the Custodian entrusted [by such Qualified Investor]. The Qualified Investor shall square its position within five (5) transaction days after receipt of a notice for reduction of holdings, in order to meet requirements for the prescribed shareholding ratio.

Article 9. After the transaction day close, in the event that the aggregate listed A shares held by all Qualified Investors in a single listed company is more than the prescribed ratio, the Exchange will, in accordance with the principle of "last-bought/first-sold", decide the order for squaring the position, and issue a notice to the securities company and Custodian entrusted by the Qualified Investors. Qualified Investors shall take appropriate action within five (5) transaction days after the receipt of the notice in order to meet requirements for the prescribed shareholding ratio.

Where, within five (5) transaction days, the other Qualified Investors by themselves reduce the total amount of their shareholdings so that the aforementioned shareholding level goes below the prescribed proportion, the Qualified Investor(s) receiving a notice to reduce shares may apply to the Exchange for continued holding of their original shareholdings.

Article 10. The entrusted securities company shall act diligently and responsibly. If any violation occurs with respect to securities transaction activities by Qualified Investors, the entrusted securities company shall report to the Exchange.

Chapter Three Handling of Violations of These Implementing Rules

Article 11. Where Qualified Investors violate these implementing rules, the Exchange and registration and settlement company will have the right to notify the entrusted securities company and the Custodian to rectify the shares in excess of the prescribed ratio and not reduced, and may issue a warning or public condemnation and other sanctions to the Qualified Investor. If the circumstances are serious, the Exchange will report to the CSRC for investigation and prosecution.

Article 12. Where there is any violation of Article 5 of these implementing rules by a Qualified Investor for not filing with the Exchange in time, the Exchange may issue a warning or a public condemnation and other penalty to the Qualified Investor. If the circumstances are serious, the Exchange will report to the CSRC for investigation and handling.

Article 13. Where the entrusted securities company violates these implementing rules and fails to comply with its obligations of diligence and responsibility, the Exchange shall have the right to punish it in accordance with the provisions of relevant operating rules.

Chapter Four Supplementary Provisions

Article 14. For technical reasons, Qualified Investors are temporarily not able to participate in transactions for the re-purchase of state bonds and corporate bonds.

Article 15. These implementing rules will come into effect after filing for approval with CSRC, with the same procedure for any modifications. These implementing rules will become effective on the date of promulgation.

Article 16. The Exchange will be responsible for the interpretation of these implementing rules.