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### Appendix 1. Interviewees

Aspects of financial management and governance were discussed with the following people.

Honorable Li Yong	Assistant Minister of Finance	Government of the People's Republic of China
Bruce Murray	Director	Asian Development Bank, PRC Resident Mission
Min Tang	Senior Economist	Asian Development Bank, PRC Resident Mission
Henri-Paul Normandin	Head	Canadian International Development Agency (CIDA), Development Section
Shen Xianonan (Sharon)	Vice Secretary-General	China Accounting Standards Committee
Lu Jianqiao	Officer	China Accounting Standards Committee
Shelly Warner	Program Manager	China-Australia Capacity Building Program (AUSAid)
Li Shuang	Vice Secretary-General	Chinese Institute of Certified Public Accountants (Former Deputy Secretary-General of the Chinese Institute of Internal Auditing).
Jie Li	Director	Chinese Institute of Certified Public Accountants, Comprehensive Department
Chuck H. X. Zhang	Head	Chinese Institute of Certified Public Accountants, International Department
Flora Wu	Officer	Chinese Institute of Certified Public Accountants, International Department
Wu Hua	Officer	Chinese Institute of Certified Public Accountants, International Department

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Luo Mei	Deputy Director	Chinese Institute of Certified Public Accountants, Professional Standards Department
Yang Zhiguo	Director	Chinese Institute of Certified Public Accountants, Standards Department
Denis Grubb	Senior Manager	Deloitte Touche Tohmatsu
Arthur Wong	Partner, Deputy General Manager	Deloitte Touche Tohmatsu
Jung Yi Qing	Partner	Deloitte Touche Tohmatsu, Assurance and Advisory Services
Qun Wu	Senior Manager	Deloitte Touche Tohmatsu, China Accounting Reform Project
Ya Lin Wu	Senior Manager	Deloitte Touche Tohmatsu, Financial Management / CNAO Performance Auditing Project
John Shecan	Project Coordinator	German Technical Cooperation Organization (GTZ)
Paul Heytens	Resident Representative	International Monetary Fund
Davie Yau	Partner	KPMG
Chen Shixin	Officer	Ministry of Finance, Budget Division, Regulation Department
Wang Ying	Officer	Ministry of Finance, Technical Assistance and Human Resources Development Division
Zhang Wencai	Deputy Director	Ministry of Finance, Technical Assistance and Human Resources Development Division

FINANCIAL MANAGEMENT AND GOVERNANCE ISSUES IN THE PRC

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Zhang Nianshan	Officer	Ministry of Finance, Technical Assistance and Human Resources Development Division
Xinhua Xue	Director	National Audit Office, Foreign Funds Application Department
Yang Xuejun	Officer	National Audit Office, Foreign Funds Application Department
Kent Watson	Chairman	PriceWaterhouseCoopers
Yannick Glemarec	Deputy Resident Representative	United Nations Development Program
Yuexin Du	Manager	United Nations Development Program, Economics and Governance Cluster
Shen Chau-Ching (Tony)	Senior Financial Management Specialist	World Bank Resident Mission

## **Appendix 2. RETA-5877 (Regional Study) Information**

### **1. Study Phases**

The study had four broad phases as follows:

- Phase I – PRC Case Study on Available Accounting and Auditing Support and Structures
- Phase II – Beijing Workshop ( 14 August 2000 )
- Phase III – Development of Reference Materials
- Phase IV – Formulation of Action Plan

### **2. Phase I : Country Case Study**

This phase involved the examination of the PRC's current accounting and auditing structure and systems. It also (i) analyzed the PRC's political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

A structured questionnaire, that covered the following areas, was used to collect descriptive information:

- ( i ) Legal and regulatory framework (public and private sector)
- ( ii ) Accounting infrastructure (professional bodies and accounting standards)
- ( iii ) Institutional issues (public and private sector)
- ( iv ) Government and administrative arrangements
- ( v ) Financial reporting (public and private sector)
- ( vi ) Accounting and computerization (public and private sector)
- ( vii ) Accountancy education and training
- ( viii ) Budgeting (public sector)
- ( ix ) External audit (public and private sector)
- ( x ) Previous studies and initiatives on financial management and governance.

Barry Reid conducted the fieldwork for the study with the able assistance of Zhang Ran, from 14 July to 11 August 2000. Financial management and governance arrangements were discussed with representatives from: the Ministry of Finance, other government organizations, professional accounting and auditing bodies, private-

sector businesses, bilateral donors, and multilateral financing institutions. A list of interviewees is attached as Appendix 1. A range of materials and reports were reviewed.

### **3. Phase II : Beijing Workshop**

Issues arising from the study were discussed and debated at a workshop held in Beijing on 14 August 2000. Zhang Nianshan of the Ministry of Finance and Barry Reid jointly chaired the Workshop. Francis B. Narayan, Lead Financial Specialist, ADB, participated in the Workshop as a resource person and provided overall guidance with respect to the objectives of the Study. Twenty-five participants, representing the following organizations, attended the workshop:

- China Accounting Standards Committee
- Chinese Institute of Certified Public Accountants
- Deloitte Touche Tohmatsu
- National Accounting Institute
- Ministry of Finance
- China National Audit Office
- United Nations Development Program (UNDP)
- ADB Resident Mission

### **4. Phase III : Development of Reference Materials**

In Phase III, reference materials on International Accounting and Auditing Standards (IAAS) were developed. In developing these materials, consideration was given to production of these materials in local languages.

### **5. Phase IV : Formulation of Action Plan**

Phase IV assessed the roles that ADB and other funding agencies played in improving the current situation in the selected DMCs. The roles included policy intervention, projects and program assistance, and mobilization of cofinancing resources to address the identified problems and weaknesses. This activity was undertaken in close consultation with the Government, regulatory authorities, representatives of the accounting and auditing professions, and other local interest groups and funding agencies. At this stage of the RETA, the commitment in principle of each selected country to implement the findings and recommendations of the study was agreed. The findings of the RETA were disseminated and debated at a conference in Manila from 16-18

October 2000 and the developed action plan was finalized for implementation.

## **6. Consultation**

Drafts of this report were provided to a variety of organizations and individuals for review. We would like to thank the following people for their helpful comments:

- Bruce Murray, Director, Asian Development Bank, PRC Resident Mission
- Shen Xianonan, Vice Secretary-General, China Accounting Standards Committee
- Shelly Warner, Program Manager, China-Australia Capacity Building Program (AusAID)
- Madeleine Varkay, Asian Development Bank
- K. Sridhar, Asian Development Bank.
- Y. Qian, Senior Financial Economist, Asian Development Bank.
- Jean-Marc Lafreniere, Asian Development Bank.
- Nannette Amorado, Asian Development Bank.

## **Appendix 3. Administrative and Institutional Arrangements**

### **1. Introduction**

This appendix describes administrative and institutional arrangements in the People's Republic of China. The appendix begins with a description of executive, legislative and judicial arrangements. The role of the key organs of state authority in relation to financial management are then reviewed followed by a description of the financial sector, securities markets, and the State-owned enterprise sector.

### **2. Legislative, Executive and Judicial Arrangements**

#### **Legislative Branch**

The unicameral National People's Congress (NPC) is the legislative branch of the Chinese government and has 2,979 seats. Members are elected to the NPC by municipal, regional, and provincial People's Congresses to serve five-year terms. As the NPC meets only once each year, its legislative powers are largely delegated to the Standing Committee of the NPC.

The President and the Vice-President are elected by the NPC for terms of five years. The President has the power to promulgate statutes, appoint or remove the Premier and other members of the State Council, and ratify or abrogate treaties with foreign states. The Vice-President assists the work of the President.

#### **Executive Branch**

The State Council is the highest state administrative organ. It enforces the laws and decisions formulated and approved by the NPC and the Standing Committee of the NPC, to which it is responsible and accountable. It has the power to promulgate administrative measures and regulations, and to issue orders.

The Premier has overall responsibility for the State Council's work and can convene and preside over executive and plenary meetings. Executive meetings are comprised of the Premier, Vice-Premiers, State Councilors and the Secretary-General. Plenary meetings are comprised of the Premier, Vice-Premiers, State Councilors, the Secretary-General, ministers in charge of ministries and commissions, and the Auditor General. Major decisions must be discussed and approved either at executive meetings or plenary meetings of the State Council. The State

Council controls the activities of ministries, commissions, and the different levels of local government.

### Judicial Branch

The Judicial Branch comprises central, provincial, municipal, and local courts with the Supreme People's Court at the top. Judges are appointed by the NPC.

## 3. Key State Organizations

The key state organizations that have responsibility for financial management arrangements are the: Ministry of Finance (MOF), China Securities Regulatory Commission (CSRC), Chinese Institute of Certified Public Accountants (CICPA), China Accounting Standards Committee (CASC), and China National Audit Office (CNAO). The functions of the MOF and the CSRC are described below. The functions of the other three organizations are described in the body of the report.

### Ministry of Finance

The Ministry of Finance is responsible for issues related to fiscal revenues and expenditures, fiscal policies, and the management of State-owned equity. Its specific responsibilities in respect of financial management arrangements are:

- drafting laws and regulations on the administration of public finance and State-owned equity,
- preparing, promulgating and implementing regulations governing fiscal, financial and accounting management,
- compiling the Central Government's annual budget and preparing monitoring reports on budget implementation,
- formulating and implementing the *Accounting Regulations for Government Agencies* and the *Accounting Regulations for Public Institutions*,
- formulating and implementing the *General Principles on Enterprise Accounting*,
- formulating and implementing accounting regulations and the *Principles for Enterprise Accounting*,
- formulating and monitoring the implementation of the government's overall budget and accounting regulations governing the government agencies, public institutions, and industries,

- guiding and monitoring the business operations of Certified Public Accountants and CPA firms,
- guiding and regulating the auditing business, and
- reviewing and approving the establishment of representative offices and branches of foreign CPA firms.

#### China Securities Regulatory Commission (CSRC)

The CSRC which was established in 1992, and whose functions are similar to the US Securities Exchange Commission (SEC), has the following responsibilities in relation to financial management arrangements:

- supervising information disclosure and dissemination related to securities and futures, and
- certifying accounting firms (and their professional staff) engaged in securities and futures intermediary businesses, and supervising their activities.

In the past two years, the CSRC has actively issued regulations and instructions to improve the disclosure of financial information. In the last year, these regulations and instructions have been issued in accordance with the *Securities Law 1999*.

#### Other Institutions

The People's Bank of China (PBC) supervises the auditing of banks and other financial institutions, and the China Insurance Regulatory Commission (CIRC) regulates the provision of accounting information from Insurance companies.

### **4. The Financial Sector**

The PRC's current banking system dates from the 1948 establishment of the People's Bank of China (PBC). After the founding of the PRC in October 1949, PBC assumed all of the existing Chinese and foreign banks' functions. It also served as a central bank and government treasury, and directed and supervised all specialized subsidiary banks, nonbank financial institutions, and insurance companies. Three major specialized banks existed under PBC: the Agricultural Bank of China (ABC), serving the agricultural sector; the People's Construction Bank of China (CCB), specializing in infrastructure finance; and the Bank of China (BOC), which acted as the PRC's foreign-exchange bank.

PBC held a monopoly on banking functions until 1979 when banking reforms received immediate attention. The first reforms began with the devolution of various banking functions from PBC to the three specialized State-owned banks.

The period following the promulgation of the Commercial Bank Law and the Central Bank Law in 1995 saw the development of other financial institutions to meet the increasingly complex and growing needs of a modernizing economy. One new type of banking institution was the share-ownership commercial bank, in which various levels of government, Chinese institutions, and in rare cases individuals, hold shares. Another new type of financial institution was the urban cooperative bank, which evolved out of the PRC's 5,000-plus urban credit cooperatives. This ongoing restructuring process resulted in 88 new urban commercial banks and 3,240 urban credit cooperatives by the end of 1998. There are also still around 41,500 rural credit cooperatives, but these operations mainly serve individuals and small enterprises.

The reform of the PRC's banking sector presents a substantial challenge. Despite recent reforms, the PRC's State banks have suffered declining capital-asset ratios and incurred losses on loans to state enterprises. The PRC has learnt a great deal, however, from the Asian financial turmoil, and has been adopting reform measures aimed at strengthening the banking sector. The PBC is now pursuing a program to enhance bank supervision, introduce risk management techniques in state banks, reduce the accumulation of nonperforming loans, advocate routine use of international accounting standards and practices, raise loan-loss provisioning and launch a new loan classification system.

Nevertheless, while the PRC is continuing to announce and implement a steady stream of reform measures, the key underlying problems have not yet been identified, nor has a clear medium term strategy been developed.<sup>96</sup> This task is enormously complicated given the size and the institutional complexity of the Chinese financial sector, the fiscal costs of repair, and the complexity of the political decision-making process. The PRC's entry into WTO and the associated commitments to liberalize and open up the financial sector to foreign competition, combined with the recent re-endorsement of a private sector-dominated economy, will steadily increase the urgency of interest and exchange rate reforms and bank restructurings. In the opinion of the World Bank, the prospects of a banking crisis, while still very low, have not been eliminated, nor has the level of expected fiscal repair costs

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<sup>96</sup> World Bank. 2000. Quarterly Update on China. 20 March.

reduced dramatically. With each additional reform measure, Chinese authorities are running out of easy options.<sup>97</sup>

## 5. Securities Markets

The PRC has developed a nationwide equity market with two stock exchanges located in Shanghai and Shenzhen. The stock exchanges have been continuously updating their technology, improving services, and consistently developing conditions that provide a foundation to expand the market. They have also been improving trading, settlement, and registration and custody practices, and upgrading the information transmission system.

The PRC's securities market originally comprised a group of independent local exchanges. With the improvement of the securities market's regulatory system and operational mechanisms, these stock exchanges have developed into an integrated marketplace with nationwide coverage. Stock issues are subject to approval by the China Securities Regulatory Commission (CSRC). Article 11 of the *Securities Law* 1998 states that "a public stock issue shall follow the conditions stipulated in the *Company Law* and be submitted to the CSRC for verification." At the end of 1999, about 950 companies were listed on the Shanghai and Shenzhen stock exchanges, and the total market capitalization was Y1,950 billion (\$236 billion, 24.5 percent of GDP).

Major hurdles are faced in implementing a consistent package of reforms in the capital markets. First, just 950 companies have been listed on the stock market in the past decade, of which more than 900 are State-owned. The Government's recent announcement of its intention to dilute its average holding in listed SOEs from 62 percent to 51 percent implies an issuance equal to an additional 25 percent of currently traded stocks.

Second, the listing of just a small portion of the 9,000 large, and 8,000 medium, SOEs would severely test the absorptive capacity of the stock exchanges, brokerages, and the CSRC (in terms of listing, trading, placement, and regulatory abilities). This limits the Government's capacity to simultaneously maximize divestment revenue, avoid a downturn in the market, and execute well-prepared, transparent divestment transactions.

Third, the bond market is affected by interest rate controls in the banking sector, remaining directed lending, restrictions on foreign

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<sup>97</sup> World Bank. 2000. Quarterly Update on China. 20 March.

financial institutions' Renminbi activities, and underdevelopment of institutional investors. Despite a substantial increase in issuances, an integrated, professional government-securities market does not exist.

Problems include the absence of a strategy for systematic benchmark issuance and maintenance of the yield curve, multiple issuance methods aimed at exploiting segmented and differentiated prices, inadequate development and standardization of issuance process and market makers, and coordination between Ministry of Finance, People's Bank of China and other quasi-sovereign issuers. Corporate bond markets and markets for asset-backed securities are virtually absent. Development of institutional investors, which are needed to intermediate the PRC's vast retail pool of savings, and to help its large population obtain adequate financial services, are missing for a variety of reasons. Pension funds are essentially nonexistent and will remain so without a major reform that simultaneously addresses SOE restructuring, the funding of accrued pension rights, the and swapping of State-owned assets and housing to fund/discharge accrued pension liabilities. Finally, the average Chinese household holds substantial and rapidly increasing, financial assets estimated at around Y53,000 (\$6,400), and 84 percent of these assets continue to be invested in savings accounts or held in cash, while only 12 percent is invested in securities.<sup>98</sup>

## **6. State-Owned Enterprise Sector**

The PRC's 300,000 SOEs are burdened by huge amounts of bad loans remaining from the planned-economy era. SOEs are an expensive burden for the government, and hamper both job creation and economic growth. The country is in the midst of a program to merge, close or sell redundant SOEs while making larger ones in key sectors more competitive.

The PRC's SOE reform strategy is to concentrate resources on improving the performance of the large SOEs considered strategic for national development, while letting go of the very large number of smaller enterprises, many of which are simply not viable. Pilot programs that involved divestiture, bankruptcy, mergers, governance, and ownership reform are now being mainstreamed. The Government has funded a major investment program to encourage labor market expansion in order to absorb displaced urban workers.

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<sup>98</sup> World Bank. 2000. Quarterly Update on China. 20 March.

A wave of reforms linked to a modern enterprise system, including pension reform, other forms of social protection including support for newly unemployed workers (income supplements and retraining programs) and social welfare for the indigent poor. Housing reform and health care financing are the most recent major government initiatives.

After an extraordinarily bad year in 1998, the profitability of SOEs improved markedly in 1999. For instance, a combination of domestic restructuring and sustained global demand saw the textile industry, which had suffered six consecutive years of losses, posting an estimated profit of Y800 million (\$96.7 million). The textile industry was not alone, profits also grew significantly in the petrochemical industry, with profits rising nearly 200 percent year-on-year to an estimated Y30 billion (\$3.6 billion), in large part due to the anti-smuggling campaign, which began in 1998.

## Appendix 4. Regulatory and Legal Framework

### 1. Introduction

Since 1993, the PRC has formulated many market-related laws and is working to establish a legal system that is responsive to the needs of a market economy. This is a major task but significant progress has been made. An important step achieved in 1999 was enshrining the rule of law in the Constitution.<sup>99</sup> In addition, the Government has adopted a five-year legislative work program covering the period from 1999 to 2003. During this period the Government plans to amend a number of existing economic laws, prepare a new set of laws, as well as draft implementing regulations for other laws. One example is the *Accounting Law 1985* that was revised in 1999 to improve the basic systems and regulations affecting accounting, strengthen the control of accounting practices, and punish those who violate the law.

Other major milestones in improving the PRC's legal framework in the past 18 months included; (i) making the *Securities Law* effective, (ii) enacting the *Contract Law*, (iii) adopting the law on *Individually-owned Enterprises* to clarify and simplify the rules for establishing individually-owned businesses and providing these private businesses with the protection of the law, and (iv) adopting a new law dealing with illegal financial practices which covered banks, credit cooperatives, finance companies, trust and investment companies, and leasing companies. Business risks, particularly those related to listed companies and foreign investment, can now be assessed more rationally, transaction costs have been lowered and arbitrary government actions have been reduced, although not totally eliminated. To complement the passage of the new laws, massive human resource development programs are planned to train the judges, lawyers, and others involved in administering, interpreting, and enforcing the new legal system.

The key laws that will be covered under this five-year program include company law, bankruptcy law, trust law, anti-monopoly law and unfair competition law, telecommunications law, trademark and patents law, income and inheritance tax law, government procurement law, and state assets law.

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<sup>99</sup> ADB. January 2000. Country Assistance Plan: People's Republic of China. p. 9.

## **2. Overview of Legal and Regulatory Framework**

In common with other countries that are transiting to a mixed-market economy, the PRC inherited its legal framework from the former Soviet Union. With the introduction of the economic reforms, the PRC began developing its present legal system in the late 1970s. The legal framework includes laws, regulations, rules, and some official decisions.

The Constitution is the PRC's supreme source of law. The Constitution now in force was enacted in 1982 and was revised in 1988 and 1993. The second level of law is comprised of basic statutes enacted by the National People's Congress (NPC). The third level of law is comprised of statutes enacted by the Standing Committee of the NPC. Administrative laws are the fourth level of law. Article 89 of the Constitution provides the State Council with the power to; adopt administrative measures, enact administrative rules, and to issue regulations, decisions, and orders in accordance with the Constitution and the statutes. These include: laws made under powers granted by the NPC, administrative regulations made by the State Council, and administrative rules made by ministries and commissions of the State Council. Local laws are the fifth and final level of law and include local regulations, local statutes and administrative rules and regulations. Laws made at various levels and by various bodies often conflict. While the avalanche of new laws and regulations in the past 15 years, combined with fundamental system changes exacerbated the situation with respect to conflicts, the five-year legislative program will address many of the root causes of these conflicts.

## **3. Financial Management Laws and Regulations**

This section provides information on the key laws and regulations that govern financial management arrangements in the PRC. These are grouped into two levels; statutes (including basic statutes), and administrative laws.

Statutes (second and third levels)

The key statutes (i.e. laws approved by the NPC) in relation to financial management arrangements are as follows:

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Title	Description
<i>Accounting Law 1985</i>	This law applies to public and private sector accounting. The latest revision took effect on 1 July 2000, and covers general accounting principles, accounting rules, corporate-accounting rules, supervision of accountants, accounting firms and accountants, and their legal responsibilities. The most recent amendments are intended to improve the basic systems and regulations affecting accounting, strengthen the control of accounting practices and punish those who violate the law. The Accounting Law was last amended in 1993, when its scope was broadened from State-owned enterprises to all registered enterprises.
<i>Audit Law 1994</i>	This law was promulgated to strengthen state supervision through auditing, maintain the economic and financial order, promote the development of clean government, and ensure the healthy development of the national economy. It defines the basic principles for government auditing supervision, government audit institutions and auditors, the responsibilities and powers of audit institutions, audit procedures, and the legal liability of auditors.
<i>Certified Public Accountants Law 1993</i>	The implementation of this law on 1 January 1994 was a significant milestone for the PRC's CPA profession. It lays down clear rules and regulations for the profession's administration system and organizational structure. Particular issues covered include CPA examination and membership requirements, the structure of the CPA Institute, and legal responsibilities and disciplinary procedures. The Law is currently being reviewed with the intention of issuing a revised version. The two key issues being addressed are; de-linking the CPA Institute from the Ministry of Finance, and clarifying CPA liabilities.
<i>Companies Law 1993</i>	Chapter 6 of this law briefly sets out the requirement that limited-liability companies must prepare annual financial statements that include a balance sheet, a cash flow statement and an income statement.

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Title	Description
<i>Securities Law 1998</i>	<p>This law took effect from 1 July 1999 and governs the issuance and trading of securities. It also emphasizes transparency and information-disclosure. Article 161 requires that organizations and individuals that prepare documents such as audit reports, asset-appraisal reports and legal opinions for the issuance or listing of securities or for securities trading activities must do so in accordance with the working procedures prescribed in the rules of their profession. It requires that they check and verify the truthfulness, accuracy and completeness of the contents of the reports to be produced by them and shall bear joint and several liability for the parts of such reports for which they are responsible.</p> <p>Article 167(3) stipulates that the CSRC is responsible for regulating the activities of public accounting firms that are engaged in the securities business</p>

#### Administrative Law (Fourth level)

The key body of administrative law (i.e. regulations, rules, decisions, and orders) in relation to financial management arrangements is as follows:

Title	Description
<i>CICPA Charter (1996)</i>	The Charter was issued under Article 34 of the <i>CPA Law 1993</i> and specifies the objectives and functions of CICPA, the Institute's membership structure, the Institute's management structure and procedures, and members' rights and duties.
<i>Accounting Standard for Business Enterprises (1992)</i>	This accounting standard provided the conceptual accounting framework and accounting principles and was based upon International Accounting Standards.

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Title	Description
<i>Revised Uniform Accounting System Regulations (1992):</i> <ul style="list-style-type: none"><li>• Government Agencies</li><li>• Public Institutions</li><li>• Enterprise Accounting</li></ul>	With the release of the first accounting standard, the MOF published a series of new uniform accounting systems for the major economic sectors. The uniform accounting system regulations and guidelines prescribe, charts of account, reporting formats, and detailed accounting instructions.

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## Appendix 5. The Accounting Law 1985

### Accounting Law of the People's Republic of China

Adopted at the ninth Meeting of the Standing Committee of the Sixth National People's Congress on 21 January 1985 and revised in accordance with the Decision on Amending the accounting Law of the People's Republic of China adopted at the fifth Meeting of the Standing Committee of the Eighth National People's Congress on 29 December 1993, and revised at the 12th Meeting of the Standing Committee of the Ninth National People's Congress on 31 October 1999.

#### **Chapter I – General Provisions**

Article 1. This Law is enacted for the purposes of standardizing accounting behavior, ensuring that accounting documentation is authentic and complete, strengthening economic management and financial management, improving economic results and safeguarding the order of socialist market economy.

Article 2. State organs, associations, companies, enterprises, institutions and other organizations (hereinafter uniformly referred to as units) must, in handling accounting affairs, abide by this Law.

Article 3. Every unit must set up account books in accordance with law and ensure that they are authentic and complete.

Article 4. The responsible person of a unit shall be responsible for the authenticity and completeness of the accounting work and accounting documentation of his own unit.

Article 5. Accounting offices and accounting personnel shall conduct accounting practice and exercise accounting supervision in accordance with this Law. No unit or individual may be allowed to persecute or retaliate against the accounting personnel who perform their functions and duties in accordance with law and oppose the acts in violation of this Law.

Article 6. The accounting personnel who make notable achievements in earnestly

implementing this Law, devoting themselves to their duties and adhering to principles are to be given spiritual or material awards.

Article 7. The financial department of the State Council takes charge of the accounting work throughout the country. The financial departments of the local people's governments at or above the county level administer the accounting work of their respective administrative areas.

Article 8. The state shall exercise a uniform accounting system. The uniform accounting system of the State shall be formulated and promulgated by the financial department of the State Council in accordance with this Law. Relevant departments of the State Council may, in accordance with this Law and the uniform accounting system of the State, formulate specific measures or supplementary provisions for the implementation of the uniform accounting system of the State applied in the sectors which have special requirements for accounting practice and accounting supervision, and submit them to the financial department of the State Council for examination and approval. The General Logistics Department of the Chinese People's Liberation Army may, in accordance with this Law and the uniform accounting system of the State, formulate specific measures for the implementation in the Army of the uniform accounting system of the State, and submit them to

the financial department of the State Council for the record.

**Chapter II – Accounting Practice**

Article 9. Every unit must, according to the economic transactions and operational matters that actually occur, conduct accounting, draw up accounting documents, enter account books and prepare financial and accounting reports. No unit may conduct accounting with false economic transactions and operational matters or information.

Article 10. Accounting procedures shall be undertaken and accounting practice conducted with respect to the following economic transactions and operational matters: (1) receipts and disbursement of cash holdings and valuable securities; (2) receipts, issuance, additions, reductions and use of money and articles of properties; (3) creation and settlement of debts and claims; (4) increases and decreases of capital and funds; (5) computation of revenue, expenditures, expenses and costs; (6) computation and arrangement of financial results; (7) other matters that are subject to accounting procedures and accounting practice.

Article 11. A fiscal year starts on January 1 and ends on December 31 of the Gregorian calendar.

Article 12. Renminbi is used as the base currency for bookkeeping in accounting practice. The units whose receipts and expenditures are conducted chiefly in currencies other than Renminbi may select one of them as the base currency for bookkeeping, but the financial and accounting reports prepared shall be converted into Renminbi.

Article 13. Accounting vouchers, account books, financial and accounting reports and other accounting documents must conform to the provisions of the uniform accounting system of the State. Where the accounting practice is conducted with

computers, the software thereof and the accounting vouchers, account books, financial and accounting reports and other accounting documents produced therefrom must also conform to the provisions of the uniform accounting system of the State. No unit or individual may forge or alter accounting vouchers, account books and other accounting documents, nor submit false financial and accounting reports.

Article 14. Accounting vouchers shall include original vouchers and recording vouchers. In handling the economic transactions and operational matters stipulated in Article 10 of this Law, original vouchers must be drawn up or obtained, and then promptly filed with the accounting office. Accounting offices and accounting personnel must examine the original vouchers in accordance with the provisions of the uniform accounting system of the State, have power to refuse inauthentic or illegal original vouchers and make reports to the responsible persons of units; return the inaccurate and incomplete original vouchers and require to make amends or supplements in accordance with the provisions of the uniform accounting system of the State. The items entered into original vouchers may not be altered; where there are errors in the original vouchers, the drawing units shall draw up new vouchers or make amends. Where there are errors with respect to amount, the drawing units shall draw up new vouchers, and may not make any amends on the original vouchers. Recording vouchers shall be prepared based on the examined original vouchers and other related information.

Article 15. Account book entries must be conducted based on the examined accounting vouchers and conform to the provisions of relevant laws, regulations and the uniform accounting system of the State. Account books include general ledgers, detail ledgers, daily books and

other auxiliary account books. Account books shall be entered in accordance with the order of pages continuously numbered. Where there are errors or page partition, number shortage or line skip, amends shall be made in accordance with the methods stipulated in the uniform accounting system of the State, and sealed by the accounting personnel, the person in charge of the accounting office (the accountant in charge). Where accounting practice is conducted with computers, entries and amends of account books thereof shall be in conformity with the provisions of the uniform accounting system of the State.

Article 16. The economic transactions and operational matters conducted by every unit shall be entered and calculated in the account books set up according to law and may not be entered and calculated in the account books set up secretly in violation of the provisions of this Law and the uniform accounting system of the State.

Article 17. Every unit shall regularly check the accounting records with physical assets, cash holdings and relevant information and ensure that accounting records conform to the actual amount of the physical assets and cash holdings, accounting records conform to the relevant contents of the accounting vouchers, accounting records conform to one another and accounting records conform to the relevant contents of the accounting statements.

Article 18. Accounting arrangement methods adopted by every unit shall remain consistent from one period to another and may not be arbitrarily changed. Where changes are absolutely necessary, the changes shall be made in accordance with the provisions of the uniform accounting system of the State, and the reasons therefore circumstances and effects of the changes shall be explained in the financial and accounting reports.

Article 19. Probable matters such as guaranty provided by the units or pending litigation of the units, etc. Shall be explained in the financial and accounting reports in accordance with the provisions of the uniform accounting system of the State.

Article 20. Financial and accounting reports shall be prepared based on the examined accounting book records and relevant documents. They must be in conformity with the provisions of this Law and the uniform accounting system of the State on matters relating to the requirements for the preparation thereof, to whom they are required to be submitted to, and to the time limit within which they must be submitted. Where other laws and administrative regulations stipulated otherwise, such provisions should be applied. Financial and accounting reports are composed of accounting statements, the affiliated notes to the accounting statements and the explanatory statements on financial conditions. The basis for the preparation of financial and accounting reports provided for different users shall be consistent. Where the relevant laws or administrative regulations stipulate that the accounting statements, the affiliated notes thereto and the explanatory statements on financial conditions are subject to audit by certified public accountants, the auditing reports issued by the certified public accountants and the accounting firms to which the certified public accountants belong shall be submitted together with the financial and accounting reports.

Article 21. Accounting and financial reports shall be signed and sealed by the responsible person of the unit, the executive officer in charge of accounting work, and the person in charge of the accounting office (accountant in charge). For unit having an accountant-general, the accountant-general shall also sign and seal

the financial and accounting reports. The responsible person of the unit shall ensure the authenticity and the completeness of the financial and accounting reports.

Article 22. The language used in accounting records shall be Chinese. In an autonomous area of minority nationalities, one minority language commonly used in the locality may be used concurrently with the Chinese language in the accounting records. The accounting records of foreign-invested enterprises, foreign enterprises and other foreign organizations within the territory of the People's Republic of China may also use one foreign language concurrently.

Article 23. Every unit shall establish achieves for accounting vouchers, account books, financial and accounting reports and other accounting documents, and properly keep them. The time limit for keeping the accounting archives and the procedures for their destruction shall be formulated by the financial department of the State Council jointly with the relevant departments.

### ***Chapter III – Special Provisions on the Accounting Practice of Companies and Enterprises***

Article 24. The accounting practice of a company or an enterprise shall be in conformity with the provisions of this Chapter, in addition to the provisions of Chapter II of this Law.

Article 25. Companies and enterprises are required to confirm, calculate and record assets, debts, owners' equities, revenues, expenses, costs, and profits in accordance with the provisions of the uniform accounting system of the State on the basis of the economic transactions and operational matters which actually occur.

Article 26. Companies and enterprise may not conduct the following acts: (1) Arbitrarily changing the criteria for the confirmation of assets, debts and owners'

equities or changing methods of their calculation, fraudulently listing the assets, debts or owners' equities, listing more or less than their actual amounts, or omitting such items; (2) Fraudulently listing or concealing revenues, delaying to confirm revenues or confirming revenues in advance; (3) Arbitrarily changing the criteria for the confirmation of expenses or costs, or changing the method of their calculation, listing the expenses and costs fraudulently, listing more or less than the actual amounts of expenses or costs, or omitting such items; (4) Making arbitrary adjustment on the methods of calculation or distribution of profits, fabricating false profits or concealing profits; (5) Other acts violating the provisions of the uniform accounting system of the State.

### ***Chapter IV – Accounting Supervision***

Article 27. Every unit shall set up and improve its internal accounting supervision system. The internal accounting supervision of a unit shall meet the following requirements: (1) The staff making accounting records, the persons responsible for approval of economic transaction and operational matters and that responsible for accounting matters, and the staff handling accounting matters for matters for the safe keeping of properties shall all have clear, separate responsibilities, powers and functions. They shall check on each other in performing their functions. (2) The procedures for mutual supervision and mutual checks on the decision-making and its implementation on important economic transactions and operational matters, such as important external investment, the disposal of assets, the operation of funds etc., shall be explicit and clear. (3) The scope, time limit and organizational procedures for checking of properties shall be explicit and clear. (4) The measures and procedures for regular internal auditing of accounting documents shall be explicit and clear.

Article 28. The responsible person of a unit shall ensure that the accounting office and the accounting personnel perform their functions legally. They may not incite, instigate or forcibly order the accounting office or the accounting personnel of the unit to handle it accounting matters in violation of law. The accounting offices and the accounting personnel shall have the right to refuse to handle it or to correct within their authorities the accounting matters in violation of the provisions of the uniform accounting system of the State.

Article 29. When accounting offices or accounting personnel find that the accounting book records are inconsistent with the physical assets, cash holdings or the relevant documents, and where they have the authorities to handle it on their own according to the provisions of the uniform accounting system of the State, they shall handle it timely. Where they do not have the authorities, they shall report immediately to the responsible person of the unit and request to make investigation on the causes and to handle it accordingly.

Article 30. Any unit or individual shall have the right to report on violations of the provisions of this Law or of the uniform accounting system of the State. Upon receiving such a report, the department having the power to deal with the violation shall, within its functions and responsibilities, deal with it timely according to law. Where it does not have such authority, it shall refer it timely to the department having such authority. The department having received such report and the department responsible for dealing with it shall keep confidentiality for the reporting person and may not disclose the name of the reporting person, nor forward the reporting material to the unit or the individual being reported.

Article 31. Where a unit is subject to audit by certified public accountant in accordance with the provisions of the

relevant laws and administrative regulations, the unit shall provide truthfully accounting vouchers, account books, financial and accounting reports and other accounting documents as well as the relevant information to the delegated accounting firm. Any unit or individual may not, in any way, ask or express implicitly their intention to the certified public accountant and the accounting firm to which the certified accountant belongs to issue false or inappropriate auditing report. The financial departments shall have the authorities to supervise on the procedures of the preparation of and on the contents of the auditing report.

Article 32. The financial departments shall supervise on the implementation of the following matters of every unit: (1) Whether accounting books are set up according to law; (2) Whether accounting documents, account books, financial and accounting reports and other accounting documents are authentic and complete; (3) Whether its accounting practice is in conformity with the provisions of this Law and the uniform accounting system of the State; (4) Whether the accounting personnel have acquired the qualification for accountant's practice. Where serious suspicion of violation of law is found in the process of supervision on matters listed in item (2) of the preceding paragraph, the financial department of the State Council and its agencies may inquire into the relevant facts from units that have economic transactions with the supervised unit and from financial institutions with which the supervised unit maintains accounts. Such relevant units and financial institutions shall render their assistance.

Article 33. Financial department, auditing department, tax administration, People's Bank, securities supervision and regulatory body, insurance supervision and regulatory body etc., shall conduct

supervision and inspection on the accounting documents of the relevant units in accordance with the provisions of the relevant laws and administrative regulations on their functions and responsibilities. The supervision and inspection departments listed in the preceding paragraph shall provide a conclusion after the inspection has been conducted according to law. Where the conclusions made by the relevant supervision and inspection departments are sufficient to satisfy the needs of other supervision and inspection departments in performing their functions, such other supervision and inspection department shall make use of them so as to avoid repeated auditing.

Article 34. The departments and the persons conducting supervision and inspection on the accounting documents of the relevant units according to law shall have the obligation of keeping confidentiality of the State secret and commercial secret obtained in the process of supervision and inspection.

Article 35. Every unit shall, in accordance with the provisions of the relevant laws and regulations, accommodate the supervision and inspection conducted by the relevant supervision and inspection departments, provide truthfully accounting vouchers, account books, financial and accounting reports as well as other accounting documents and the relevant information. It may not refuse to provide, or conceal or fraudulently report these documents and the relevant information.

#### ***Chapter V – Accounting Offices and Accounting Personnel***

Article 36. Every unit shall, according to the needs of its accounting work, set up an accounting office, or staff a relevant office with accounting personnel and designate an accountant in charge. Where conditions do not permit, the unit shall

delegate its bookkeeping to an intermediary organization, which is established upon approval to be engaged in agency operation of accounting bookkeeping. A large or medium-sized enterprise owned by the State or in which the State-owned assets occupy a holding or leading position must have an accountant-general. The qualifications, appointment or removal procedures as well as functions and powers of the accountant-general are to be stipulated by the State Council.

Article 37. An accounting office shall establish an internal auditing system. The staff handling disbursements and receipts may shall not be concurrently in charge of auditing, taking custody of accounting archives or entering the receipts, expenditure, expense or claims and liability accounts.

Article 38. A person who is engaged in accounting work must acquire an accountant's practice qualification certificate. Anyone who is to be the person in charge of the accounting office of a unit (accountant in charge), in addition to acquiring an accountant's practice qualification certificate, must have professional technical qualifications equal to or higher than those for accountants or have been engaged in accounting work for more than 3 years. Measures on the administration of accounting personnel's practice qualifications shall be stipulated by the financial department of the State Council.

Article 39. Accounting personnel shall abide by professional ethics and improve their professional qualifications. The work of education and training of accounting personnel shall be enhanced.

Article 40. Persons who are investigated for criminal liabilities according to law for providing untruthful financial and accounting reports, making false accounts, concealing or intentionally destroying

accounting vouchers, account books as well as financial and accounting reports, embezzlement, misappropriating public funds, taking possession of properties by taking advantages of positions or for other illegal acts relating to their accounting positions may not acquire or acquire again accountant's practice qualification certificates. Besides the persons as stipulated in the preceding paragraph, persons who have their accountant's practice qualification certificates revoked for violating laws and disciplines may not acquire the accountant's practice qualification certificates again within 5 years of the date of the revocation of such certificates.

Article 41. Accounting personnel who are being transferred to other work or leaving their posts must finalize the handing-over procedures with the persons who are taking over. The person in charge of the accounting office (accountant in charge) shall supervise handing-over procedures for ordinary accounting personnel. The responsible person of a unit shall supervise handing-over procedures for the person in charge of the accounting office (accountant in charge); when necessary, the unit in charge may send personnel to participate in the supervision of the handing-over.

#### **Chapter VI – Legal Liability**

Article 42. Where the provisions of this Law are violated by committing one of the following acts, the financial department of the people's government at or above the county level shall order to make amends within a specified time limit, may simultaneously impose a fine of not less than Y3,000 but not more than Y50,000 upon the unit, and may impose a fine of not less than Y2,000 but not more than Y20,000 upon the persons in charge that bear direct responsibilities and other persons directly responsible. The persons who are State functionaries shall also be imposed upon administrative sanctions

according to law by the unit to which they belong or the unit concerned: (1) No account books are set up according to law; (2) Account books are set up secretly; (3) Original vouchers are drawn up or obtained not conforming to the provisions or original vouchers drawn up or obtained are not in conformity with the provisions; (4) Account books are recorded on the basis of accounting vouchers which are not examined and verified or account books are recorded not conforming to the provisions; (5) The measures for accounting arrangement are arbitrarily changed; (6) The basis for preparing financial and accounting reports provided to different users of accounting documents is inconsistent; (7) Failure to use in accordance with the provisions the account recording language or the base currency for bookkeeping; (8) Failure to keep in accordance with the provisions the accounting documents, and thus resulting in destruction and loss of such accounting documents; (9) Failure to establish and implement in accordance with the provisions the internal accounting supervision system of the unit, or refusing supervision conducted according to law or untruthfully providing the relevant accounting documents as well as relevant information; (10) The appointment of accounting personnel is not in conformity with the provisions of this Law. Where one of the acts as stipulated in the preceding paragraph is committed and therefore a crime is constituted, criminal liabilities shall be investigated according to law. Where accounting personnel commit one of the acts as stipulated in Paragraph 1 and the circumstances are serious, the financial department of the people's government at or above the county level shall revoke their accountant's practice qualification certificates. Where punishments against the acts as stipulated in Paragraph 1 are otherwise provided in the relevant laws,

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the matter shall be handled in accordance with such provisions.

Article 43. Where accounting vouchers or account books are counterfeited or altered, or altered, or false financial and accounting reports are prepared, and therefore a crime is constituted, criminal liabilities shall be investigated in accordance with law. Where the acts as stipulated in the preceding paragraph are committed but no crimes are constituted, the financial department of the people's government at or above the county level shall circulate a notice, may simultaneously impose a fine of not less than Y5,000 but not more than Y100,000 upon the unit, and may impose a fine of not less than Y3,000 but not more than Y50,000 upon the persons in charge that bear direct responsibilities and other persons directly responsible. The persons who are State functionaries shall also be imposed upon administrative sanctions according to law from removing from post up to expelling from the units by the unit to which they belong or the unit concerned; for the accounting personnel among them, the financial department of the people's government at or above the county level shall additionally revoke their accountant's practice qualification certificates.

Article 44. Where accounting vouchers, account books or financial and accounting reports that should be kept according to law are concealed or intentionally destroyed, and therefore a crime is constituted, criminal liabilities shall be investigated in accordance with law. Where the acts as stipulated in the preceding paragraph are committed but no crimes are constituted, the financial department of the people's government at or above the county level shall circulate a notice, may simultaneously impose a fine of not less than Y5,000 but not more than Y100,000 upon the unit, and may impose a fine of not less than Y3,000 but not more

than Y50,000 upon the persons in charge that bear direct responsibilities and other persons directly responsible. The persons who are State functionaries shall also be imposed upon administrative sanctions according to law from removing from post up to expelling from the units by the unit to which they belong or the unit concerned; for the accounting personnel among them, the financial department of the people's government at or above the county level shall additionally revoke their accountant's practice qualification certificates.

Article 45. Anyone who incites, instigates or arbitrarily orders accounting offices, accounting personnel and other persons to counterfeit or alter accounting vouchers or account books, to prepare false financial and accounting reports, or to conceal or intentionally destroy accounting vouchers, account books as well as financial and accounting reports that should be kept according to law, and therefore constitutes a crime, shall be investigated for criminal liabilities in accordance with law; a fine of not less than Y5,000 but not more than Y50,000 may be imposed if no crime is constituted, and the persons who are State functionaries shall also be imposed upon administrative sanctions of demoting to a lower rank, removing from post or expelling from the units according to law by the unit to which they belong or the unit concerned.

Article 46. Where the responsible person of a unit persecutes or retaliates against the accounting personnel, who perform their duties according to law and oppose acts violating the provisions of this Law, by means of demoting to a lower rank, removing from post, transferring working post, dismissing from employment or expelling from the units, etc., and therefore constitute crimes, criminal responsibilities shall be investigated in accordance with law; if no crime is constituted; administrative sanctions shall

be imposed according to law by the units to which they belong or the unit concerned. For the accounting personnel who are persecuted or retaliated against, their reputation, original positions and ranks shall be resumed.

Article 47. Functionaries in financial departments and relevant administrative departments who abuse their powers, neglect their duties, commit illegalities for personal interests or by fraudulent means, or disclose State secrets or commercial secrets, and therefore constitute crimes, shall be investigated for criminal liabilities in accordance with law; administrative sanctions shall be imposed if no crime is constituted.

Article 48. Anyone who, in violation of the provisions in Article 38 of this Law, transfers the name of the reporting person and reporting materials to the unit reported and the person reported shall be imposed upon administrative sanctions according to law by the unit to which he belongs or the unit concerned.

Article 49. Where the provisions of both this Law and other laws are violated simultaneously, sanctions shall be imposed according to law by the relevant

departments within their respective functions and powers.

**Chapter VII – Supplemental Provisions**

Article 50. For the purpose of this Law, the meanings of the following terms are: The responsible person of a unit refers to the legal representative of a unit or the person in charge stipulated by laws and administrative regulations who performs functions and powers on behalf of the unit. The uniform accounting system of the State refers to the system concerning accounting practice, accounting supervision, accounting offices and accounting personnel as well as administration of accounting work which are formulated by the financial department of the State Council in accordance with this Law.

Article 51. The specific measures governing the accounting of individual industrial and commercial business operators shall be formulated separately by the financial department of the State Council in accordance with the principles of this Law.

Article 52. This Law takes effect as of the date of 1 July 2000.

## Appendix 6. The Certified Public Accountants Law 1993

### Law of the People's Republic of China on Certified Public Accountants

(31 October 1993)

#### ***Chapter I – General Principles***

Article 1. This law is formulated with an aim at defining the role of Certified Public Accountants (CPAs) in the economy and society, reinforcing regulation over CPAs, protecting public interests and the legitimate rights and interests of investors, and promoting the healthy development of the socialist market economy.

Article 2. A CPA is a practising accountant who has lawfully received the certificate of CPA and accepts assignments for auditing, accounting consultation or other accounting related services.

Article 3. An accounting firm is an organization lawfully established which performs professional accounting services. A CPA must be a member of an accounting firm to perform professional accounting services.

Article 4. An institute of CPAs is a professional organization formed by CPAs. The Chinese Institute of Certified Public Accountants is the national organization of CPAs. The institute of CPAs of a Province, an autonomous region, or a municipality directly under the central government is a local organization of CPAs.

Article 5. The Finance Department of the State Council, and the finance departments of provinces, autonomous regions and municipalities directly under the central government shall supervise and provide guidance to CPAs, accounting firms and institutes of CPAs according to the law.

Article 6. CPAs and accounting firms must observe the laws and administrative

regulations in the performance of professional activities. CPAs and accounting firms shall perform professional services in an independent and fair manner, and are protected by the law.

#### ***Chapter II – Examination and Registration***

Article 7. A national uniform examination system for CPAs shall be conducted by the State. The Finance Department of the State Council shall promulgate the regulations of the examination, and CICPA shall administer the examination in accordance with the regulations.

Article 8. Chinese citizens who have completed at least a two-year college program at a recognized institution or who have achieved a middle-ranked technical title in accounting or subjects related to accounting can apply to take the national uniform examination of CPAs. Certain parts of the examination can be exempted for those who hold high-ranked technical titles in accounting or subjects related to accounting.

Article 9. Those who have passed the national uniform examination of CPAs and have been engaged in the auditing services for more than two years can apply to the institutes of CPAs of provinces, autonomous regions, and municipalities directly under the central government for registration as CPAs. An institute of CPAs should approve the application except under the conditions specified in Article 10 of this law.

Article 10. The registration application should be rejected under any of the following conditions:

- 1) For those who suffer from mental impairment;
- 2) For those who have been convicted of a crime and whose sentence was not completed more than five years from the date of registration application;
- 3) For those who committed serious professional misconduct in finance, accounting, auditing, business administration or other economic management activity, and was at least subject to administrative disciplinary measure or discharge of position. Such candidate may apply to register as a CPA two years after the date of decision of the disciplinary action;
- 4) For those whose certificate of CPA was suspended within the last five years;
- 5) For those whose application is subject to rejection under any other regulations promulgated by the Finance Department of the State Council.

Article 11. An institute of CPAs shall submit the list of names of applicants who are approved for registration to the Finance Department of the State Council. If the Finance Department of the State Council discovers any applicant on the list who is not qualified according to the regulations of this law, it shall direct the institute of CPAs concerned to invalidate such applicant's registration. When an institute of CPAs rejects applicant's registration according to Article 10 of this law, it should inform the applicant in writing within 15 days from the date of the decision. An applicant may appeal such action to the Finance Department of the State Council and the finance department of the people's government of a province, an autonomous region or a municipality directly under the central government for reconsideration within 15 days from receipt of such notice.

Article 12. For those whose applications for registration are approved, an institute

of CPAs shall issue Certificates of CPA in the manner prescribed by the Finance Department of the State Council.

Article 13. The institute of CPAs, which issued the Certificate of CPA, shall invalidate and recall the Certificate of CPA under the following conditions that occur after the issuance of a Certificate of CPA:

- 1) For those who have developed mental impairment;
- 2) For those who have been convicted of a crime;
- 3) For those who committed serious professional misconduct in finance, accounting, auditing, business administration or other economic management activity and have received at least an administrative disciplinary measure or discharge from position;
- 4) For those who have voluntarily suspended their professional activities as a CPA for more than one year.

Those whose Certificates of CPA have been invalidated but have objections should appeal to the Finance Department of the State Council or the finance department of the people's government of a province, an autonomous region or a municipality directly under the central government within 15 days from the date of receipt of the notice of invalidation of registration and recall of certificates.

Those whose registration has been invalidated can reapply for registration, but their application must conform to the requirements of Article 9 and Article 10 of this law.

### **Chapter III – Service Scope and Rules**

Article 14. Only CPAs may undertake the following professional auditing activities:

- 1) Examining the financial statements of an enterprise and issuing an auditing report;

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2) Verifying the capital of an enterprise and issuing a capital verification report;

3) Performing audits related to any merger, splitting or liquidation of an enterprise, and issuing relevant reports;

4) Performing other auditing activities as established in the laws and administrative regulations.

The reports issued by CPAs in their lawful execution of auditing activities have the full force and effect of verification documents.

Article 15. A CPA may undertake accounting consultation and other accounting-related service activities.

Article 16. Any assignments undertaken by a CPA must be accepted by the accounting firm to which such CPA belongs, and the contracts of assignments must be signed by that firm and the clients.

The accounting firm assumes all civil liabilities for any professional services undertaken by any CPA associated with the firm.

Article 17. A CPA in the execution of his professional activities may investigate according to the necessity of the situation, the client's relevant accounting information and documents, examine the client's business site and facilities, and require his client to provide necessary assistance.

Article 18. A CPA who has a conflict of interest with, or a financial interest in, a client must avoid dealing with that client. The client also has the right to require such avoidances.

Article 19. A CPA has the responsibility to keep the business information he acquires in the performance of his services confidential.

Article 20. A CPA shall refuse to issue any relevant report where:

1) A client suggests overtly or covertly that a false or misleading report or statement be issued;

2) A client intentionally fails to provide relevant accounting information and documents;

3) The report to be issued by a CPA cannot correctly present the material items of financial information due to a client's other unreasonable demands.

Article 21. When performing auditing services, A CPA must issue reports pursuant to the procedures as determined in the professional standards and regulations.

A CPA may not commit any of the following errors or commissions in the performance of an audit or the issuance of a report:

1) Omitting any fact of variance between a client's financial and accounting treatments in material items and the State regulations, provided the CPA is fully aware of such fact;

2) Issuing an untrue report or a report which fails to disclose the fact that a client's financial and accounting treatments will damage the interests of the users of the reports or other related parties, provided the CPA is fully aware that the report is untrue or that a material fact has not been disclosed;

3) Issuing a report in which a client's financial and accounting treatments will be misleading to the users of the report or the persons who have interest in the report, provided the CPA is fully aware that the report is misleading;

4) Issuing a report in which the material items of the financial statements are materially untrue, provided the CPA is fully aware that any such statements are materially untrue. A CPA shall be liable for the behavior listed in the above items only if he or she should know the situation

under the professional standards and rules.

Article 22. A CPA may not:

- 1) Purchase or sell the stock bonds or other properties of an audited organization or individual during an audit;
- 2) Solicit or accept compensation of any sort beyond the agreed upon price, or try to obtain any other interest by taking advantage of the position of auditor;
- 3) Accept the assignment of collecting a client's receivables;
- 4) Allow others to execute professional activities in his or her name;
- 5) Execute professional activities with two or more accounting firms;
- 6) Solicit business by advertising or publicizing his or her professional qualifications;
- 7) Conduct other activities contrary to the laws and regulations.

#### **Chapter IV – Accounting Firms**

Article 23. Two or more CPAs in partnership can establish an accounting firm.

The partners are responsible, with their property as security, for the liabilities of the accounting firm held in partnership in proportion to the amount of capital each partner contributed to the firm, or as provided in the partnership agreement. The partners have joint liability for the firm's liabilities.

Article 24. An accounting firm which conform to the following conditions can be a legal entity with limited liability:

- 1) With a registered capital of not less than Y300,000;
- 2) With a number of full-time professional staff and at least five of them are CPAs;
- 3) Conforming to the scope of professional activities and other conditions as

stipulated by the Finance Department of the State Council.

An accounting firm with limited liability is responsible for its liabilities with all its assets.

Article 25. The establishment of an accounting firm shall be approved by the Finance Department of the State Council or the finance department of a province, an autonomous region or a municipality directly under the central government.

To apply for the establishment of an accounting firm, the applicant must submit the following documents to the organization that examines and approves the application:

- 1) Application report;
- 2) Name, organization structure and business location of the accounting firm;
- 3) The constitution of the firm. If the firm has a partnership agreement, the partnership agreement should be attached;
- 4) List of the names of CPAs, their resumes and other relevant supporting documents;
- 5) List of the names of the principals, partners of the accounting firm, their resumes and other relevant supporting documents;
- 6) Capital verification report of the accounting firm with limited liabilities;
- 7) Other documents as required by the organization that examines and approves the application.

Article 26. The organization that examines and approves the application shall be approved within 30 days from the date of the receipt of the application documents.

The finance department of a province, an autonomous region or a municipality directly under the central government shall record the approval of an accounting

firm with the Finance Department of the State Council. In case the Finance Department of the State Council discovers that the approval is improper, it must notify the organization where the original approval was made and require a re-examination within 30 days from the date of the receipt of the record.

Article 27 The establishment of a branch office of an accounting firm must be approved by the finance department of a province, an autonomous region or a municipality directly under the central government where the branch office is located.

Article 28. An accounting firm shall pay tax pursuant to the law.

An accounting firm shall establish a fund for professional liability or purchase a professional liability insurance policy, pursuant to the regulations promulgated by the Finance Department of the State Council.

Article 29. An accounting firm may accept an assignment independently of the administrative or industrial jurisdiction except to the extent of any limitations in any other laws or regulations.

Article 30. No organization or individual shall interfere in an organization's choosing an accounting firm for professional services.

Article 31. The stipulations in Articles 18 through 21 of this law shall also be applied to accounting firms.

Article 32. An accounting firm shall not violate any provisions of items 1-4,6 or 7 of Article 22 of this law.

#### **Chapter V – Institute of CPAs**

Article 33. A CPA shall join an institute of CPAs.

Article 34. The Charter of CICPA shall be drawn up by the Assembly of Delegates, and shall be recorded with the Finance Department of the State Council. The

Charter of the institute of CPAs of a province, an autonomous region or a municipality directly under the central government shall be drawn up by its Assembly of Delegates of a province, an autonomous region or a municipality directly under the central government, and shall be recorded with the finance department of a province, an autonomous region or a municipality directly under the central government.

Article 35. CICPA shall establish professional standards and rules for CPAs. These standards and rules shall be reported to the Finance Department of the State Council and shall take effect upon their approval.

Article 36. The institutes Of CPAs shall support CPAs pursuant to the laws on the execution of their professional activities, shall protect their lawful interests, and report to relevant organizations their opinions and suggestions.

Article 37. The institutes of CPAs shall conduct annual examination on professional qualification and annual practice inspection of CPAs.

Article 38. An institute of CPAs shall obtain the legal person status as an association.

#### **Chapter VI – Legal Responsibilities**

Article 39. Any accounting firm violating the regulations of Article 20 or Article 21 of this law shall be given a disciplinary warning by the finance department of the government at provincial level or above. Any income from illegal activities shall be expropriated and they can be fined from the same amount to five times the amount of such illegal income. In serious cases, all business operations can be suspended or terminated by the finance department of the province or above.

Any CPA violating the regulations of Article 20 or Article 21 of this law shall be given a disciplinary warning by the

finance department of the government at provincial level or above. In serious cases, the finance department of the government at provincial level or above can suspend all professional activities or invalidate the certificate of such CPA.

Any accounting firm of CPA violating the regulation of Article 20 or Article 21 of this law and issuing false auditing reports and false capital verification reports intentionally shall be investigated pursuant to the criminal law.

Article 40. The finance department of the government at provincial level or above shall order any organization which accepts assignments without special approval of the professional activities of CPAs as regulated in Article 14 of this law to stop such illegal activities, shall expropriate all illegal income and may impose a fine from twice to five times the amount of such illegal income.

Article 41. If a litigant refuses to accept any disciplinary punishment, an appeal may be submitted to the next higher organization within 15 days of the receipt of the notice of disciplinary action. The litigant may also directly file a suit with a people's court within 15 days of the receipt of the disciplinary action.

The organization that evaluates the appeal shall render its decision within 60 days of the receipt of such appeal. If the litigant refuses to accept the decision on appeal, the litigant may file a suit with a people's court within 15 days of receipt of the decision on appeal. If the organization which evaluates the appeal does not render a decision by the due date, the litigant may file a suit with a people's court within 15 days of the due date.

The organization which made the original disciplinary decision may petition a people's court to enforce the execution of the decision if the litigant neither appeal nor file a suit with a people's court nor

comply with the disciplinary decision by the date specified in such decision.

Article 42 An accounting firm which violates any regulation of this law and causes damage to a client or other relevant party shall be liable for such damage pursuant to the law and shall compensate such party for any such loss.

### **Chapter VII – Supplementary Articles**

Article 43. A certified public auditor working in an auditing firm can execute the professional activities regulated under this law provided the certified public auditor's qualifications are determined to be the same as those of a CPA. Such determination together with the supervision, guidance and regulation over certified public auditors shall be made pursuant to regulations to be promulgated separately by the State Council.

Article 44. Foreigner's application for participating in the national uniform CPA examination of China and their registrations shall be conducted under the principle of reciprocity. The establishment of representative office of a foreign accounting firm in China must be reported to and approved by the Finance Department of the State Council. The application for the establishment of a Sino-foreign joint venture accounting firm jointly run by a foreign accounting firm and a Chinese accounting firm must be examined and agreed upon by the department in charge of foreign economic relations and trade of the State Council or the departments as authorized by the State Council and the governments at provincial level before being reported to and approved by the Finance Department of the State Council.

Any foreign accounting firm which seeks to temporarily perform relevant professional activities in China in cases in addition to those which have been mentioned above must obtain approval from relevant finance department of the

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government of a province, an autonomous region or a municipality directly under the central Government.

Article 45. The State Council may promulgate regulations necessary to enforce any provision under this law.

Article 46. This law takes effect on 1 January 1994. The Regulations on CPAs of the People's Republic of China issued on July 3 1986 by the State Council is repealed at that time. (This is an unofficial translation.)

## Appendix 7. CICPA Charter 1996

### Charter of the Chinese Institute of Certified Public Accountants (June 5 1996)

#### **Chapter I – General Provisions**

Article 1. This charter is stipulated according to the Law of the People's Republic of China on Certified Public Accountants and the Law of the People's Republic of China on Audit.

Article 2. The institute of certified public accountants is an association consisting of the Certified Public Accountants (CPAs). The Chinese Institute of Certified Public Accountants is a national organization of CPAs. The institute of CPAs of a province, an autonomous region, or a municipality directly under the central government is local organization of CPAs.

Article 3. The mission of the Chinese Institute of Certified Public Accountants (hereinafter referred to as the Institute) is: serving, supervising, regulating and coordinating. To serve Certified Public Accountants, accounting firms and auditing firms (hereinafter referred to as the Firms). To serve the socialist market economy; to supervise the service quality and professional ethics of CPAs and the Firms. To regulate the CPA profession under the law; to coordinate the relationship within and beyond the profession, to protect the legitimate rights of CPAs and the Firms.

Article 4. The Institute shall accept the supervision and guidance of the Ministry of Finance of the People's Republic of China and the National Audit Office of the People's Republic of China according to the law.

#### **Chapter II – Functions and Responsibilities**

Article 5. The Institute has main functions and responsibilities as follows: 1) To

handle the registration of CPAs and the Firms, to supervise and regulate their practice; 2) To recruit and regulate the members of the Institute; 3) To draw up professional standards and rules of CPAs and monitor and inspect their implementation; 4) To organize and promote professional training; 5) To organize and implement the National CPA Examination; 6) To approve overseas accounting firms and professionals to conduct business in China, and to supervise and regulate their practice in China; 7) To organize business discussions and conduct theoretical research; and to coordinate the relationship within and beyond the profession and protect the legitimate rights of members; 8) To undertake activities of international exchanges and cooperation; 9) To provide guidance to provincial CPA institutes on their operations; 10) To handle other affairs as stipulated in State laws and regulations or authorized by government agencies.

#### **Chapter III – Members**

Article 6. The membership of the institute is divided into group membership, individual membership and honorary membership. All firms approved according to the law shall become group members of the Institute. All those who have passed all the subjects of the National CPA Examination and have been approved after submitting applications or those who were qualified through the former evaluation procedures shall become individual members of the Institute. If recommended by relevant parties and approved by the Council, well-known figures at home and abroad shall be awarded honorary membership.

Article 7. Members of the Institute are entitled to the following rights: 1) The right to elect and to be elected in the Institute; 2) Participating in the learning and activities of training sponsored by the institute; 3) Participating in the professional study and activities of experience exchange sponsored by the Institute; 4) Obtaining relevant materials from the Institute; 5) Putting forward through the Institute suggestions and requests to the relevant agencies; 6) Supervising the performance of the Institute and giving criticisms and suggestions; 7) Supervising the Institute's revenue and expenditures of membership fees; 8) Apply to leave the Institute.

Article 8. Members of the Institute have the following duties: 1) To accept the Charter of the Institute; 2) To carry out the decision made by the Institute; 3) To abide by the discipline of the Institute; 4) To accept the supervision and administration of the Institute; 5) To pay membership fee on time; 6) To complete the continuing professional education as stipulated by the Institute; 7) To undertake the task entrusted by the Institute.

Article 9. Should a member fail to perform his duty, the Council may request him to leave the Institute or remove his name from the membership's list.

Article 10. The governing rules on the Institute's members shall be drafted by the secretariat of the Institute and take effect upon approved by the Council.

#### ***Chapter IV – Assembly of Delegates***

Article 11. The highest authority of the Institute is the Assembly of Delegates. The Assembly convenes every three years and may be moved up ahead of schedule or postponed when necessary, but the Assembly should not be postponed for more than one year. The delegates are chosen by election, consultation or special invitation.

Article 12. The Assembly of Delegates has the following main powers: 1) To approve and amend the charter of the Institute; 2) To elect the Council of the Institute; 3) To determine the policies and tasks of the Institute; 4) To review and approve the work report of the Council of the Institute; 5) To review and approve the report on revenue and expenditures of membership fees of the Institute; 6) Other powers which are entrusted to the Assembly of Delegates.

#### ***Chapter V – Council and Executive Committee***

Article 13. The Council consists of a number of directors elected by the Assembly of Delegates. Directors shall serve a three-year term and may be re-elected. The plenary session of the Council shall be held once a year and could be moved up ahead of schedule or postponed if necessary.

Article 14. The Council shall be responsible to the Assembly of Delegates. Its powers and responsibilities are: 1) To hold the general meeting of the Assembly of Delegates; 2) To elect the members of Executive Committee of the Institute; 3) To elect the leading members of the Institute; 4) To recommend or engage the leading members of the secretariat of the Institute; 5) To make addition to or replace Council members of the Institute; 6) To review the setting up of functional departments of the secretariat of the Institute's Council; 7) To review and approve the annual work report of the secretariat of the institute's Council; 8) To review and approve the annual report on revenue and expenditures of membership fees of the secretariat of the Institute's Council; 9) Other items which should be dealt with by the Council.

Article 15. The plenary meeting of the Council shall appoint several honorary presidents. The plenary meeting of the Council shall elect a president, number of

vice presidents, and number of executive directors. President, vice presidents and executive directors shall have the same term as director.

Article 16. The Executive Committee shall exercise authority of the Council at the closing sessions of the Council.

Article 17. The President on behalf of the Institute convene and chair the Council meeting, the Executive Committee meeting and the general meeting of the Assembly of Delegates. The president shall supervise and inspect the implementation of the decisions of the meetings.

#### **Chapter VI – Permanent Office**

Article 18. The Council shall establish a secretariat, which shall be the permanent office of the Institute.

Article 19. The plenary meeting of the Council shall elect or engage a secretary-general and number of deputy secretary-generals, and report to the competent finance department of the government for approval.

Article 20. The Secretary-General shall take charge of the daily operation of the secretariat; the deputy secretary-generals shall assist the secretary-general in his or her work. The proposal of setting up functional departments in the secretariat should be put forward by the Secretary-General and then be reviewed by the Council before reported to the competent finance department of the government for approval.

#### **Chapter VII – Consultative Committee and Special Committee**

Article 21. The Institute shall set up a consultative committee and engage number of advisors.

Article 22. The Council shall set up several special committees.

The plan of setting up special committees and its duties, and of the appointment and

dismissal of members of committees, shall be put forward by the secretary general of the Institute, and then reported to the Council for approval.

#### **Chapter VIII – Local Institutes of CPAs**

Article 23. The institute of CPAs of a province, an autonomous region or a municipality directly under the central government shall become the local organization of CICPA. Their constitutions shall be worked out by the local Assembly of Delegates pursuant to the law, and reported to the Institute and the competent department of the local government for the record.

Article 24. The setting up of an institute of CPAs below a provincial level should be approved by the provincial CPA institute, and filed with the Institute. The organization structure and the duties of such an institute should be worked out according to relevant laws and regulations of the State and the rules of the provincial CPA institute where it is located.

Article 25. The members of the institute from aboard, Hong Kong, Macao and Taiwan, can respectively organize a local friendship association or a branch of the Institute with approval of the Council of the Institute, and its organization structure and way of activities should be stipulated by other rules.

#### **Chapter IX – Financial Resources**

Article 26. The financial resources of the Institute shall come from: 1) financial allocation from the government; 2) membership fee; 3) public donation; 4) revenue from the operating activities of the Institute; 5) other revenue.

#### **Chapter X – Supplementary Rules**

Article 27. The English name of the institute is: The Chinese Institute of Certified Public Accountants, and its abbreviation is CICPA.

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Article 28. The termination of the Institute should be raised by the Council, and be agreed by more than two-thirds delegates of the Assembly.

Article 29. The location of the head office of the Institute shall be in Beijing.

Article 30. This charter shall take effect on the date when the Special Meeting of the Assembly passes it.

**Appendix 8. Relevant Extracts from the Securities Law 1998**

**The Securities Law of the People's Republic of China**

(Adopted by the Sixth Session of the Ninth National People's Congress [NPC] Standing Committee on 29 December 1998)

Contents

Chapter I	General Provisions	Chapter VIII	Stock Exchange Service Organizations
Chapter II	Stock Issuance	Chapter IX	Stock Brokers' Associations
Chapter III	Stock Transactions	Chapter X	Securities Supervision and Administration Organizations
Chapter IV	Acquisition of Listed Companies	Chapter XI	Legal Responsibilities
Chapter V	Stock Exchanges	Chapter XII	Supplementary Provisions
Chapter VI	Securities Companies		
Chapter VII	Securities Registration and Settlement Organizations		

**Chapter I – General Provisions**

Article 1. The formulation of this law aims to regulate stock issuance and transactions, to protect investors' legitimate rights and interests, to safeguard economic order and public interests of the society, and to enhance the development of the socialist market economy.

Article 2. This law will be applicable to the issuance and transactions of shares, company bonds, and other securities designated by the State Council according to law within China's territory. The provisions of the Company Law, other laws, and administrative rules and regulations will cover situations that are stipulated in this law. The issuance and transactions of government treasury bonds will be governed separately by the provisions of other laws and administrative rules and regulations.

Article 9. According to law, the state auditing organ shall supervise by auditing the accounts of stock exchanges, securities companies, securities registration and settlement organizations, and securities

supervision and administration organizations.

**Chapter II – Stock Issuance**

**Chapter III – Trading of Securities**

Article 58. According to the regulations of the Company Law, a company that has been approved by the securities regulatory body under the State Council to list its stocks in accordance with law or by the department authorized by the State Council to issue its bonds in accordance with the law shall publish its prospectus or its measures for raising bonds. The company that issues new stocks or bonds in accordance with the law shall also publish its financial accounting report.

Article 59. The documents published by a company regarding the issuance and listing of its stocks or bonds shall be true, accurate, and complete and no fake records, misleading statements, or major omissions are allowed.

Article 60. A company that has listed its stocks or bonds shall submit a mid-term report with the following information to the securities regulatory body under the State Council and to the stock exchanges

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within two months after the end of the first half-year of each accounting year. Such documents shall also be published. (1) The company's financial accounting report and management situation; (2) Major lawsuits involving the company; (3) The changes of stocks and bonds already issued; (4) Major matters submitted to the general meeting of stockholders for examination; and (5) Other matters stipulated by the securities regulatory body under the State Council.

Article 61. A company that has listed its stocks or bonds shall submit an annual report with following information to the securities regulatory body under the State Council and to the stock exchanges within four months after the end of each accounting year. Such documents shall also be published. (1) The company's general situation; (2) The company's financial accounting report and management situation; (3) The resumes of directors, supervisors, managers, and high-ranking administrators as well as the situation regarding their holding of the company's stocks and bonds; (4) The situation concerning stocks and bonds already issued, including the name list of the top 10 stock holders of the company and the numbers of their stocks; and (5) Other matters stipulated by the securities regulatory body under the State Council.

Article 62. When a major incident occurs that might have a fairly large impact on the price of its listed stocks and the investors have no knowledge of the incident, a listed company shall immediately submit an interim report on the incident to the securities regulatory body under the State Council and the stock exchanges. It shall also publish the report to explain the facts of the incident. The following situation can be termed as major incident stated in the preceding paragraph: (1) Major changes of a company's management policy and management scope; (2) The company's

decision concerning its major investment and major property purchase. (3) Major contracts signed by the company which might have an important influence on the company's assets, liabilities, rights, interests, and management results; (4) The company incurs major debts or fails to repay those debts that have come due in violation of an agreement; (5) The company experiences major economic losses or major economic losses which exceed more than 10 percent of its net assets; (6) Major changes occur in the external conditions of the company's production and management; (7) There is a change in the chairman or more than one third of directors or managers of the company; (8) There is fairly large change in the holding of stockholders who hold more than 5 percent of the company's stocks; (9) The company's decisions to reduce capital, merge with another company, establish a separate company, disband, and apply for bankruptcy; (10) Major lawsuits involving the company and the court's canceling in accordance with law the decisions adopted by the general meeting of stockholders and the board of directors; and (11) Other matters stipulated by the regulations of laws and administrative rules.

Article 63. When the prospectus released by an issuer, or an underwriting securities company, and its corporate bonds placement measures, financial and accounting reports, listed reports, annual reports, interim reports, and provisional reports contain falsified or misleading information or important omissions that result in losses for investors during securities trading, the issuer and the underwriting securities company shall be liable for compensation, and the issuer and the liable board directors, supervisors, and managers of the underwriting securities company shall also be liable for compensation.

Article 64. Announcements that must be made by the law or by administrative regulations shall be published in newspapers and magazines authorized by relevant departments of the state, or in special bulletins. These announcements shall also be available at various companies and securities trade centers for the public to read.

Article 65. The securities regulatory body under the State Council shall supervise listed companies' annual reports, interim reports, and provisional reports, as well as the state of the announcements. They shall also supervise the state of listed companies' new stock apportionment and distribution. Securities regulatory bodies, securities exchanges, and underwriting securities companies and their personnel shall not prematurely leak out the contents of the public announcements which these companies are required to announce by the law and administrative regulations.

Article 66. The securities regulatory body under the State Council shall make timely announcements of the names of those listed companies which have had their listing credentials revoked owing to major lawless conduct, or which are not qualified to operate as listed companies. When a security exchange makes the decision mentioned in the paragraph above, it shall promptly make the announcement and report the announcement to the securities regulatory body of the State Council for the record.

***Chapter IV – Takeover of Listed Companies***

***Chapter V – Stock Exchanges.***

***Chapter VI – Securities Companies.***

***Chapter VII – Securities Registration and Settlement Organizations.***

Article 159. The professionals in securities investment consultation institutions are not allowed to carry out the following

activities: (1) Invest in securities on behalf of their clients; (2) Arrange to share the profits or losses of their clients' securities investments; (3) Buy or sell the stocks of listed companies served by their institutions; or (4) Other activities prohibited by laws or administrative regulations.

Article 160. Professional securities investment consultation institutions and credit evaluation institutions shall charge service fees according to the standards or procedures stipulated by the relevant administrative department of the State Council.

Article 161. Professional institutions and personnel in charge of issuing documents such as audit reports, asset evaluation reports, or legal advice related to the issuance, listing, or transactions of securities must issue such documents according to the work procedures specified by professional rules. They must verify and confirm the truthfulness, accuracy, and completeness of the contents of such reports, and assume joint liability for those parts they are responsible for.

***Chapter IX – The Stock Brokers' Association***

***Chapter X – The Securities Regulatory Body.***

Article 166. The State Council's securities regulatory body shall supervise and administer the securities market according to law, maintain order in the market, and ensure the market operates in a lawful manner.

Article 167. The State Council's securities regulatory body shall carry out the following supervisory and administrative duties in regards to the securities market: (1) Formulate rules and regulations related to the supervision and administration of the securities market according to law and exercise its examination and approval power according to law; (2) Supervise and

administer according to law the issuance, transactions, registration, trusteeship, and settlement of securities; (3) Supervise and administer according to law the securities-related activities of securities issuers, listed companies, stock exchanges, securities firms, securities registration and settlement institutions, securities investment fund management institutions, securities investment consultation institutions, and credit evaluation institutions, as well as law firms, accounting firms, and asset evaluation institutions involved in the securities business; (4) Formulate standards of qualifications and codes of conduct for securities professionals and supervise the implementation of such standards and codes according to the law; (5) Supervise and inspect according to the law the public disclosure of information on securities issuance and transactions; (6) Guide and supervise according to the law the activities of the stock brokers' association; (7) Investigate and handle according to the law any conduct that violates the laws and administrative regulations formulated for the supervision and administration of the securities market; and (8) Other duties stipulated by laws and administrative regulations.

Article 168. While executing its duties according to the law, the securities regulatory body under the State Council is entitled to take the following measures: (1) To enter premises where an illegal act has been committed to investigate and to attain evidence; (2) To question people involved, and units and individuals related to the incident under investigation, and to demand that they explain relevant issues related to the incident under investigation; (3) To read, check, and duplicate the records of securities transactions, the records of transfers of securities, financial accounts, and other relevant documents and materials of the people involved, and

the units and individuals related to the incident under investigation. It can seal up and keep documents and materials that may be removed or hidden. (4) To check the funds accounts and securities accounts of the people involved, and the units and individuals related to the incident under investigation. When there is evidence that such funds and securities may be transferred or hidden, it can apply to freeze them at a judicial organ.

#### **Chapter XI – Legal Liability Article**

Article 182. Specialized organs providing auditing reports, assets assessment reports, legal opinion documents, or other documents, for the issuing or marketing of stocks, and their workers, who buy or sell stocks in violation of Article 39 of this law, are to be ordered to dispose according to the law of their illegally obtained stocks. Their illegal earnings are to be confiscated and they are to be fined for an amount not more than the value of the stocks in question.

Article 202. If a specialized organ that provides auditing reports, capital assessment reports, written legal views, or other documents relevant to the issuance and marketing of securities and securities trading is found to have falsified anything that is in its charge, its illegitimate income shall be confiscated, it shall be fined for a sum that is between one and five times that of the illegitimate income, and the relevant authorities shall order this organ to suspend its business and shall revoke the credentials of its persons in charge. This organ shall also be liable for compensation for any loss. It shall also be held accountable for its criminal conduct by law if the falsification constitutes a crime.

#### **Chapter XII – Supplementary Provisions.**

Article 214. This law goes into effect on 1 July 1999.