
REGULATIONS

OVERVIEW

This section summarizes the key current PRC laws, rules and regulations relevant to our business and operations carried out by our subsidiaries in the PRC.

REGULATIONS RELATING TO THE PRC AUTOMOBILE INDUSTRY

The PRC Automobile Industry

On March 20, 2009, the State Council issued the “Automobile Industry Restructuring and Revitalization Plan” (汽車產業調整和振興規劃) (“**Plan**”) for the period from 2009 to 2011, which clarified the areas of development of the automobile industry and set up policy measures across multiple aspects of the automobile industry. Our PRC legal adviser are of the view that the Plan is a general and macro regulatory guidance by the PRC government, and the Plan has instructive effect on automobile industry’s development after the planed 2009-2011 period. We believe that the Plan has no direct attribution to the material increase in the demand in our sales and its cessation will not have any direct adverse impact on the demand in our sales.

On May 21, 2004, the National Development and Reform Commission (“**NDRC**”) promulgated the Policy on Development of Automotive Industry (汽車產業發展政策) (“**Policy**”) which amended on August 15, 2009. The Policy contains provisions relating to, among other things, the PRC automobile industry’s technology policies, structural adjustments, market access administration, trade marks, product development, spare parts sales and other relevant sub-industries, distribution networks, investment administration, import administration, and automobile consumption. One of the Policy’s stated aims is to develop the PRC automobile industry into a strong pillar of the PRC national economy as well as the automobile industry before 2010.

New Automobile Sales

Our new automobile sales business is subject to the “Implementation Measures for the Administration of Automobile Brand Sales” (汽車品牌銷售管理實施辦法, the “**Measures**”) jointly promulgated by the MOFCOM, the NDRC and the SAIC on February 21, 2005 which became effective on April 1, 2005.

The Measures recognize two categories of automobile distributors – general automobile distributors and automobile dealers. General automobile distributors are defined under the Measures as enterprises engaged in providing automobiles and spare parts. Automobile dealers are defined under the Measures as enterprises authorized by automobile suppliers to engage in automobile sales and services. Our PRC legal adviser, Beijing Jing Rui Law Firm, has confirmed that under the Measures, our Group is classified as an automobile dealer.

An automobile dealer must be a legal person, authorized by an automobile supplier to sell its automobiles. An automobile dealer must comply with the supplier’s requirements relating to the intellectual property rights associated with the automobile brand, such as trademarks, labels and store names, and is also subject to regulation by local municipal and commercial development authorities.

Automobile dealers must obtain the operation permits and file registrations with the relevant local department of the MOFCOM. Further, according to a notice issued by the SAIC on November 10, 2005, automobile dealers must also file registrations with the SAIC prior to the commencement of business operations.

Automobile Maintenance and Repair Services

Our automobile maintenance and repair business is subject to the Regulations on the Administration of Automobile Maintenance and Repair (機動車維修管理規定) (“**Automobile Repair Regulation**”) promulgated by the Ministry of Transport on June 24, 2005 which became effective on August 1, 2005.

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Under the Automobile Repair Regulations, an operator must have suitable facilities, equipment and technical personnel in order to operate an automobile maintenance and repair business. In addition, an operator must implement quality management systems and safety procedures, provide training to its technical personnel, maintain proper automobile repair and maintenance records and archives, and ensure that there are sufficient safeguards for environmental protection.

Road Transport Licenses

Under the Road Transportation Regulation (道路運輸條例) promulgated by the State Council on April 30, 2004, which became effective on July 1, 2004, prior to the commencement of an automobile maintenance and repair business, an operator must file an application with the local department of the Ministry of Transportation and obtain a Road Transportation License (道路運輸經營許可證) to provide automobile maintenance and repair services. Violation of the Road Transportation Regulation may result in fines and suspension of business operations, and criminal liability may be imposed on a person held directly responsible and/or fines of between two and ten times of the amount of the illegal gains. For successful renewal of Road Transportation License, the applicant shall: (a) have necessary site to repair passenger vehicles; (b) possess necessary equipment, facilities and employees; (c) have adopted sound administrative measures on automobile repair; and (d) have adopted necessary measures for environmental protection.

Foreign investment in automobile maintenance and repair business is also subject to the Regulations on the Administration of Foreign-Invested Road Transportation Services (外商投資道路運輸業管理規定) (the “**Foreign-Invested Road Transportation Services Regulations**”), which was promulgated by the Ministry of Transportation and the MOFCOM and became effective on November 20, 2001. According to Article 5, a foreign-invested road transportation services enterprise must comply with the policies on road transportation development and the requirements for enterprise qualification formulated by the department in charge of transportation under the State Council, and must meet the requirements for the development planning of road transportation services formulated by the local department in charge for transportation where the foreign-funded road transportation enterprise is to be established.

Under the Foreign-Invested Road Transportation Services Regulations, all the application documents of a foreign-invested enterprise received by the local transportation bureau should be forwarded to the Ministry of Transportation, which is the ultimate authority granting the project initiation approval (the “**Project Initiation Approval**”), and a Project Initiation Approval should be granted by the Ministry of Transportation prior to the issuance of a Road Transportation License by the relevant local transportation bureau. Under applicable PRC laws, rules and regulations, the establishment of a foreign-invested operator must be approved by the provincial branch of the MOFCOM, and such foreign-invested operator must submit its Certificate of Approval for Foreign-Invested Enterprises and apply to the local department of the Ministry of Transportation for a Road Transportation License for its automobile maintenance and repair business, prior to commencing business.

Used Automobile Sales

Our used automobile sales business is subject to the Measures for the Administration of the Circulation of Used Automobiles (二手車流通管理辦法) (“**Used Automobiles Measures**”) jointly promulgated by the MOFCOM, the Ministry of Public Security, the SAIC and the State Administration of Taxation on August 29, 2005 which became effective on October 1, 2005.

Under the Used Automobiles Measures, a used automobile dealer must provide a customer with a written contract containing warranties relating to the quality of the used automobile, as well as offer arrangements of after-sales services. The Used Automobile Measures also provide for the establishment of a nationwide archival system to keep the records of used automobile dealers.

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Used automobile dealers must obtain operation permits and file registrations with the relevant local department of the MOFCOM.

In addition, a foreign-invested used automobile dealer must obtain additional approvals from the MOFCOM and file registrations with the relevant local department of the MOFCOM.

Automobile Insurance

We earn commissions from insurance companies which provide their services to our customers on the premises of our 4S dealerships. As such, our business operations are subject to the Regulations on Administration of Concurrent-Business Insurance Agents (保險兼業代理管理暫行辦法) ("**Insurance Regulations**") promulgated by the China Insurance Regulatory Commission ("**CIRC**") on August 4, 2000 which became effective on August 4, 2000.

The Insurance Regulations require, among other things, a business which facilitates insurance coverage directly related to its main business, to apply for a license from the CIRC, and to obtain power of attorney, subject to CIRC's supervision, from the insurance agencies. Under the Insurance Regulations, each business may work with only one insurance agency.

Automobile Loans

We obtain financing from banks and financial institutions for our operations, including for the purchase of new automobiles for sale. Our business operations are subject to the Measures for the Management of Automobile Loans (汽車貸款管理辦法) ("**Loans Measures**"), jointly promulgated by the PBOC and the China Banking Regulatory Commission ("**CBRC**") on August 16, 2004 which became effective on October 1, 2004.

The Loans Measures provide that an automobile dealer may not obtain financing for a term exceeding one year, for the purchase of automobiles and/or spare parts. The automobile dealer's balance sheet ratio, or the asset liability ratio, which equals to its indebtedness divided by total assets, must not exceed 80%, and it must have sufficient stable and lawful income or assets to repay both the principal and interest incurred on the loan. As of December 31, 2010, 2011 and 2012, our Group's asset liability ratio calculated by dividing its total liabilities by total assets was 74.7%, 69.9% and 86.2%, respectively.

In addition, an automobile dealer handling a loan application on behalf of its customers must be a legal person with a business license, an annual review certificate issued by the relevant local branch of SAIC and an automobile selling agent certificate issued by the automaker of the relevant automobile.

Fuel-efficient Automobiles Subsidy

Pursuant to the Notice on the Launch of Energy-saving Product People-benefiting Project (關於開展“節能產品惠民工程”的通知) jointly promulgated by NDRC and the PRC Ministry of Finance on May 18, 2009 and the Implementation Provisions for the Promotion of the Fuel-efficient Automobiles (passenger vehicles of 1.6 liters and below) under the Energy-saving Product People-benefiting Project (“節能產品惠民工程”節能車(1.6升及以下乘用車)推廣實施細則) jointly promulgated by NDRC, MIIT and the PRC Ministry of Finance on May 26, 2010, the PRC Government provides a subsidy of RMB3,000 per automobile for purchases of certain fuel-efficient automobiles with 1.6-liter or smaller engines. NDRC, MIIT and the PRC Ministry of Finance announced a catalogue of the accredited fuel-efficient automobiles eligible for such subsidy (the "**Fuel-efficient Automobiles Catalogue**") in June 2010 and have subsequently made amendments to the Fuel-efficient Automobiles Catalogue.

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On September 7, 2011, NDRC, MIIT and the PRC Ministry of Finance jointly promulgated the Notice on the Adjustment of Promotion and Subsidy Policy for Fuel-efficient Automobiles (關於調整節能汽車推廣補貼政策的通知). To implement this notice, NDRC, MIIT and the PRC Ministry of Finance further amended the Fuel-efficient Automobiles Catalogue, which reduced the types of accredited fuel efficient automobiles from about 400 to 37 as of October 1, 2011. The amount of subsidy remains RMB3,000 per automobile.

Automobile Recalls

The Regulation on Recall of Defective Automobile Products (缺陷汽車產品召回管理規定) promulgated by the State Administration of Quality Supervision, Inspection and Quarantine, the NDRC, MOFCOM and the General Administration of Customs on March 12, 2004, which became effective on October 1, 2004, requires all automobile dealerships to report defects in automobiles and automobile-related products to both the relevant automobile manufacturers and the relevant PRC government authorities, and to fully cooperate with automobile manufacturers in the conduct of automobile recall activities, and with the PRC government authorities in any relevant investigations.

Anti-Traffic Congestion Measures

In recent years, certain local or municipal governments implements various form of anti-traffic congestion measures with a goal to curb traffic jams and pollution. Such measures include:

Monthly draw for new registration plates in Beijing: On December 23, 2010, Beijing Municipal Government issued the Interim Provisions of Beijing Municipality on the Regulation and Control of the Amount of Passenger Vehicles, which was effective on the same day. According to such provisions, Beijing imposes an annual quota on the issuance of new registration plates of new passenger vehicles, which is 240,000 for 2012. Qualified applicants need to enter a monthly draw, and only the ones who have won a plate in the draw can apply to register their new vehicles with local vehicle administration in Beijing.

Bidding system for new registration plates in Shanghai: Shanghai has implemented an auction system for new registration plates of vehicles since 1994. Under this system, qualified applicant need to submit a blind bid for new registration plate. Only the successful bidder can apply to register their new vehicles with local vehicle administration in Shanghai.

Combined methods for new registration plates in Guangzhou: On August 1, 2012, Guangzhou started to implement the Interim Provisions of Guangzhou Municipality on the Regulation and Control of the Amount of Passenger Vehicles. According to such provisions, Guangzhou imposes quota on the issuance of registration plates of new passenger vehicles, which is 120,000 during the period from August 1, 2012 to June 30, 2013. Qualified applicants can obtain registration plates by entering a monthly draw or submitting a bid, and the share of registration plate quota for each method is 60,000.

COMPANY LAW

The incorporation and operations of our subsidiaries in China is governed by the Company Law (公司法) which was promulgated by the Standing Committee of the National People's Congress on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005.

The Company Law recognizes two general types of companies, limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of the assets of the company. A shareholder's liability is limited to the amount of registered capital contributed.

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The Company Law also applies to foreign-invested limited liability companies.

MERGERS AND ACQUISITIONS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (“**M&A Rules**”) jointly promulgated by MOFCOM, CSRC, the State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, SAIC and SAFE on August 8 2006 which became effective on September 8, 2006 and amended on June 22, 2009, govern, among other things, the purchase by foreign investors of equity interests in a domestic enterprise, the subscription by foreign investors of equity interests in a domestic enterprise, and the purchase and operation by foreign investors of the assets and business of a domestic enterprise.

In addition, the M&A Rules contain provisions which purport to require an offshore special purpose vehicle (“**SPV**”) formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, to obtain CSRC approval prior to the listing and trading of the SPV’s securities on an overseas stock exchange. On September 21, 2006, the CSRC published procedures specifying documents and materials to be submitted by SPVs seeking CSRC approval of overseas listings.

MOFCOM SECURITY REVIEW RULES

In August 25, 2011, the MOFCOM promulgated the Implementation Rules of MOFCOM on the Security Review Rules regarding Merger of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) (“**MOFCOM Security Review Rules**”) which became effective on September 1, 2011.

Under the MOFCOM Security Review Rules, a national security review is required for certain mergers and acquisitions by foreign investors raising concerns about national defense and security. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the national security review, the MOFCOM will assess the substance and actual impact of the transaction. The MOFCOM Security Review Rules further prohibit foreign investors from circumventing the national security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

WHOLLY FOREIGN-OWNED ENTERPRISES

The Law on Wholly Foreign-Owned Enterprises (外資企業法) promulgated by the Standing Committee of the National People’s Congress on April 12, 1986 which became effective on April 12, 1986, and as amended on October 31, 2000, governs the establishment, operation and management of foreign-owned enterprises.

SINO-FOREIGN JOINT VENTURES

The Law on Sino-Foreign Equity Joint Ventures (中外合資經營企業法), promulgated by the National People’s Congress on July 8, 1979 which became effective on July 8, 1979 and as amended on April 4, 1990 and March 15, 2001, governs the establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labor matters of a Sino-foreign joint equity venture.

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REGULATIONS RELATING TO TAX

Consumption Tax

The PRC Government adopted an automobile consumption tax on January 1, 1994. Pursuant to the Notice on Adjusting the Policy of Consumption Tax on Passenger Vehicles (關於調整乘用車消費稅政策的通告) promulgated by the PRC Ministry of Finance and the State Administration of Taxation, which became effective on September 1, 2008, the personal automobile consumption tax rate for automobiles with engine displacement capacity of less than 1.0 liter has been reduced from 3% to 1%, whereas the tax rate for automobiles with larger engine displacements has been increased. In particular, the tax rate for automobiles with engine displacement of 3.0 to 4.0 liters increased from 15% to 25%, and the tax rate for automobiles with engine displacement of more than 4.0 liters increased from 20% to 40%.

PRC Enterprise Income Tax

According to the Enterprise Income Tax Law, or EIT Law 2008 (企業所得稅法) enacted on March 16, 2007 by the National People's Congress and the Implementation Rules of Enterprise Income Tax Law (企業所得稅法實施條例) enacted on December 6, 2007 by the State Council, which both took effect on January 1, 2008, the enterprise income tax rate for both domestic and foreign-invested enterprises is 25%, and the high-technology enterprises receiving key support from the State enjoy a reduced enterprise income tax rate of 15%. For enterprises established before March 16, 2007 that are entitled to preferential income tax treatments under the related tax laws and administrative regulations, the EIT Law 2008 and its Implementation Rules provides for a five-year transitional period, during which the applicable tax rate shall be converted to the unified rate at 25% gradually.

Under the EIT Law 2008, enterprises are classified as either "resident enterprises" or "non-resident enterprises". Pursuant to the EIT Law 2008 and its implementation rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25% EIT rate for their global income. According to the implementation rules of the EIT Law 2008, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. In our circumstance, substantially our management is currently based in China and is expected to remain in China in the future. It is not clear whether we would be deemed as "resident enterprises" or not. In addition, although the EIT Law 2008 provides that dividend income between "qualified resident enterprises" is exempted income, and the implementing rules refer to "qualified resident enterprises" as enterprises with "direct equity interest", it is not clear whether dividends we receive from our subsidiary are eligible for such exemption if we are deemed to be a PRC "resident enterprise". If we are considered a PRC "resident enterprise" and thus required to withhold income tax for any dividends we pay to our non-PRC resident enterprise investors, the amount of dividends we can pay to our Shareholders could be materially reduced. In addition, any gain realized on the transfer of ordinary shares by our non-PRC resident investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Furthermore, the EIT Law 2008 provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. The implementation rules of the EIT Law 2008 provide that after January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. The income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC Shareholders reside.

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Tax Collection for Share Transfer by Non-PRC Resident Enterprises

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) or SAT Circular 698, issued by the State Administration of Taxation on December 10, 2009 with retroactive effect from January 1, 2008, except for the purchase and sale of equity through a public securities market, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. If the tax authority, upon examining the nature of the Indirect Transfer, deems that the Indirect Transfer has no reasonable commercial purpose other than to avoid PRC tax, the tax authority may disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the Indirect Transfer.

Value-Added Tax

All taxpayers engaged in the sale of goods, provision of processing, repairs and replacement services, and importation of goods within the territory of the PRC are required to pay VAT and the applicable tax rate is from 3% to 17%.

PRC Business Tax

Taxpayers providing taxable services in China are required to pay a business tax at a normal tax rate of 5% of their revenues, unless otherwise provided.

Dividend Withholding Tax

Pursuant to the EIT Law 2008 and the Implementation Rules, dividends generated after January 1, 2008 and distributed to us by our PRC subsidiaries are subject to a 10% withholding tax without any tax arrangement, provided that we are determined by the relevant PRC tax authorities to be a “non-resident enterprise” under the EIT Law 2008. However, as described above, we may be considered a PRC resident enterprise for EIT purposes, in which case dividends received by us from our PRC subsidiary would be exempt from the PRC withholding tax because such income is exempted under the EIT Law 2008 for a PRC resident enterprise recipient.

FOREIGN EXCHANGE CONTROLS

The Foreign Exchange Management Regulations (外匯管理條例) promulgated by the State Council on January 29, 1996 as amended and became effective on August 5, 2008, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by the People’s Bank of China on June 20, 1996 which became effective on July 1, 1996, govern foreign exchange transactions for foreign-invested enterprises. Foreign-invested enterprises are permitted to convert after-tax dividends into foreign exchange and to remit such foreign exchange from their bank accounts in the PRC. Foreign-invested enterprises may also effect payments for current account items without SAFE approval, with valid receipts and proof of the relevant transactions. However, prior approval from SAFE is required for foreign exchange conversions for capital account items, including direct investments and capital contributions.

The Implementation Rules of the Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法實施細則) promulgated by SAFE on January 5, 2007 which became effective on February 1, 2007, requires PRC individuals who are granted shares or share options pursuant to an employee share option or share incentive plan by an overseas-listed company, to register with SAFE or its local counterparts.

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The Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicles and Investing Back in China by Domestic Residents (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“**SAFE Circular**”) promulgated by SAFE on October 21, 2005 which became effective on November 1, 2005 requires PRC residents with direct or indirect offshore investments, including overseas special purpose vehicles, to file a Registration Form of Overseas Investments Contributed by Domestic Individual Residents and register with SAFE, and to update SAFE’s records within 30 days of any major change in capital, including increases and decreases of capital, share transfers, share swaps, mergers or divisions. Failure to register may result in the prohibition of distributions or contributions from capital reductions, share transfers or liquidations, from PRC entities to the relevant offshore entity in which the PRC resident has a direct or indirect investment.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Publicly-Listed Companies (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知(匯發[2012]7號)), or the Share Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Share Ownership Plans or Share Option Plans of Overseas Publicly-Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程(匯綜發[2007]78號)) issued by SAFE in March 2007. Under these rules, PRC residents who participate in share incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures as required by the authorities. Participants of a share incentive plan who are PRC residents shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of share options, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the share incentive plan if there is any material change to the share incentive plan, change in the PRC agent or the overseas entrusted institution or any other material changes.

FOREIGN EXCHANGE RATE

On July 21, 2005, the PBOC changed the fixed RMB-USD exchange system to a floating exchange system based on market supply and demand. The closing price of foreign currencies, including the USD, is announced by PBOC in the inter-bank foreign exchange market after the closing of the market on each working day and is the central parity for trading against RMB on the following working day. The daily trading price of the USD against the RMB in the inter-bank foreign exchange market has been allowed to float within a band of 0.5% around the central parity published by PBOC since May 21, 2007, whilst the trading prices of non-US dollar currencies against the RMB has been allowed to float within a band of 3.0% around the central parity published by PBOC since September 23, 2005.

SHAREHOLDER LOANS

Under existing PRC laws, rules and regulations, a foreign-invested enterprise may seek shareholder loans from offshore investors. In such event, a foreign-invested enterprise must apply to SAFE or local SAFE departments for foreign loan registration certificates and foreign exchange settlements. The aggregate amount of such foreign loans must not exceed the margin between the total investment and registered capital of such FIEs and shall be registered with the local SAFE bureau. The recipient of a foreign loan must submit the foreign loan registration certificate to open and maintain a special foreign exchange account with a SAFE-approved bank, and may then repay the foreign loan with its own foreign exchange funds or by purchasing foreign exchange with RMB upon receiving SAFE approval.

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DIVIDEND DISTRIBUTIONS

Under the Law on Wholly Foreign-Owned Enterprises (外資企業法), promulgated by the National People's Congress on April 12, 1986 which became effective on April 12, 1986 and as amended on October 31, 2001, and the Law on Sino-foreign Equity Joint Ventures (中外合資經營企業法) promulgated by the Standing Committee of the National People's Congress on July 8, 1979 which became effective on July 8, 1979 and as amended on April 4, 1990 and March 15, 2001, foreign-invested enterprises may not distribute after-tax profits unless they have contributed to employees' funds as specified under PRC laws, rules and regulations, and have set off financial losses during previous accounting years. Undistributed profits from previous accounting years may be distributed together with profits available for distribution during the current accounting year. Foreign-invested enterprises may remit after-tax profits as dividends to overseas equity holders without seeking SAFE approval.

ENVIRONMENTAL PROTECTION

The Environmental Protection Law (環境保護法) promulgated on December 26, 1989 by the Standing Committee of the National People's Congress which became effective on December 26, 1989, establishes the legal framework for environmental protection in the PRC. The environmental protection department of the State Council supervises environmental protection work in the PRC, and establishes national standards for the discharge of pollutants. Each of the local environmental protection bureaus is in turn responsible for the environmental protection work within their respective jurisdictions.

Air Pollution

The Air Pollution Prevention Law (大氣污染防治法) promulgated on September 5, 1987 by the Standing Committee of the National People's Congress which amended on August 29, 1995 and April 29, 2000, establishes the legal framework for air pollution prevention in the PRC. The environmental protection department of the State Council formulates national air quality standards. Each of the local environmental protection bureaus is authorized to regulate air pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for infringement.

Water Pollution

The Water Pollution Prevention Law (水污染防治法) promulgated on May 11, 1984 by the Standing Committee of the National People's Congress which became effective on November 1, 1984 and amended on May 15, 1996 and February 28, 2008, establishes the legal framework for water pollution prevention in the PRC. The environmental protection department of the State Council formulates national waste discharge standards. Enterprises which discharge waste into water must pay a treatment fee. Each of the local environmental protection bureaus is authorized to regulate water pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for infringement, including suspending operations.

Noise Pollution

The Noise Pollution Prevention Law (環境噪聲污染防治法) promulgated by the Standing Committee of the National People's Congress on October 29, 1996 which became effective on March 1, 1997, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, renovation or expansion project which might cause environmental noise pollution must prepare and submit an environmental impact statement to the environmental protection department of the State Council for approval. Facilities for prevention and control of environmental noise pollution must be designed, approved by the environmental protection department of the State Council prior to commencement of the project,

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and built and commence operation simultaneously with the project works. Facilities for prevention and control of noise pollution may not be dismantled or left idle without the approval of the environmental protection department of the State Council.

Construction Projects

The Environmental Impact Appraisal Law (環境影響評價法) promulgated by the Standing Committee of the National People's Congress on October 28, 2002 which became effective on September 1, 2003, the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on November 29, 1998 which became effective on November 29, 1998, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated by the State Environmental Protection Administration of China on December 27, 2001 which became effective on February 1, 2002, require enterprises planning construction projects to engage qualified professionals to provide assessment reports on the environmental impact of such projects. The assessment report must be filed with, and approved by, the local environmental protection bureau, prior to commencement of any construction work.

PRODUCT QUALITY

The principal law governing product liability in the PRC is the Product Quality Law (產品質量法) promulgated by the Standing Committee of the National People's Congress on February 22, 1993 and as amended on July 8, 2000.

Pursuant to the Product Quality Law, a seller is obliged to, among other things, adopt measures to keep products for sale in good quality, not to sell defective or damaged products, comply with regulations regarding the labeling of products, not to forge the origin of a product, not to forge or falsely use another manufacturer's authentication marks, not to substitute a fake product for a genuine product or a defective product for a high-quality product.

Violation of the Product Quality Law may result in the imposition of fines, suspension of business operations, revocation of business licenses and criminal liability. Aggrieved consumers may seek compensation from both the manufacturer and the retailer. A retailer may seek reimbursement from the manufacturer in cases where the defect is due to the manufacturer.

CONSUMER PROTECTION

The Consumer Protection Law (消費者權益保護法) promulgated on October 31, 1993 by the Standing Committee of the National People's Congress which became effective on January 1, 1994, prescribes standards of behavior for businesses in dealing with consumers.

Businesses must, among other things, observe the provisions of the Consumer Protection Law and other relevant laws and regulations regarding personal safety and protection of property, provide consumers with truthful information and advertising in relation to goods and services, truthful and clear answers to consumers' questions in relation to goods and services, ensure that the actual quality of goods and services is consistent with the relevant advertisements, product descriptions or samples, not impose unreasonable or unfair terms on consumers or exclude civil liability unreasonably.

Article 35 of the Consumer Protection Law stipulates that consumers whose legitimate rights and interests are infringed upon during the purchase or use of a product may demand compensation from the relevant vendor. In the event the liability is attributable to another supplier or the manufacturer, the vendor may in turn demand recovery of any compensation paid to the consumer from the supplier or manufacturer, as the case may be. In addition, consumers who suffer personal injury or property damage due to product defects may demand compensation from either the vendor

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or the manufacturer. If the liability is attributable to the manufacturer, the vendor may demand recovery of any compensation which it paid to the consumer. If the default and liability are attributable to the vendor, the manufacturer may demand recovery of any compensation which it paid to the consumer.

In addition, Article 45 provides that businesses must be responsible for the repair, replacement or return of goods if such goods are guaranteed by PRC laws or pursuant to agreements between the businesses and consumers, and further, that businesses must bear the reasonable cost of transportation for large commodities in the event of repair, replacement or return. Article 45 also stipulates that should a product not work properly after being repaired twice within the term of guaranteed repair, the business shall be responsible for replacement or return.

Violation of the Consumer Protection Law may result in the imposition of fines, suspension of business operations, revocation of business licenses and criminal liability. Aggrieved consumers may seek compensation from both the manufacturer and the retailer. A retailer may seek reimbursement from the manufacturer in cases where the defect is due to the manufacturer.

LABOR PROTECTION

Employment Contracts

The Employment Contract Law (勞動合同法) was promulgated on June 29, 2007 and became effective on January 1, 2008 and the Implementing Regulations of the Employment Contracts Law (勞動合同法實施條例) promulgated and became effective on September 18, 2008. This law and its implementation govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and the amendment to, employment contracts. To establish an employment relationship, a written employment contract shall be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract shall be signed within one month after the date on which the employer first engages the employee.

Employee Funds

Under applicable PRC laws, rules and regulations, including the Social Insurance Law (社會保險法), promulgated by the Standing Committee of the National People's Congress on October 28, 2010 which took effective on July 1, 2011, the Interim Regulations on the Collection and Payment of Social Security Funds (社會保險費徵繳暫行條例) promulgated by the State Council and became effective on January 22, 1999, Interim Measures concerning the Maternity Insurance (企業職工生育保險試行辦法) promulgated by the Ministry of Labor on December 14, 1994 which became effective on January 1, 1995, the Regulations on Occupational Injury Insurance (工傷保險條例) promulgated by the State Council on April 27, 2003 which became effective on January 1, 2004 and amended on December, 20, 2010, and the Regulations on the Administration of Housing Accumulation Funds (住房公積金管理條例) promulgated by the State Council and become effective on April 3, 1999 which was amended on March 24, 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing accumulation funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.