This appendix sets out summaries of certain aspects of PRC law and regulations, which are relevant to Group's operations and business. These include laws relating to the automotive industry in the PRC, foreign investment enterprises, taxation and foreign exchange control. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix V of this prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of the PRC issuers.

1. COMPANY LAW

On 29th December, 1993, the Standing Committee of the Eighth NPC adopted the Company Law, which came into effect on 1st July, 1994 and was amended on 25th December, 1999. On 27th October, 2005, the Eighteenth Standing Committee Meeting of the Tenth NPC further amended the Company Law. The revised Company Law will come into effect on 1st January, 2006.

On 4th July, 1994, the Special Regulations were passed at the Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4th August, 1994. The Special Regulations are formulated according to the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Restructuring Commission on 27th August, 1994, prescribing provisions which must be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a "company" are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Set out below is a summary of the major provisions of the Company Law as amended on 27th October, 2005, the Special Regulations and the Mandatory Provisions.

General

A "joint stock limited company" is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the Shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A company must conduct its business in accordance with the laws and commercial ethics. A company may invest in other enterprises. However, it shall not become the contribution party which accepts joint and several liabilities of the obligations of the invested enterprise.

Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of 2 promoters, but at least half of the promoters must reside within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC Government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue

shares to overseas investors. These companies, if incorporated by public subscription, may have less than 2 subscribers and can issue new shares once incorporated.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered.

The registered capital of a company is the amount of its total paid up capital as registered with the relevant administration bureau for industry and commerce. The minimum registered capital of a company is RMB5 million.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of subscribers holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall individually and collectively be liable for (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22nd April, 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

Share capital

The promoter may make capital contribution in currencies, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of currency contribution shall not less than 30% of the registered capital of the company.

If a capital contribution is made other than in cash, a valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters and legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of an agent.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. In accordance with PRC regulations and rules, qualified foreign institutional investors approved by the CSRC may hold listed domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Special measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than the par value, but may not be less than the par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by a law or by administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

Shares held by a promoter of a company may not be transferred within 1 year after the company's establishment. Directors, supervisors and the manager of the company shall not, each year, transfer more than 25% of the shares they hold in the company during their term of office and such shares of the company shall not be transferred within 1 year from the date of the company's listing. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or with 5 days before the record date set for the purpose of distribution of dividends.

Increase in capital

Under the Company Law, an increase in capital in a company by means of a public issue of new shares must be approved by shareholders in general meeting and meet the following conditions stipulated under the Securities Law:

(i) the company has a sound and good organisation;

(ii) the company has sustainable profitability and stable financial condition;

(iii) there has been no false reporting in the company's financial and accounting documents during the last 3 years and no other material breach of law;

Public offers require the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, the company must change its registration with the relevant administration for industry and commerce and issue a public notice accordingly.

Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

(i) the company shall prepare a balance sheet and financial statement;

(ii) the reduction of registered capital must be approved by shareholders in general meeting;

(iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;

(iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and

(v) the company must apply to the relevant administration bureau for industry and commence for registration of the reduction in registered capital.

Repurchase of shares

A Company may not purchase its own shares other than for one of the following purposes:

(i) to reduce its registered share capital;

(ii) to merge with another company that holds its shares;

(iii) to grant shares to its employees as incentives; and

(iv) to purchase its own shares from its shareholders who vote against the resolution on regarding the merger and demerger with other company in a general meeting.

The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of a general offer to the shareholders of the company or purchase on the stock exchange or an off-market agreement.

Under the Company Law, within a stipulated period following the purchase of the company's own shares, a company must in accordance with applicable law and administrative regulations cancel or transfer the repurchased portion of its shares, change its registration and issue a public notice.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other way as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares held by a promoter may not be transferred within 1 year after the company's establishment. Directors, supervisors and the manager of the company shall not, each year, transfer more than 25% of the shares they hold in the company during their term of office and such shares of

the company shall not be transferred within 1 year from the date of the company's listing. There is no restriction under the Company Law as to the percentage shareholding of a single shareholder of a company.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

(i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;

(ii) to transfer his shares at a legally established stock exchange in accordance with the Company Law and the articles of association of the company;

(iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;

(iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulation or infringes the lawful rights and interests of shareholders, to institute an action in People's Court demanding that the illegal infringing action be stopped;

(v) to receive dividends in respect of the number of shares held;

(vi) to receive surplus assets of the company upon its termination in proportion to his or her shareholding; and

(vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

General meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following powers:

(i) to decide on the company's operational policies and investment plans;

(ii) to elect or remove the directors and decide on matters relating to the remuneration of directors;

(iii) to elect or remove the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;

(iv) to examine and approve reports of the board of directors;

(v) to examine and approve reports of the supervisory committee;

(vi) to examine and approve the company's proposed annual financial budget and final accounts;

(vii) to examine and approve the company's proposals for profit distribution plans and recovery of losses;

(viii) to decide on any increase or reduction of the company's registered capital;

(ix) to decide on the issue of bonds by the company;

(x) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters; and

(xi) to amend the company's articles of association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within 2 months after the occurrence of any of the following circumstances:

(i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;

(ii) the aggregate losses of the company which are not made up reach one-third of the company's total share capital;

(iii) when shareholders holding 10% or more of the company's issued and outstanding shares carrying voting rights request the convening of an extraordinary general meeting;

(iv) whenever the board of directors deems necessary; or

(v) the supervisory committee so requests.

(vi) other circumstances as required by the articles of associations.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 30 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have 1 vote for each share they hold.

Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution of a company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by shareholders present, including those represented by proxies at the meeting.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings by a written appointment document stating the scope of the exercise of the voting rights.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within 5 days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holder of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members. Under the Company Law, each term of office of a director shall not exceed 3 years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

(i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;

(ii) to implement the resolutions passed by the shareholders in general meetings;

(iii) to decide on the company's business plans and investment proposals;

(iv) to formulate the company's proposed annual financial budget and final accounts;

(v) to formulate the company's profit distribution proposals and for recovery of losses;

(vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;

(vii) to prepare plans for the merger, division or dissolution of the company;

(viii) to decide on the company's internal management structure;

(ix) to appoint or dismiss the company's general manager and based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration; and

(x) to formulate the company's basic management system.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment to the articles of association of a company.

Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the Company Law, the following persons may not serve as a director of a company:

(i) persons without civil capacity or with restricted civil capacity;

(ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than 5 years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than 5 years have elapsed since the date of the completion of implementation of this deprivation;

(iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than 3 years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than 3 years have elapsed since the date of the revocation of the business license;

(v) persons who have a relatively large amount of debts due and outstanding; or

(vi) persons who are State civil servants.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions which have been incorporated in the Articles of Association, a summary of which is set out in Appendix VI.

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, amongst others, the following powers:

(i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;

(ii) to check on the implementation of the resolutions of the board of directors; and

(iii) to sign the company's share certificates and bonds.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix VI) contain further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than 3 members. Each term of office of a supervisor is 3 years and he or she may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. Directors, managers and financial officers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

(i) to review the company's financial position;

(ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;

(iii) when the acts of a directors and managers are in a harm to the company's interests, to require correction of these acts;

(iv) to propose the convening of extraordinary shareholders' general meetings;

(v) to propose resolution in a general meeting;

(vi) to initiate proceedings against directors and officers;

(vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit.

Managers and officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

(i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;

(ii) arrange for the implementation of the company's annual business and investment plans;

(iii) formulate plans for the establishment of the company's internal management structure;

(iv) formulate the basic administration system of the company;

(v) formulate the company's internal rules;

(vi) recommend the appointment and dismissal of deputy managers and any financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);

(vii) attend board meetings as a non-voting delegate; and

(viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and Mandatory Provisions provide that the senior management of a company includes the financial controller, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other executives of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in Appendix VII).

Duties of directors, supervisors, managers and officers

Directors, supervisors, managers and officers of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. Directors, supervisors, managers and officers of a company are also under a duty of confidentiality to the company and are prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager or an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that directors, supervisors, managers and officers of a company owe fiduciary duties to the company and are required to perform

their duties faithfully and to protect the interests of the Company and not to make use of their positions in the company for their own benefit.

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital).

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund or the statutory common welfare fund.

After the company has made good its losses and made allocations to its statutory common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders.

The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

(i) to make up the company's losses;

(ii) to expand the business operations of the company; and

(iii) to increase the company's capital provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve before such conversion shall not be less than 25% of the registered capital of the company.

Appointment and retirement of international auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders in general meeting and shall be registered with the CSRC.

Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Termination and liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

(i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;

(ii) the shareholders in general meeting have resolved to dissolve the company; or

(iii) the company is dissolved by reason of its merger or demerger.

(iv) the business licence is invalidated; the operation is suspended, or the company is dissolved by order of the court.

Where the company is dissolved in the circumstances described in (i) or (ii) above, a liquidation committee must be established within 15 days. Members of the liquidation committee shall be appointed by the shareholders in a general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue at least 3 public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 90 days of the first public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

(i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;

(ii) to notify creditors or issue public notices;

(iii) to deal with and settle any outstanding businesses of the company;

(iv) to pay any tax overdue;

(v) to settle the company's financial claims and liabilities;

(vi) to handle the surplus assets of the company after its debts have been paid off; and

(vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and social insurance expenses and statutory compensation, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall not engage in new business operations during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission

may be implemented by the board of directors of the company by way of separate issues, within 15 months after approval is obtained from the CSRC.

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in Appendix VI).

Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

(i) the registered capital or share holding distribution no longer comply with the necessary requirements for a listed company;

(ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report;

(iii) the company has committed a major breach of the law; or

(iv) the company has incurred losses for each of the preceding 3 years.

The securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared bankrupt.

Merger and demerger

The merger or demerger of a company is to be decided by the shareholders in general meetings.

Companies may merge through merger by absorption or through the establishment of a newly merged entity. In the case of merger by absorption, the company which is absorbed shall be dissolved. In the case of merger by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merging of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers, within 30 days of the resolution to merge. Those creditors who had not received written notice may within 45 days of the notice, or within 30 days after receiving written notice, request the company to satisfy any unpaid debts or provide equivalent guarantees in cases of guarantees.

When a company demerges into 2 companies, their respective assets must be separated and separate financial accounts must be drawn up.

When a company's shareholders approve the demerger of the company, the company should notify all its creditors within 10 days of such resolution being passed and advertise the same in newspapers within 30 days. Unless otherwise agreed with a creditor, obligations in respect of the liabilities before the demerger of the company shall be jointly and severally borne by the demerged companies.

Changes in registrable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

2. SECURITIES LAW AND SUPERVISION

Since 1992, the PRC has promulgated a number of regulations in relation to the issue of and trading in securities and disclosure of information.

In early 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Commission and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In early 1998, the State Council dissolved the Securities Commission and the former functions of the Securities Commission were assumed by the CSRC.

On 22nd April, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi-denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with these regulations in respect of regulations governing Renminbi-denominated ordinary shares; (ii) if a PRC company proposes to offer shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission; and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Stock Exchange, such as the Company.

On 12th June, 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of

information by companies which have offered shares to the public both in the PRC and overseas. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On 2nd September, 1993, the Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities. The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or the abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading and in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 4th July, 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of foreign capital stock listed abroad; and disclosure of information and articles of association of joint stock limited companies having domestic listed foreign shares.

On 25th December, 1995, the State Council promulgated the Regulations of the State Council Concerning the Domestic Listed Shares of Joint Stock Limited Companies.

These regulations deal mainly with the issue, subscription and trading of, and declaration of dividends and other distributions or domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

On 29th December, 1998, the Securities Law of the PRC was passed by the Standing Committee of the National People's Congress and was amended on 24th August, 2004 and 27th October, 2005 respectively. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law became effective on 1st July, 1999 with the latest amendment to be made on 1st January, 2006. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not regulate, the Company Law and other applicable laws and administrative regulations regarding securities will apply.

On 29th March, 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the opinion upon listing of the H Shares on the Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

On 14th July, 1999, the CSRC promulgated the Notice on issues regarding Application for Overseas Listing by Enterprises which sets out the requirements to be satisfied by Chinese enterprises seeking overseas mainboard listing, and matters including the approval procedure and the submission of documents.

3. JOINT VENTURES

Joint ventures in the PRC between domestic and foreign entities may take 2 forms: equity joint ventures and cooperative joint ventures. Equity joint ventures and are governed by the Sino-foreign Equity Joint Ventures Law of the PRC (the "Equity Joint Venture Law") adopted on 1st July, 1979 and amended on 15th March, 2001 by the NPC and the Implementing Regulations of the Sino-foreign Equity Joint Ventures Law of the PRC promulgated on 20th September, 1983 and amended on 22nd July, 2001 by the State Council. Cooperative joint ventures are governed by the Sino-foreign Cooperative Joint Ventures Law of the PRC (the "Cooperative Joint Venture Law") promulgated on 13th April, 1988 and amended on 31st October, 2000 and the Implementing Rules of the Sino-foreign Cooperative Joint Ventures Law of the PRC promulgated by MOFTEC on 4th September, 1995.

Procedures for establishment of a joint venture

The establishment of a joint venture requires the approval of the Ministry of Commerce of the PRC ("MOFCOM") (or its delegated authorities). Certain documents including a feasibility study report, joint venture contract and articles of association of joint venture are required to be submitted to MOFCOM or its delegated authorities for approval. Within 30 days after the issue of the approval certificate by MOFCOM, the applicant is required to apply to the State Administration Bureau for Industry and Commerce ("SAIC") (or its local bureau) for the issue of a business license. A joint venture entity is formally established on the date its business license is issued.

Sino-foreign equity joint ventures

Under the Equity Joint Venture Law and its Implementing Regulations, an equity joint venture takes the form of a limited liability company. It is an independent legal person which may independently assume civil obligations, enjoy civil rights and own, use and dispose of its assets. The liability of the joint venture partners is limited to the amount of the registered capital they have respectively agreed to contribute under the joint venture contract. The registered capital must be paid in accordance with the terms and conditions of the joint venture contract and may take the form of cash, land use rights, capital goods, intellectual property rights and know-how. Transfer of the contribution(s) in the registered capital of a joint venture partner to any other person(s) requires the consent of the other joint venture partner(s) and the approval of the original approval authority.

The total amount of investment of an equity joint venture is the sum of capital construction funds and circulating funds required for the scale of its operations and production. The proportion of the investment contributed by a foreign joint venture partner in the registered capital of the joint venture in general shall not be less than 25%. Under the Provisional Regulations Concerning the Ratio of Registered Capital and Total Investment of Sino-foreign Equity Joint Venture promulgated by the SAIC on 1st March, 1987, the ratios between the amount of registered capital and the amount of total investment are prescribed. For example, where the amounts of total investment is between U.S.$10 million and U.S.$30 million, the amount of registered capital must not be less than 40% of total investment.

The profit, risks and losses of an equity joint venture are shared by the joint venture partners in proportion to their contributions to the registered capital.

According to the Equity Joint Venture Law and its Implementing Regulations, an equity joint venture does not have a shareholders' meeting. The board of directors of the equity joint venture is its highest authority and responsible for the corporate governance. The composition of the board does not need to be absolutely proportional to the respective equity interests of the joint venture partners, but shall be determined by the joint venture partners with reference to the ratio of equity interests. In practice, the composition of the board normally reflects the proportional interests of the joint venture partners. The directors appointed by each of the joint venture partners represent the interests of the appointing joint venture partner. At the board meetings, each director has one vote, and the chairperson of the board has no casting vote for majority decisions, unless it is so provided in the joint venture contract and the articles of association. The Implementing Regulations require that the following issues be determined by a unanimous resolution of the board:

(i) amendment of the articles of association;

(ii) termination and dissolution of the joint venture;

(iii) increase or decrease of the registered capital; and

(iv) merger or division of the joint venture.

The operations of an equity joint venture are regulated by an extensive body of laws and regulations, both national and regional, governing matters such as registration, capital contribution, foreign exchange, accounting, taxation and labour.

Sino-foreign cooperative joint ventures

A co-operative joint venture may or may not be registered as an independent legal entity. If a co-operative joint venture is registered as an independent legal person, the joint venture entity will take the form of a limited liability company. The joint venture partners of a co-operative joint venture that has not applied for the status of an independent legal person are required to assume civil liabilities in accordance with the applicable PRC civil law.

Matters relating to the establishment, approval procedures, capital contribution, foreign exchange, accounting, taxation and labor of a co-operative joint venture are substantially the same as those of an equity joint venture.

Under the Cooperative Joint Venture Law and its Implementing Rules, the joint venture partners have a greater degree of flexibility to structure the joint venture arrangements and to determine their respective rights, obligations and liabilities. Profits and losses of a cooperative joint venture may be distributed to and shared by the joint venture partners in such manner as those partners may agree to, instead of in proportion to their respective contribution to the registered capital of the joint venture. In addition, where the cooperative joint venture contract provides for the reversion of all fixed assets of the cooperative joint venture to the local joint venture partner upon the expiry of the term of the joint venture, the joint venture partners may agree in the relevant joint venture contract the mechanism of profit distribution whereby the foreign joint venture partner may have priority in recovering investment during the term of the joint venture.

Management

Under the Equity Joint Venture Law and the Cooperative Joint Venture Law, the highest authority of a joint venture is vested in its board of directors. There is no requirement under the applicable law for the holding of meetings of joint venture partners.

The powers and functions of the board of directors are generally governed by the provisions of the joint venture contract and the articles of association of the joint venture. Meetings of the board of directors of a joint venture are required to be held at least once every year. In general, major decisions affecting the joint venture (such as development plans, production and business plans, budget, distribution of profits, termination of business and appointment of key personnel) are to be determined by the board of directors. The daily operation and management of a joint venture is vested in the management office which has a general manager and several deputy managers who assist the general manager. The general manager and deputy general managers of a joint venture are engaged by its board of directors. A general manager is required to act in accordance with the directions and guidance of the board of the directors.

Assignment of equity interest

Any transfer of all or part of equity interest in a joint venture by one party to a third party is subject to the consent of the joint venture partner and the approval of the relevant examination and approval authorities.

When one party assigns all or part of its equity interest, the other parties shall have a pre-emptive right of purchase. When one party assigns its equity interest to a third party, the conditions shall not be more favourable than the conditions for assignment offered to the other parties to the joint venture.

Termination

A joint venture may be dissolved in the following situations:

(i) where its terms of operation has expired;

(ii) where the enterprise suffers heavy losses and is unable to continue operations;

(iii) where one of the contracting parties fails to fulfil the obligations prescribed by the agreement, contract or articles of association and the enterprise is unable to continue operating;

(iv) where it suffers heavy losses due to an event of force majeure such as a natural disaster or war, resulting in its inability to continue operations;

(v) where the enterprise fails to obtain the desired operational objectives and has no prospects for future development; or

(vi) where other reasons for dissolution prescribed by the contract and articles of association occur.

In any of the circumstances described in (ii), (iv), (v) and (vi) above, the board of directors shall submit an application for dissolution to the examination and approval authorities for approval. In the circumstance described in (iii) above, the party that performed its obligations stipulated in the contract shall make an application.

In the circumstance described in (iii) above, the party that failed to fulfil its obligations stipulated in the agreement, contract or articles of association shall be liable for the losses thus caused.

4. THE ARBITRATION LAW

The Arbitration Law of the PRC (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as a method of for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court except when the arbitration agreement is not valid.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of Domestic Shares, unless otherwise specified in the Articles of Association, such parties shall submit that dispute or claim to arbitration before either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organ in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective on 1st October, 2000, CIETAC's jurisdiction covers disputes relating to the Hong Kong Special Administrative Region. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the People's Court for enforcement. A People's Court may refuse to enforce an arbitral award made by an arbitration body if there are certain procedural or membership irregularities or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeding to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the New York Convention adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will apply the New York Convention in dispute considered under PRC laws to be arising from contractual or non-contractual mercantile legal relations. Following the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the Arrangement for Reciprocal Enforcement of Arbitral Awards between Hong Kong and China has been signed on 21st June, 1999. The arrangement was made in accordance with the spirit of the New York Convention. To meet present day's needs, it will allow awards made over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in China. This new arrangement has been approved by Hong Kong legislative council and the Supreme People's Court of the PRC and became effective on 1st February, 2000.

5. FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31st December, 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center first had to obtain the approval of the SAFE.

On 28th December, 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (the "Notice"), effective from 1st January, 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On 26th March, 1994, the PBOC promulgated the "Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Provisional Regulations"). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On 29th January, 1996, the State Council promulgated new Regulations of the People's Republic of China for the Control of Foreign Exchange ("Control of Foreign Exchange Regulations") which became effective from 1st April, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on 14th January, 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20th June, 1996, the PBOC promulgated the "Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Settlement Regulations") which became effective on 1st July, 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprises" (the "Announcement"). The Announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On 25th October, 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business pursuant to which and with effect from 1st December, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On 1st January, 1994, the former dual exchange rate system for Renminbi has been abolished and replaced by a managed floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-US dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in China (except for some foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by the Company from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

Chinese enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and Chinese enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like the Company), may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE and the relevant branch must be sought.

Dividends to holders of H Shares are fixed in Renminbi but must be paid in Hong Kong dollars.

6. REGULATION OF THE PRC AUTOMOTIVE INDUSTRY

Industrial policies for the automotive industry

The PRC does not have a comprehensive system consisting of legislation or promulgated administrative rules regulating the PRC automotive industry. Instead, the PRC automotive industry is controlled and regulated by the central PRC government through the state industrial policies.

On February 19, 1994, the State Planning Commission promulgated the Industrial Policy for the Automobile Industry ("Automotive Industry Policy of 1994"). Its purpose was to guide the way forward to strengthen the PRC automotive enterprises' capacity of product development, improve product quality and manufacturing facilities, promote rationalisation of the industrial structure, realise economies of scale in production, and eventually convert PRC's fragmented, decentralised automotive industry into a pillar industry of the national economy by the year of 2010.

The Automotive Industry Policy of 1994 did not constitute a "law" or a "regulation" in the formal sense. The Policy's regulatory function was implemented, in part, by adopting a stringent approval system for automotive investment programs. All foreign investment in the fields of whole vehicle production or engine production were placed under the scrutiny of the central government, and large scale construction or new investments from solely domestic sources were also required to be approved by either State Planning Commission or the State Economic and Trade Commission. Only those programs that conformed to the Policy could be approved.

In considering whether to approve foreign investment projects, the Chinese participant was directed to look for foreign partners that had (1) their own product patents and trademarks, (2) product development and manufacturing technology, (3) independent international distribution network, and (4) adequate financing capacities. In addition, the automotive joint ventures themselves were required to: (1) have their own research and development arm, (2) produce products meeting international technical standards, (3) balance their own foreign exchange needs independently, (4) provide preferential status for domestic parts and components, and (5) the Chinese partner must have at least 50% of the joint venture's equity. A foreign automobile manufacturer may have no more than two joint ventures producing the same category of vehicles.

Based on the Automotive Industry Policy of 1994, the Opinion on Further Strengthening Administration of Automobile Industry Projects was promulgated as a formal regulation jointly by the State Planning Commission, the State Economic and Trade Commission, and other relevant government agencies on 20th June, 1997, which centralised the control of the automotive projects approval process in the central government by formally stipulating that all automotive projects, regardless of the source of funding, the amount of funding, the type of construction involved, or the type of assembled products, must be approved by the State Planning Commission and the State Economic and Trade Commission.

In a bid to enhance the international competitiveness of the PRC automotive industry as a whole, enable the PRC automotive industry to better meet the demands ensuing from China's entry in the World Trade Organisation, and ensure the healthy and sustainable development of the PRC automotive industry, the NDRC (which assumed the regulatory functions previously vested in the State Planning Commission and the State Economic and Trade Commission) published the new automobile industrial policy — the Automotive Industry Development Policy ("New Automotive Policy") on 21st May, 2004, which superseded the Automotive Industry Policy of 1994. (For a detail description of the New Automotive Policy, please refer to the section of this prospectus headed "Industry Overview: Regulation of the PRC Automotive Industry — China's new automotive industry policy".)

The New Automotive Policy envisages that a regulatory framework of PRC automotive industry consisting of formally promulgated legislation and regulations is to be established on the basis, and for the purpose of implementation, of the New Automotive Policy. Before the expected legal framework is brought into being, the New Automotive Policy, as its predecessor, will continue to play the most important role in the regulation of the automotive industry, in that it will be applied whenever a new project, whether domestically or foreign funded, comes before NDRC for approval.

The significant regulatory requirements and policies that must be complied with in any investment project in the automotive industry include the following:

(i) Total investment of a new motor vehicle manufacturing project must be at least RMB2 billion, including a minimum investment of at least RMB500 million in the research and development facilities;

(ii) Total investment of a new engine manufacturing project must be at least RMB1.5 billion;

(iii) Where a automotive manufacture applies for setting up new projects producing whole vehicles in the category other than those it currently produces, its total investment in the new project must be at least RMB1.5 billion, its assets/liability ratio shall be within 50%, and it must have a AAA credit rating;

(iv) Where a automotive manufacture applies for setting up new projects producing sedan cars, or other passenger vehicles in the category other than those it currently produces, its accumulated after-tax profits for the past three years must exceed RMB1.5 billion, its asset/liability ratio shall be within 50%, and it must have a AAA credit rating;

(v) All new passenger vehicle and heavy-duty truck projects must also produce their own engines, and have a minimum production capacity of either 10,000 vehicles for heavy-duty trucks, or 50,000 vehicles for passenger vehicles with four cylinder engines, or 30,000 vehicles for passenger vehicles with six cylinder engines.

(vi) Banning the non-automotive manufacturers from gaining entry to the industry through the back door by buying of the loss-making automotive manufacturers.

(vii) The Chinese party must hold at lease 50% of equity in a whole vehicle manufacturing joint venture.

(viii) A foreign automotive manufacturer may have no more than two joint ventures producing the same category of vehicles. This restriction will not apply where the foreign manufacture joins forces with its existing Chinese partner to acquire other Chinese automotive manufacturing enterprises.

Manufacturers' qualification and compulsory authentication of automobile products

To obtain the right to legally manufacture and sell their automobiles, all Chinese automotive enterprises (including sino-foreign automotive joint ventures) must apply to NDRC to have their manufacturing status and all models of vehicles produced by them registered in the Public Notice of Road Vehicle Manufacturers and Products published by NDRC from time to time. In order to be registered in the Public Notices, all models and makes of vehicles are subject to tests for compliance with the state sanctioned safety and environmental protection standards, as well as automotive technical norms and specifications. By registration in the Public Notices, the manufacturers are legally qualified to produce and sell their registered vehicles. The State public security authority (public security bureau) will process the licensing of vehicles on the basis of the Public Notices.

According to the Administrative Rules for the Compulsory Product Certification, issued by the State Administration on Quality Supervision, Inspection and Quarantine on 3rd December, 2001, the automobile products (including imported vehicles) are subject to the compulsory certification conducted by the state designated certification agencies in accordance with the state sanctioned safety and technical standards. Only after authenticated by the state designated certification agencies, and duly issued with the Certificate of China Compulsory Certification, may an automobile product be sold or imported into China.

The New Automotive Policy provides that a uniform system is to be formulated in accordance with the automotive policy and the compulsory certification regulations to regulate the industry and market entry of automotive enterprises and their products. Under the expected uniform system, in granting an enterprise entry to the automotive industry, the relevant regulators will take into consideration such enterprise's ability to design and develop products, the capacity of production facilities, quality control, and sale and after-sale services. Whenever the regulators determine that an enterprise or an automotive product is no longer meeting the entry conditions, such enterprise or product will be removed from the Public Notice.

Automobile Brand Sales

The Ministry of Commerce, the National Development and Reform Commission and the State Administration for Industry and Commerce promulgated the Administration of Sale of Automobile Brands Implementing Procedures (the **"Automobile Brands Procedures**") on 21st February, 2005, becoming effective as of 1st April, 2005. The Automobile Brands Procedures set out the conditions to be fulfilled by automobile general distributors and brand dealers, such as having enterprise legal person status and having obtained the authorization from automobile manufacturing enterprises and automobile suppliers. The commerce authority of the State Council shall be responsible for the nationwide administration of automobile brand sales, and the administration for industry and commerce of the State Council shall be in charge of supervision and regulation of automobile brand sales under its scope of duty. In the case of establishing an automobile general distributor or a brand dealer with foreign investment, the applicant shall be issued with a Foreign-invested Enterprise Approval Certificate within 3 months of submission of the complete application materials if the application is approved.

Automobile Financing

Until the promulgation of the "Administrative Rules on Automobile Finance Company" ("AFC Rules") by the China Banking Regulatory Commission on 3rd October, 2003, the automobile finance business was monopolised by the four state owned commercial banks, and facilities of automobile financing may only be extended to the purchase of domestically made auto mobiles. According to AFC Rules, non-banking financial institutions and automobile manufacturers may apply to the China Banking Regulatory Commission for the establishment of auto financing companies in China. The AFC Rules have laid down the prerequisites on the investors wishing to set up automobile financing companies, the procedural requirement for application and approval, and the lines of business an automobile financing company is allowed to conduct. As part of China's commitments to the World Trade Organisation, foreign automobile manufacturers are allowed to set their auto financing arms in China on the same conditions as on the PRC investors.

The PBOC and the China Banking Regulatory Commission promulgated the Administration of Automobile Loans Procedures (the **"Automobile Loans Procedures**") on 16th August, 2004 ,becoming effective as of 1st October, 2004. The Automobile Loans Procedures provides that a borrower applying for an individual automobile loan shall fulfill the following criteria: (1) he shall be a citizen of the PRC, or Hong Kong, Macao or Taiwan resident or a foreigner who has resided within the PRC continuously for at least one year (including one year); (2) he shall have valid proof of identity, a fixed and detailed address, and be able to exercise his full civil right; (3) he shall have a steady legal income, or sufficient personal property to repay the interest and capital on the loan; (4) he shall have a good personal credit rating; (5) he shall be able to pay the initial loan repayment as stipulated in the Procedures; (6) he shall fulfill any other criteria required by the lender.

The Automobile Loans Procedures stipulate that the time limit (including extensions) on automobile loans shall not exceed five years. The time limit on automobile loans (including extensions) for second hand automobiles shall not exceed three years. The time limit on automobile loans for commercial sale on commission shall not exceed one year.

Recall of defective automobiles

The State Administration on Quality Supervision, Inspection and Quarantine, NDRC, the Ministry of Commerce and the General Administration of Customs jointly issued the Administrative Regulations on Recalls of Defective Automobile Products on 12th March, 2004, implementation of which (only applicable to passenger vehicles with no more that nine seats, including driver's seat) will start on 1st October, 2004. The automobile industry is the first in the PRC to pilot a defective product recall system.

According to the regulations, a product defect necessitating a recall refers to a common defect resulting from a design or manufacturing flaw found in a certain batch, a make or a model of the automobile, imposing an unreasonably high degree of danger to human life or property, or a nonconformity with safety standards. A defect triggering a recall will be established upon the occurrence of any of the following circumstances: i) the products fail to conform with technical regulations and national standards relating to automobile safety, ii) the products have caused personal injuries or property damages to the owners or any third parties because of the defects in design or manufacturing, or iii) the products have been inspected and tested and it has been determined that they may cause personal injuries or property damage under certain conditions, although such outcome has not occurred yet. Where such a defect is established, the auto manufacturers and importers are obliged to recall the entire batches of the flawed automobiles and responsible for all costs associated with such recalls. Related auto vendors, lessors and repair service providers are required to assist in undertaking the recalls.

Recalls may be initiated by manufactures or importers on a voluntary basis or ordered by the relevant government authorities. In each case, the manufacturers and the importers shall cease, or be ordered to cease, production or importation of the defective automobiles, and notify automobile vendors to cease the sale of such automobiles and notify auto owners about the existence of the defects.

The Regulations have set out the procedural steps to be taken in the proceedings of both voluntary recalls and mandatory recalls, and specified the requirements relating to automobile defects reporting, investigation and determination.

Penalties are provided for violations of the Regulations. The maximum fine is RMB30,000 for concealing the applicable automobile defects or otherwise attempting to evade the rules or supervision by the government authorities.

7. HONG KONG LAWS AND REGULATIONS

(a) Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law. The Company, which is a joint stock limited company established in the PRC seeking a Listing is governed by the PRC Company Law which came into effect on 1st July, 1994 and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited company established in the PRC issuing overseas listed foreign shares to be listed on the Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison:

(i) Corporate existence

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. The articles of association of a private company incorporated in Hong Kong are required by the Companies Ordinance to contain certain pre-emptive provisions. A public company does not contain such pre-emptive provisions in its articles of association.

Under the PRC Company Law, a company may be incorporated by either the promotion method or the subscription method. A company established by the public subscription method will only acquire its corporate existence after it has completed its initial share offering to the public. The PRC Company Law requires a state-owned enterprise to be converted into a joint stock limited company by the public subscription method in the event that there are less than 5 promoters. Under the PRC Company Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB50,000,000. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, where the mandatory contribution for the shares are allotted by a joint stock limited company in return for injection of assets other than currency, the currency contribution shall not be less than 30% of the registered capital of that company. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in general meeting.

(iii) Restrictions on shareholding and transfer of shares

Under PRC law, the Domestic Shares ("Domestic Shares") in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares ("foreign shares") issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC. Under the PRC Company Law, shares in a joint stock limited company held by its

promoters cannot be transferred within 1 year after the date of establishment of the company. For shares in a joint stock limited company held by its directors, supervisors and managers, those directors, supervisors and manager shall not, during their respective terms of office, within one year from the listing of the shares of the company transfer the shares held by them, or in each subsequent year transfer the shares held by them in a number exceeding 25%. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

(iv) Financial assistance for acquisition of shares

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) Variation of class rights

Under Hong Kong company law, if the share capital of a company is divided into different classes of shares, special rights attaching to any class of shares may only be varied if approved by a specified proportion of the holders of the relevant class. The PRC Company Law does not contain any specific provision relating to variation of class rights. Under the Mandatory Provisions, class rights may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by two-thirds or more of the votes cast by shareholders of the affected class present in person or by proxy at a separate class meeting. For the purpose of a variation of class rights, domestic shares and foreign shares are treated as separate classes of shares except in the case of (i) an issue of shares by the joint stock limited company in any 12 month period either separately or concurrently following the approval by a special resolution of shareholders in general meeting not exceeding 20% of each of the issued Domestic Shares and foreign shares existing as at the date of such special resolution; and (ii) an issue of Domestic Shares and foreign shares in accordance with the plan of the company approved by the securities authority and which are completed within 15 months following the establishment of the company. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

(vi) Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

(vii) Supervisory committee

Under the PRC Company Law, the board of directors of a joint stock limited company is subject to the supervision of a supervisory committee but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith

and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have been guilty of a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name. Although the PRC Company Law gives a shareholder of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by shareholders in general meeting or by the board of directors which violates any law or infringes the lawful rights and interests of shareholders, PRC law does not have a form of proceedings which is the same as a derivative action. The Mandatory Provisions, however, provide remedies to the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given not less than 30 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 45 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is provided for in the articles of association of the company, which shall not in any event be less than 2 members. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within 5 days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires one half or more of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, merger, demerger or dissolution of a joint stock limited company which requires two-thirds or more of votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

(xiii) Financial disclosure

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited company is required under PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

Under the PRC Company Law, neither the public nor the shareholders of a joint stock limited company have access to information on its directors and shareholders. Under the Mandatory Provisions, shareholders have the right to inspect and copy (at reasonable charges) certain information about shareholders and directors similar to that available under Hong Kong law to shareholders of a company incorporated in Hong Kong.

(xv) Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is 6 years while that under PRC law is 2 years. The Mandatory Provisions require the appointment of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xvi) Corporate reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting.

(xvii) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

(xviii) Mandatory transfers

Under the PRC Company Law, a joint stock limited company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve and statutory public welfare fund. There are no such requirements under Hong Kong law.

(b) Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company:

(i) Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong accounting standards or international accounting standards.

(ii) Process agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on the Company's behalf in Hong Kong throughout the period during which the Company's securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iii) Public shareholdings

If at any time the Company has in issue securities other than the H Shares which are being listed on the Stock Exchange, the Listing Rules require that the H Shares must represent not less than 15% of the Company's total issued share capital and the aggregate number of the Company's H Shares and other securities held by the public must constitute not less than 25% of the Company's total issued share capital.

The Company's H Shares held by the public must constitute not less than 25% of the Company's total issued share capital unless the expected market capitalisation of the Company at the time of listing is over HK$10,000 million, in which case the Stock Exchange may accept a lower percentage of between 15% and 25%.

(iv) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the Company's shareholders as a whole will be adequately protected. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(v) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H Shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Shareholder approval by way of special resolution of the holders of Domestic Shares and the holders of H shares at separate class meetings conducted in accordance with the

Articles of Association is required for share repurchases. In seeking shareholders' approvals to make purchases of securities on the Stock Exchange or when reporting such purchases, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any. Any general mandate given to the directors to repurchase H shares must not exceed 10% of the total amount of existing issued H shares of the Company.

(vi) Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating, amongst others, to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix VI to this prospectus.

(vii) Redeemable shares

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

(viii) Pre-emptive rights

Except in the circumstances mentioned below, the Directors must obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to (1) authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the Company making any such authorisation, allotment, issue or grant resulting in material dilutions of the percentage equity interest of the Company and its shareholders in such subsidiary.

No such approval will be required in the case of authorising, allotting or issuing shares if, but only to the extent that, the Company's existing shareholders have by special resolution in a general meeting given a general mandate to the Company's Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolutions to authorise, allot or issue either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or of such shares that are part of our plan at the time of the formation of the Company to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

(ix) Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the

Listing Rules) issued by the Stock Exchange. To enter into a service contract for three years or more with a Supervisor or proposed Supervisor, or a service contract which expressly requires the Company to give a period of notice of more than one year or pay compensation or make other payments equivalent to more than one year's emoluments in order for the Company to terminate the service contract with a Supervisor or proposed Supervisor, the Company must obtain the prior approval of the Shareholders in a general meeting.

(x) Amendment to the Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules relating to such Articles of Association.

(xi) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between domestic Shares and H Shares);
- a copy of the latest annual return filed with the State Administration of Industry and Commerce of the PRC; and
- for shareholders only, copies of minutes of meetings of shareholders.

(xii) Appointment of receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiii) Statements in share certificates

The Company is required to ensure that all its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of the Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorises the Company to enter into a contract on its behalf with each Director and senior officer of the Company whereby each such Director and senior officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

(xiv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(xv) Contract between the Company and its Directors, officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvi) Subsequent listing

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

(xvii) English translation

All notices or other documents required under the Listing Agreement to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(xviii) General

If any change in PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

(c) Other Legal and Regulatory Provisions

Upon Listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

(d) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.

PRC LEGAL MATTERS

Commerce & Finance Law Offices, the Company's legal adviser on PRC law, has sent to the Company a letter dated 30th September, 2005, confirming that it has reviewed the summaries of PRC company and securities regulations and the summaries of certain material differences between the Hong Kong company law and the PRC company law in so far as they relate to PRC law as contained in this Appendix and that, in its opinion, such summaries are correct summaries of relevant PRC laws and regulations. This letter is available for inspection as referred to in the section of this prospectus headed "Documents Available for Inspection" in Appendix IX.

Any person wishing to have detailed advice on PRC law and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.