
REGULATORY OVERVIEW

We are engaged in the pawn loan industry and are subject to various laws, regulations, rules and extensive government regulatory policies in the PRC. The following is a summary of the PRC laws and regulations applicable to our business.

COMPANY ESTABLISHMENT AND FOREIGN INVESTMENT

The Company Law and the Wholly Foreign-owned Enterprise Law

The establishment, operation and management of corporate entities in China is governed by the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) on 29 December 1993 and came into effect on 1 July 1994. The Company Law was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. According to the Company Law, companies established in the PRC are either limited liability companies or joint stock limited liability companies. The Company Law applies to both PRC domestic companies and foreign-invested companies; however where the Company Law is silent on matters related to foreign invested enterprises (the “**FIEs**”), such matters may be addressed by the specific PRC laws and regulations governing the FIEs.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法, the “**WFOE Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law (the “**WFOE Law Implementation Regulation**”), which was promulgated on 12 December 1990 and amended on 12 April 2001.

The Provisions on Guiding Foreign Investment

In 1995, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Cooperation (對外經濟貿易部) jointly promulgated the Provisional Provisions on Guiding Foreign Investment (指導外商投資方向暫行規定, the “**Provisional Foreign Investment Provisions**”) and the Catalogue for the Guidance of Foreign Investment (外商投資產業指導目錄, the “**Foreign Investment Catalogue**”), classifying all foreign investment projects into four categories: encouraged projects, permitted projects, restricted projects and prohibited projects.

On 11 February 2002, the State Council promulgated the Provisions on Guiding Foreign Investment (指導外商投資方向規定, the “**Foreign Investment Provisions**”), re-stating the four categories of foreign investment projects. The Foreign Investment Provisions came into force on 1 April 2002 and the Provisional Foreign Investment Provisions were simultaneously repealed. The Foreign Investment Catalogue has been revised several times since it was first promulgated, with the most significant revisions taking place in 2002, 2004, 2007 and 2011. The version of the Foreign Investment Catalogue currently in effect was jointly promulgated by the National Development and Reform Commission and the MOFCOM on 24 December 2011 and came into effect on 30 January 2012.

The purpose of the Foreign Investment Provisions and the Foreign Investment Catalogue is to direct foreign investment into certain priority industry sectors while restricting or prohibiting investment in other sectors. If the industry in which the investment is to occur falls into the encouraged category, foreign investment can be conducted through the establishment of a wholly foreign owned

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enterprise. If restricted, foreign investment may be conducted through the establishment of a wholly foreign owned enterprise if certain requirements are met or in some cases must be conducted through the establishment of a joint venture enterprise, with varying minimum shareholdings for the Chinese party depending on the particular industry. If prohibited, foreign investment of any kind is not allowed. Any industry not falling into any of the encouraged, restricted or prohibited categories is classified as a permitted industry for foreign investment.

The Circular on Cross-border Renminbi Direct Investment

On 12 October 2011, MOFCOM promulgated the Circular on Issues Relating to Renminbi Cross-Border Direct Investment which provides that outbound investors (including investors from Hong Kong, Macao and Taiwan) can make direct investments with RMB funds they legally obtained outbound. In principle, the approval system of RMB cross-border direct investment is same as the system for approving foreign direct investment, under which MOFCOM and its local counterparts shall examine and approve RMB cross-border direct investments in accordance with the prevailing administrative provisions and authority on foreign investment. However, with regard to investments in which the contributed RMB amount exceeds RMB300 million (inclusive) or investments relating to industries under State macro-regulation, the approval issued by local commerce departments shall be subject to the consent of MOFCOM. In addition, the RMB cross-border direct investment shall neither be used, directly or indirectly, for investment in negotiable securities and financial derivatives in China (except for the investment in stocks of domestic listed companies by approved strategic investors), nor be used to provide entrusted loans.

The Measures for Administration of RMB Settlement Business Relating to Foreign Direct Investment

On 13 October 2011, PBOC promulgated the Measures for Administration of RMB Settlement Business in Relation to Foreign Direct Investment. Pursuant to such measures, PRC domestic banks may process RMB fund inbound remittance business for foreign investors after reviewing the approval or filing documents of competent commerce departments and other relevant governmental departments, and the procedure of examination for individual cases in the pilot stage shall no longer be implemented. Foreign investors and foreign invested enterprises or their PRC shareholders may apply to PRC domestic banks for opening a RMB bank settlement account, to be used to deposit and settle RMB funds remitted from overseas. The amount of RMB and foreign exchange loans borrowed by a foreign-invested enterprise from its overseas shareholders, its affiliated enterprises within the same group and overseas financial institutions shall be combined for calculating the total scale of the loans. Foreign-invested enterprise shall apply to PRC domestic banks for opening a general RMB deposit account, to be used specifically for depositing the RMB funds borrowed from abroad. Basically, under the principle of dedicated account for special use, foreign investors shall open corresponding dedicated RMB accounts for depositing RMB funds for upfront expenses relating to the investment project and RMB funds used in domestic reinvestment which are obtained by way of distribution of profits, liquidation, capital reduction, share transfer expenses and front-end recovery of investments. Such dedicated RMB accounts shall not be used for the receipt and payment of cash.

The Notice of the People's Bank of China on Clarifying the Operational Rules for the Renminbi Settlement Business in Relation to Foreign Direct Investment

On 14 June 2012, the PBOC promulgated the Notice of the People's Bank of China on Clarifying the Operational Rules for the Renminbi Settlement Business in Relation to Foreign Direct Investment (the "**Renminbi Settlement Business Notice**") to regulate the establishment and management of the Renminbi settlement business in relation to foreign direct investment. Pursuant to the Renminbi Settlement Business Notice, when increasing the registered capital, an established foreign-invested enterprise shall open a special deposit account of the Renminbi capital funds at a bank in the place where it is registered on the strength of the approval document of registered capital change issued by MOFCOM or its counterpart. The Renminbi funds deposited in the special Renminbi deposit account for capital funds and the general Renminbi deposit account for overseas loans of a foreign-invested enterprise shall be used within the business scope approved by the relevant authorities and shall not be used for investing in securities and financial derivatives, entrusted loans or purchasing wealth management productions or non-self-used housing properties; for a non-investment-oriented foreign-funded enterprise, such funds may not be used for re-investment in China. The Renminbi funds deposited in the special Renminbi deposit account for capital funds of a foreign-invested enterprise may be transferred into loans of no more than one year (including one year) while the Renminbi funds deposited in the general Renminbi deposit account for overseas loans of a foreign-invested enterprise may not be transferred. A foreign-invested enterprise may borrow Renminbi funds abroad only after its registered capital is paid up on schedule; the overseas Renminbi lending rate of the foreign-invested enterprise shall be determined by the lender and borrower within a reasonable scope in accordance with commercial principles; for the same overseas Renminbi loan, the foreign-invested enterprise may open one general Renminbi deposit account for the receipt and payment of funds only. The general Renminbi deposit account for overseas loans shall in principle be opened at a bank in the place where the foreign-invested enterprise is registered; where necessary under special circumstances, the foreign-invested enterprise may choose to open the general Renminbi deposit account in a place other than the place where it is registered and file it with the PBOC branch in the place where it is registered. In principle, the principal and interest of the overseas Renminbi loan shall be repaid by the foreign-invested enterprise through the original borrowing settlement bank. The Renminbi funds in the special Renminbi deposit account for capital funds and the general Renminbi deposit account for overseas loans of a foreign-invested enterprise may be used to repay the domestic and overseas loans. Any foreign-invested enterprise that carries out direct Renminbi investment business activities shall choose a settlement bank as the main reporting bank, which shall complete the enterprise's information registration and submit altered information to the PBOC branch in the place where it is registered via the cross-border Renminbi receipt and payment information management system. The PBOC branch in the place where the foreign-invested enterprise is registered shall check the information provided by the main reporting bank and has the right to require the foreign-invested enterprise and main reporting bank to make explanations and submit the relevant documents/materials if it has any question about the information provided. When registering information and submitting altered information, a foreign-invested enterprise shall submit a photocopy of the Approval Certificate of Foreign-invested Enterprises, duplicate of the business license, Organization Code Certificate and other documents to its main reporting bank.

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THE PROPERTY LAW, SECURITY LAW, CONTRACT LAW AND THE BANKRUPTCY LAW

The Property Law, the Security Law and the Contract Law of the PRC

The Property Law was promulgated by the National People's Congress (全國人民代表大會) on 16 March 2007 and came into effect on 1 October 2007. The Property Law defines "property" as including immovable property and moveable property. "Property rights" are defined as the right enjoyed by the property right holder to directly control, to the exclusion of others, certain property. Property rights are comprised of the right to possess, the right to use, the right to enjoy the profits and advantages from, and the right to security over a certain item of property. The Property Law stipulates that legal title to an item of property confers on the title holder the right to possess, use, derive benefit and advantage from, and to dispose of the item of property. The title holder may, in accordance with the relevant laws, create a security interest over the item of property in favour of a creditor. Likewise, when engaging in finance or business transactions, to the extent required to protect their rights as creditors, creditors may in accordance with the Property Law and other relevant laws create security interest over a debtor's or relevant third party's property as security for performance of the debtor's obligations. Where such a security interest has been created and the debtor does not fulfil its obligations or otherwise defaults under the terms of the agreement with the creditor, unless otherwise specified by relevant law, the creditor will enjoy priority of repayment to the extent secured by the relevant property interest.

Security interest that may be created pursuant to the Property Law include mortgages over property (in respect of which the title holder does not pass possession to the creditor) and pledges over moveable property (in respect of which the title holder surrenders possession to the creditor). Mortgage agreements and pledge agreements should be in writing and must ordinarily include the following information: the type and amount of the secured debt; the period of time in which the debtor must repay the debt; and the name, volume, scope, quality and condition of the mortgaged or pledged property. Pledge agreements should also specify the time at which pledged property is handed over by the Pledgor; and mortgage agreements should specify the location of the mortgaged property as well as the legal title holder or the permitted user of the mortgaged property.

The Security Law was promulgated by the Standing Committee of the National People's Congress on 30 June 1995 and came into effect on 1 October 1995. Like the Property Law, the Security Law establishes a legal framework upon which creditors may establish and enforce security interest in order to protect their rights as creditors in transactions with debtors involving finance, business and transportation or processing of goods. According to the Security Law, a debtor or a third party may mortgage immovable property to a creditor instead of transferring of the possession of such property, or pledge his movables, shares, stocks and other rights to the creditor in order to guarantee the payment of debts. If the debtor defaults the conditions for enforcement of the interest, the creditor shall have priority in having his claim paid with the property or shares.

To create the interest of a mortgage or pledge, the parties concerned shall conclude a pledge contract or a mortgage contract in written form. Immoveable properties or movables the transfer of which is prohibited by laws or administrative regulations shall not be mortgaged or pledged. The interest of an immovable mortgage is generally created as of the date of registration, while the interest of a moveable pledge is established upon delivery of the pledged property by the pledgor. Where the shares or stocks that are registered with the securities registration and settlement

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authority are pledged, the interest to the pledge is established at the time when the pledge is registered with the securities registration and settlement authority. Where other kinds of shares are pledged, the interest to the pledge is established at the time when the pledge is registered with the administration department for industry and commerce.

Where the debtor repays the debts or the mortgagor or pledgor pays off the debts he guaranteed in advance, the mortgagee or pledgee shall return the pledged property or shares. If the debtor defaults the conditions for enforcement of the interest, the mortgagee or pledgee may conclude an agreement with the mortgagor or pledgor that the pledged property or shares be converted into money, or he may enjoy the priority in having his claim paid with the proceeds obtained from auction or sale of the pledged property or shares. The pledged property or shares shall be converted into money or sold by referring to the market price.

The requirements of both the Property Law and the Security Law in respect of the formation, performance and enforcement of contractual obligations are founded by the Contract Law of the People's Republic of China (中華人民共和國合同法) (the "**Contract Law**"). The Contract Law was promulgated by the National People's Congress on 15 March 1999 and came into effect on 1 October 1999.

The Enterprise Bankruptcy Law

The Enterprise Bankruptcy Law of the People's Republic of China (中華人民共和國企業破產法) (the "**Bankruptcy Law**") was promulgated by the National People's Congress on 27 August 2006 and came into effect on 1 June 2007. The Bankruptcy Law sets out procedures for enterprise bankruptcy, and seeks to provide a fair resolution for the settlement of debts, safeguard the legitimate rights and interest of creditors and debtors, and maintain market order. The Bankruptcy Law provides that an enterprise will be liquidated if the enterprise fails to settle its debts as and when they fall due and if the enterprise's assets are, or are demonstrably, insufficient to clear such debts.

Bankruptcy proceedings are governed by the People's Court in the jurisdiction in which the relevant debtor is domiciled. Debtors facing bankruptcy may file an application with the Court for reorganisation, compromise or bankruptcy. During the period of reorganisation, a debtor may continue to manage and operate its assets under the supervision of a bankruptcy administrator. Secured creditors are not permitted to enforce their security during reorganisation unless there is a possibility of damage to or serious depreciation of the secured asset, in which case application for enforcement of the security may be made by the secured creditor to the Court. Secured creditors may enforce their security over a particular secured asset immediately upon the Court's acceptance of a debtor's application for compromise.

Creditors may file an application with the Court for the reorganisation or bankruptcy of a debtor. Where an application for bankruptcy is accepted by the Court, a bankruptcy administrator will be appointed to the debtor and the debtor or asset holders of the debtor must settle all debts with or deliver all relevant assets to the administrator. Bankruptcy proceedings have binding effect over the assets of the relevant debtor beyond the territory of the PRC. Where a debtor is declared bankrupt, the debtor's assets are deemed insolvent assets. Creditors must declare their creditor's rights within a period, determined by the Court, of 30 days to 3 months from the date the Court accepts the application for bankruptcy. If a creditor fails to declare its creditor's rights during the period

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determined by the Court and has still not made such declaration prior to the distribution of the debtor's insolvent assets, the creditor forfeits its right to share in the distribution of the insolvent assets.

The Bankruptcy Law stipulates that secured creditors enjoy priority of repayment over non-secured creditors in respect of the asset(s) over which security was provided. However, in case a secured creditor does not enforce its right to security over a particular secured asset, or if having enforced such right the proceeds from the disposition of the secured asset are insufficient to discharge the secured debt, the secured creditor relinquishes its priority to repayment in respect of any outstanding corresponding debt. After the debts of secured creditors, the costs associated with the bankruptcy proceedings and all relevant community liabilities have been repaid, insolvent assets are liquidated and applied to the repayment of debts in the following order: wages and subsidies for social security payments in respect of the debtor's employees, employees' other social security premiums and the debtor's outstanding tax payment, and finally non-secured creditors.

THE PAWN LOAN INDUSTRY

The Administrative Measures for Pawning

The Provisional Measures on Pawnshop Administration (典當行管理暫行辦法) was promulgated by the PBOC on 3 April 1996. The Provisional Measures on Pawnshop Administration defined "pawnshop" as a kind of special financial enterprise providing interim pledge loan to individuals and medium-sized or small non-state-owned enterprises via the transfer of possession of property. PBOC was the competent authority to supervise and administer pawnshops, and was responsible for the approval of pawnshops.

However, pursuant to the Notice of Pawn Industry's Transfer of Regulatory Responsibilities (關於典當行業監管職責交接的通知) issued by the State Council and the PBOC in 2000, the pawn industry was re-classified as a special commerce enterprise governed by MOFCOM, previously known as the State Economic and Trade Commission (國家經濟貿易委員會), rather than a financial institution previously governed by the PBOC. On 8 August 2001, the State Economic and Trade Commission promulgated the Measures on Pawnshop Management (典當行管理辦法) re-defining the establishment, alternation, dissolution and management of pawnshops. As a result, pawn industry operators may be distinguished from banks and financial institutions in the PRC on the basis that (i) pawn operators do not accept cash deposits from members of the public, and (ii) they come under a separate legal and supervisory regime.

On 9 February 2005, the Administrative Measures for Pawning (典當管理辦法, the "**Pawning Measures**") were then jointly issued by MOFCOM and the Ministry of Public Security (中華人民共和國公安部) and came into effect on April 2005, repealing the Pawning Measures promulgated by the State Economic and Trade Commission. The Pawning Measures define "pawn" as an act whereby (a) an item of personal property (including equity interest, chattels, personal and moveable properties) is pledged, or real estate (including buildings, fixtures and land use rights) is mortgaged or pledged by its owner (the pledgor) to a pawnshop; (b) on the basis of the value of the mortgaged property, the pledgor pays a fee and interest to the pawnshop and the pawnshop provides a loan to the pledgor; and (c) within a pre-determined period the pledgor repays the loan and interest calculated thereon and by doing so discharges the pledge or mortgage and accordingly redeems the property and/or real estate. According to the Property Law and Security Law, a

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mortgage is created over immovable or moveable properties where the owner of such properties will not pass the possession of such properties to the creditor. By contrast, a pledge is created over moveable properties or property interests where the owner of such moveable properties will surrender the possession of moveable properties to the creditor or go through the registration process in terms of property interests. As advised by our PRC Legal Advisers, there are no legal restrictions imposed by the Pawning Measures which allow moveable properties to be pledged but not mortgaged.

A pawnshop is a legal person established in accordance with the Pawning Measures and the Company Law. Pawnshops come under the supervision and administration of the competent commerce authorities and public security bureaus. According to the Pawning Measures, an application for establishment of a pawnshop must meet the following conditions: (a) the proposed pawnshop shall have an articles of association that complies with the laws and regulations of PRC; (b) the proposed pawnshop shall have a registered capital not lower than the minimum provided by the Pawning Measures. Specifically, a pawnshop must have a minimum registered capital of (i) RMB3 million; (ii) RMB5 million in case it provides financing secured by real estate mortgages; or (iii) RMB10 million in case that it provides financing secured by pledges over equity interest. In each case, the minimum registered capital must be contributed in the form of cash; (c) the proposed pawnshop shall have business premises as required and necessary business facilities; (d) the proposed pawnshop shall have business management personnel and appraisal personnel who are familiar with the pawn business; (e) the proposed pawnshop shall have at least two legal person shareholders which have relative controlling shareholding of the pawnshop; (f) the proposed pawnshop shall meet the requirements of security administration provided by the Pawning Measures; and (g) the proposed pawnshop shall meet the requirements of the State on uniform planning and reasonable layout of pawnshops.

In accordance with the Pawning Measures, it is incumbent on a pawnshop to establish and implement procedures for the safe operation of the pawn business. Such procedures include (a) the proper maintenance of paperwork for the receipt, preservation and redemption of pledged property; (b) the careful inspection and safeguarding of pledged property; (c) the provision of assistance in government investigations pertaining to the arrest of people suspected of crimes; (d) the reporting of suspicious persons or circumstances to the relevant authorities; (e) the engagement of security personnel; (f) the installation of security video and sound recording equipment, including those on all business counters; and (g) the installation of security vaults and safes adequate for the safe and secure storage of pledged property.

Pawnshops with a registered capital in excess of RMB15 million, an operating history of more than 3 years, and net profits and no record of unlawful business operations over the most recent two years may establish branch offices in provinces and regions outside the jurisdiction of their registration. For each branch office that is established, the pawnshop must provide a minimum of RMB5 million working capital, and the combined working capital provided to all branches must not exceed fifty percent of the registered capital of the pawnshop.

An application for the establishment of a new pawnshop or a new branch of an existing pawnshop must be submitted to local counterpart of MOFCOM and thereafter must undergo examination and approval by the provincial level counterpart of MOFCOM and finally be filed with MOFCOM before MOFCOM can issue the requisite Pawn Operations Business License (典當經營許可證). Within five

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working days of examination and approval by MOFCOM, the relevant provincial level counterpart of MOFCOM must inform the Public Security Bureau at the provincial level, which thereafter must inform the local counterpart of Public Security Bureau of the relevant circumstances of the establishment. Within ten working days of receiving a Pawn Operations Business License, the applicant must report to the city-level counterpart of Public Security Bureau and apply for a Special Industry License (特種行業許可證) by providing, among other things, floor plans, architectural drawings and schematic diagrams detailing the layout of the pawnshop premises and the installation of secure vaults, safes and security surveillance equipment. Within ten working days of receiving a Special Industry License, the applicant must apply at the relevant Administration of Industry and Commerce (工商局) for registration of the business and receipt of a Business License (營業執照).

The Pawning Measures provide that, in addition to granting loans to pledgors who pledge their personal property, or mortgage their real property which is located in the province or region within the jurisdiction of the pawnshop's registration, or projects under-construction (在建工程) that have obtained Housing Presale Permits (商品房預售許可證), the permitted scope of a pawnshop's business includes, among other things, the sale of pledged or mortgaged property that has been forfeited by the pledgor, as well as the provision of valuation and related consultancy services. Pawnshops are not permitted to, among other things, accept mortgages over moveable properties, engage in unlawful capital raising activities, accept cash deposits in any form or provide unsecured loans. Furthermore, pawnshops are prohibited from borrowing money from any person other than commercial banks, entering into short-term loan facilities with other pawnshops, borrowing funds in excess of permitted amounts from commercial banks and engaging in investment activities. Where relevant laws of the PRC require the registration of pawned property, including in respect of mortgaged real estate or pledged automobiles, such registration must be duly completed.

The appraised value of pawned property and the amount of the loan provided in respect of pawned property should be determined through negotiation between the pledgor and the pawnshop. Where the parties are unable to agree on the loan amount in respect of mortgaged real estate, a qualified real estate valuer may be retained and reference may be made to the value of the real estate as determined by such valuer. The maximum term for which property may be pawned is six months, although this may be extended for further terms of a maximum of six months by each agreement between the parties. The maximum loan amount that may be provided for a single Real Estate Secured Loan must not exceed RMB1 million in the case that a pawnshop has a registered capital of RMB10 million or less. Where a pawnshop has a registered capital of over RMB10 million, the maximum loan amount for a single Real Estate Secured Loan must not exceed 10% of the registered capital amount. The maximum outstanding amount owing on property pledged or mortgaged by any single legal person or natural person must not exceed 25% of the registered capital of a pawnshop. The total outstanding amount owing in respect of equity interest pledged by customers must not exceed 50% of the registered capital of a pawnshop; whereas the total outstanding amount owing in respect of real estate mortgaged by customers must not exceed 100% of the registered capital of a pawnshop. The statutory limit on the rate of interest charged on a loan provided in respect of pawned property must not exceed the PBOC official interest rate for six month term loan as discounted by the pawn loan period. Interest must not be withheld or deducted in advance. The fees payable by the pledgor include various administration fees calculated on a monthly basis, the combined monthly total of which must not

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exceed 4.2% of the loan amount for loans secured by pledged moveable property, 2.7% of the loan amount for loans secured by mortgaged real estate, or 2.4% of the loan amount for loans secured by pledged equity interest.

The pawned property will be deemed forfeited if within five days of the expiration of the pawn term the pledgor has not repaid the principal amount, accumulated interest and combined expenses of the loan or not extended the pawn term. Where pawned property is redeemed after the expiration of the pledge term (or extended pledge term), in addition to repayment of the principal amount, accumulated interest and combined expenses of the loan, the pledgor must also pay penalty interest calculated with reference to the rate of penalty interest for term loans as stipulated by the PBOC as well as any related fees in accordance with the mortgage agreement.

A pawnshop shall satisfy the following conditions in order to increase its registered capital: (1) at least one (1) year has elapsed between the present capital increase and the operating date or the previous capital increase; and (2) the pawnshop has no record of illegal or irregular operation in the last year.

On 17 May 2005, MOFCOM and the Ministry of Public Security jointly promulgated the Circular of the Ministry of Commerce and the Ministry of Public Security on Relevant Issues concerning the Implementation of the Pawning Measures (商務部、公安部關於貫徹實施《典當管理辦法》的有關問題通知), which further addresses the issues on, including but not limited to, preliminary examinations of applications for a new pawnshop, verification and issuance of Special Industry Licenses, the scope of senior managers and security standards for existing pawnshops.

MOFCOM issued the Circular of the General Office of the Ministry of Commerce on Improving Systems for the Supervision and Risk Prevention of Pawn Industry (商務部辦公廳關於進一步完善典當業監管及風險防範制度的通知), or Circular No. 119, and the Circular of the General Office of the Ministry of Commerce on Strengthen the Supervision of Pawn industry (商務部辦公廳關於加強典當行業監管工作的通知), or Circular No. 81, on 12 November 2008 and 18 August 2009 respectively. Under these circulars, MOFCOM further specifies the issues on supervision and inspection of pawnshops for the purpose of standardising the business operations and improving the internal control mechanisms of pawnshops.

On 15 December 2011, MOFCOM released the Guiding Opinions on Promoting the Development of the Pawn Industry during the “12th Five Year Plan” Period (關於“十二五”期間促進典當業發展的指導意見), which reviewed and summarized the development of the pawn industry during the 11th Five Year Period, and emphasized its supervision principles, targets and measures of the pawn industry during the 12th Five Year Period. During 2011 to 2015, MOFCOM and the local Departments of Commerce will focus on the enactment of the regulatory laws and rules of the pawn industry, improve the environment for pawn industry development, and further formulate and enhance the pawn industry business standards.

On 5 December 2012, MOFCOM promulgated the Regulation for Supervision of Pawning Industry (典當行業監管規定, the “**Pawning Industry Regulations**”) which further specifies, on the basis of the Pawning Measures, the responsibilities of MOFCOM and its local counterparts and raises the requirement of strengthening the supervision on certain aspects of pawnshops’ business operations.

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Pursuant to the Pawning Industry Regulations, MOFCOM is responsible for the supervision of the pawning industry on a nationwide basis, with a primary focus on the promulgation of pawning industry laws and regulations, and guidance on the work of local counterparts of the MOFCOM, while each local counterpart of MOFCOM is responsible for the supervision and administration of pawning industry within each of their jurisdictions. The provincial MOFCOM shall promulgate policies for the pawn industry within its jurisdiction, administer the Pawn Operations Business License and pawn tickets, establish a pawning industry material information reporting system, a risk pre-warning system and an emergency settlement plan, and supervise and regulate the pawn industry by multiple methods including conducting random on-site inspection on no less than 20% of pawnshops on an annually basis. The municipal MOFCOM shall supervise the entire progress of pawnshops' business operations, establish on-site inspection and conversation systems, focus on its supervision on the compliance of pawnshops' business operations and the authenticity of pawnshops' financial data, prevent and rectify any illegal activities in a timely manner, and conduct on-site inspection on all pawnshops within its jurisdiction at least once every half year. The MOFCOM on the county level shall focus on the on-site inspection of pawnshops within its jurisdiction, and assist the supervision of its superior counterparts.

The Pawning Industry Regulations, on the basis of the Pawning Measures, raise further requirements on the shareholders applying to establish a pawnshop, including: (i) corporate shareholders rather than individual shareholder shall have relative controlling shareholding of the pawnshop, specifically, all corporate shareholders shall hold collectively more than 1/2 of the entire shareholding of the pawnshop or the largest single corporate shareholder must hold the largest shareholding of more than 1/3 of the entire shareholding of the pawnshop; (ii) the corporate shareholder shall be capable of making capital contribution to the pawnshop in the form of monetary fund, and the corporate shareholder shall submit its audit report issued by an accounting firm selected from the ones designated by MOFCOM and its records of paying business tax and income tax; (iii) an individual shareholder shall be a PRC citizen residing in PRC, who is no younger than 18 years old and has full civil capacity with no criminal record, good credibility and capability of making capital contribution to the pawnshop; (iv) to apply for establishment of pawnshop, the shareholders shall issue an undertaking letter to promise to comply with relevant PRC laws and regulations and the articles of association of the pawnshop, to strengthen the management and supervision of the pawnshop and to not to conduct illegal business operation, and to pay in the registered capital of pawnshop with its own legal fund; (v) for the corporate shareholder operating complying with laws, owning sufficient funds, having a good reputation and possessing the consistent profitability, its application for establishing pawnshop will be approved for priority; and (vi) the corporate shareholder shall undertake to report to the local counterpart of MOFCOM of its long-term equity investment in any enterprise other than that in the pawnshop.

In addition to the foregoing requirements on the shareholders applying for establish a new pawnshop, the Pawning Industry Regulations also reiterates the requirement on the approval of change of pawnshop's equity interest, including: (i) the interval between increases of registered capital of pawnshop shall be more than one year; (ii) the requirement of a shareholder paying increased registered capital to pawnshops shall be consistent with that of a shareholder applying for the establishment of a new pawnshop; the ineligible investors shall not be approved to invest in a pawnshop; the enterprise which operates less than three (3) years or fails to gain profit in the most recent consecutive two (2) years, shall be approved to invest in a pawnshop with the principle of strict examination and prudential approval; and (iii) the material alteration of a pawnshop,

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including the transfer of more than 50% equity of a pawnshop to the new investors, the transfer of the entire shareholding of the controlling shareholder, and multiple material changes (including enterprise name, legal representative, address and shareholding structure of pawnshop) at one time shall be strictly examined for the purpose of preventing illegal fund-raising disguised in the form of pawning or illegal scalping of Pawn Operation Business License.

With respect to pawnshops' business operations, the Pawning Industry Regulations require local counterparts of the MOFCOM to reinforce their supervision and management in the following aspects: (i) strengthen its investigation and punishment of illegal fund-raising, illegal operation beyond the business scope of pawnshop, raising funds disguised in the form of pawning, and accepting stolen goods as the pawned property intentionally; (ii) strengthen the supervision and administration of pawnshops' fund, including the sources and use of pawnings funds, bank deposits and cash flow of pawnshops, and fund flow between a pawnshop and its shareholders; and (iii) strengthen the supervision and administration over legal compliance of pawnshops' business operations. According to the Pawning Measures and Pawning Industry Regulations, pawnshops may only get funds from their registered capital, operating surplus and the loans provided by commercial banks. The municipal MOFCOM shall monitor the fund flow of pawnshops within its jurisdiction by recording the bank account of pawnshops and conducting random inspection on such bank accounts. All illegal operations regarding the funding of pawnshops, including pawnshops borrowing money from shareholders, shareholders conducting pawning business in the name of the pawnshop, and shareholders conducting financial activities through the pawnshop, are strictly forbidden. The following illegal operations of pawnshops are forbidden: participating in the investment in listed securities with pawn fund or providing fund to clients for investment in listed securities, accepting a securities account as pawn collateral, abuse and misappropriation of Pawn Operation Business License, pawning without issuance of pawn ticket, signing pawning contract without issuance of pawn ticket, accepting the pawn without any pawned property, or other illegal operation that would result in the pawn ticket being inconsistent with pawned property.

For the purpose of reinforcing the supervision of the pawn industry as mentioned above, the Pawning Industry Regulations provide that MOFCOM shall adopt multiple measures and establish multiple channels, including: (i) the provincial MOFCOM shall be responsible for the manufacture and issuance of pawn tickets, and the provincial MOFCOM and municipal MOFCOM shall set up the ledger recording the issuance, allocation and withdrawal of the pawn ticket for the purpose of numbering and managing the pawn tickets; (ii) the municipal MOFCOM shall strengthen the management of pawnshops' file by conducting on-site inspection to check the effectiveness, integrity and consistency of the pawn tickets, pawn contracts, the documents of pawnshops' clients and the account report of the pawnshop; and (iii) the local counterparts of MOFCOM shall supervise pawnshops' business operations and financial data via the Information System for the Supervision and Administration of Pawning Industry (the "**System**"), and pawnshops shall, correspondingly, conduct business operations via the System (including printing out and issuing pawn tickets and reporting its operation and financial data) for the review and inspection of MOFCOM.

Pursuant to the Pawning Industry Regulations, the municipal MOFCOM or its superior counterparts shall have conversations with the legal representative, director or senior management of the pawnshop, and issue a rectification letter ordering it to correct its non-compliance operation if a

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pawnshop: (i) withdraws registered capital during its operation term; (ii) establishes branch office without approval; (iii) changes its shareholding or business location without approval; (iv) operates beyond the approved business scope, provides pawning loans at a ratio higher than statutory allowed, and/or charge interest at a rate higher than statutory allowed; (v) refuses or hinders the on-site or off-site supervision; (vi) refuses or hinders to submit reports and documents, provides false reports and documents, or conceals material facts for the review and inspection of MOFCOM; (vii) fails to issue pawn tickets via the System, or signs pawning contracts without issuance of pawn tickets, or manufactures pawn tickets without approval; or (viii) engages in other non-compliant behavior.

Regulations and Rules on the Disposal of the Forfeited Pawned Property

(1) The Pawning Measures

According to the Pawning Measures, where the value of forfeited pawned property does not exceed RMB30,000, the pawnshop may dispose or otherwise sell the property at its own risk. Forfeited pawned property with a value exceeding RMB30,000 may be disposed in accordance with relevant provisions of the Security Law. The Pawning Measures also provide that a pawnshop and pledgor may, prior to maturity of a loan, agree that if the pawned property with a value exceeding RMB30,000 is forfeited, the pawnshop may arrange for its sale or auction. Any amount generated from the sale or auction of the pawned property that is in excess of the outstanding principal loan amount, accumulated interest and combined expenses (including the cost of the auction or sale) must be returned to the pledgor. If the money received from the sale or auction is insufficient to repay these amounts, the pawnshop may file a suit against the pledgor at the People's Court to recover the shortfall.

The Pawning Measures further provide that all forfeited pawned properties whose circulation is restricted by the State shall be, in accordance with relevant laws and regulations, disposed of, delivered or sold to designated entities upon approval of relevant administrative departments. Where the pawnshop sets up sales outlets of forfeited pawned properties other than its business premises, the pawnshop shall report the same to the competent commercial department at the provincial level for record-filing, and shall conscientiously accept supervision and inspections from local competent commercial departments. Consent and cooperation from the mortgagor or pledgor is required where the pawnshop is to dispose of shares of a listed company as the forfeited pawned property. Without authorization, the pawnshop may not sell off shares of a listed company as the forfeited pawned property, dispose of the same at converted prices, or entrust auction houses to publicly auction the same.

(2) The Security Law

For the mortgaged property, according to the Security Law, the mortgagee, who is not paid at the maturity of the obligation, may, through agreement with the mortgagor, be paid out of the proceeds from the conversion of the mortgaged property or from the auction or sale of the mortgaged property; if they fail to reach an agreement, the mortgagee may file a lawsuit against the mortgagor in a People's Court. For the pledged property, according to the Security Law, if the pledgee is not paid at the maturity of the obligation, he may conclude an agreement with the pledgor that the pledged property be converted into money in order to pay the debt, or he may auction or sell the said property according to law.

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Where the money generated from the mortgaged or pledged property or the proceeds from auction or sale exceed the debt secured, the balance shall be paid to the mortgagor or pledgor. Where the money or the proceeds are insufficient to repay the whole debt secured, the shortfall shall be paid by the debtor.

(3) *Provisions on Auction and Sale of Properties in Civil Enforcement Proceedings by People's Courts*

The pawnshop is entitled to apply for an auction of the forfeited pawned property where the claim against the mortgagor or pledgor was favoured by the People's Court but the mortgagor still fails to implement the judgment of the People's Court. The enforcement of auction shall be subject to the Provisions on Auction and Sale of Properties in Civil Enforcement Proceedings by People's Courts (最高人民法院關於人民法院民事執行中拍賣、變賣財產的規定) which was promulgated by the Supreme People's Court on 15 November 2004, and came into effect on 1 January 2005.

According to these provisions, a people's court shall appoint an appropriately qualified evaluation agency to evaluate the property to be auctioned. But evaluation is not required if the value of the property is comparatively low or is easy to be determined by common methods, or if both parties and other creditors involved in the enforcement apply to the relevant people's court to not conduct evaluation. After evaluation of the property, a reserve price shall be determined for the auction by the people's court by reference to the evaluation price. Where no evaluation is conducted, the reserve price shall be determined by reference to the market price and by consulting the opinions of the relevant parties. The reserve price determined by a people's court, for the first auction, may not be lower than 80% of the evaluation or market price. Where the first auction fails and a new auction is conducted, the reserve price may be reduced according to the specific circumstances, provided that each reduction of the reserve price may not exceed 20% of the previous reserve price.

In conducting an first auction, where no bidding price is announced or the highest bidding price of the bidders is lower than the reserve price and the enforcement applicant (e.g., the pawnshop) or any other creditor involved in the enforcement who is present applies to accept, or agrees to accept, the property for auction at the reserve price determined for the auction, the property shall be delivered to them to pay the debts. With regard to the real property or other property rights that fail to be auctioned for a second time, a people's court may value and price the property or the property rights and deliver them to the enforcement applicant (e.g., the pawnshop) or other creditors involved in enforcement as repayment of debts as the first auction. Where the enforcement applicant (e.g., the pawnshop) or other creditors involved in enforcement refuse to accept the property or property rights or the property or property rights cannot be delivered to them to set off debts in accordance with the provisions, the people's court shall conduct a third auction within sixty days. Where the property or property rights fail to be auctioned for the third time and the enforcement applicant (e.g., the pawnshop) or other creditors involved in enforcement refuse to accept the property or the property right or the property or property rights cannot be delivered to them to set off debts in accordance with the provisions, the people's court shall announce a sale within seven days of the closing of the third auction. Where no one offers to buy the property at the reserve price determined in the third auction within 60 days of the announcement and the enforcement applicant (e.g., the pawnshop) or other creditors involved in

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enforcement do not intend to accept the property to set off debts, the people's court shall lift the seal-up or freeze and return the property to the person subject to enforcement, except where other enforcement measures may be adopted concerning the property.

Regulations for Annual Inspection of Pawnshops

The State Economic and Trade Commission (國家經濟貿易委員會) promulgated the Measures for Annual Inspection of Pawnshops (典當行年審辦法) on 31 December 2002 which came into effect on 1 February 2003. The annual inspection of pawnshops, among other things, includes: (a) alternation of the registered capital, shareholders and other matters of a pawnshop and its branches; (b) financial status of a pawnshop; (c) organisation and internal management of a pawnshop and its branches; (d) the compliance of the business operation of a pawnshop and its branches; (e) the use of pawn-tickets; and (f) other aspects in compliance with the Pawning Measures and other laws and regulations.

The pawnshop shall not pass the annual inspection and its Pawn Operation Business License shall be revoked, provided that the following circumstances are found in the annual inspection: (a) a pawnshop was established in a materially illegal manner (e.g. making feigned contributions and obtaining approval by fraud); (b) the business was operated in a materially illegal manner (e.g. accepting deposits or doing so in disguised form, illegally raising funds, extending credit loans, intentionally accepting unlawfully obtained goods as pawned property and forcing the pledgor to redeem the pawned property in a materially illegal manner); (c) the pawnshop has not been opened for business for more than 6 months since obtaining the pawning operation business license, or stopped business operations for more than 6 months; (d) illegal matters have not been rectified although the pawnshop makes the rectification as ordered by the administration authority; (e) the pawnshop refuses to participate in the annual inspection; and (f) other circumstances provided by the State Economic and Trade Commission.

Pursuant to the Pawning Industry Regulations, the annual inspection of pawnshops shall focus on the following aspects: (i) amount of paid-in capital; (ii) source of funds; (iii) the existing condition of corporate shareholders, the annual inspection of such shareholders, and fund flow between the pawnshop and its shareholders; (iv) business structure and extended pawning loans; (v) disposal of forfeited pawned property; (vi) use of pawn tickets; (vii) charge and collection of pawning interest and fees; (viii) change in the location of the pawnshop and its branch offices; and (ix) business operation of pawnshop's branch offices.

Jiangsu Regulations for the Administration of Pawnshop

In line with the Pawning Measures, MOFCOM's local counterpart in Jiangsu Province ("**DOC Jiangsu**") promulgated the Notice Regarding Enhancing the Supervision and Administration of Pawning in Jiangsu (關於進一步加強我省典當業監管工作的通知) ("**Jiangsu Pawning Regulation**") on 19 March 2007, which re-emphasises the supervision of the business operation, financial status and shareholders of the pawnshop. In particular, the Jiangsu Pawning Regulation provides that, in case of alternation of the shareholders of a pawnshop, the new shareholder shall be subject to the qualifications for the contribution to the pawnshop including: (a) the contribution to the pawnshop by such new shareholder shall be in cash and the shareholder shall abide by its contribution commitment; (b) the equity investment balance of such new shareholder shall not, in principle, exceed fifty percent (50%) of its net assets; and (c) the contribution shall comply with the laws and regulations for the state-owned assets if it involves external investment with state-owned capital. In

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addition, DOC Jiangsu will conduct the annual inspections in which the registered capital, alternation of shareholders, business operations and financial status of the pawnshop will be inspected.

REAL ESTATE AND MOVEABLE PROPERTY LAWS

Measures for the Administration of Real Estate

The Measures for the Administration of Real Estate in Cities (中華人民共和國城市房地產管理法) (the “**Real Estate Measures**”) was promulgated by the Standing Committee of the National People’s Congress on 5 July 1994 and came into effect on 1 January 1995 and was amended on 30 August 2007. The Real Estate Measures aim to strengthen the administration of real estate located in cities, protect the real estate market, guarantee the legal rights and interests of real estate holders and promote the sustained development of the real estate industry. ‘Real estate transactions’ are defined in the Real Estate Measures as including the sale or mortgage of real estate and the lease of buildings and structures constructed on land. At the time real estate is sold or mortgaged, legal title to the buildings and the land use rights to the underlying land on which such buildings are situated are also sold or mortgaged. Accordingly, the Real Estate Measures provide that where legal title to a building is lawfully obtained, the title holder may mortgage the land use rights to the land on which such building is situated. The land use rights certificate and the building title certificate are required for the creation of a mortgage over real estate, and the mortgage must be evidenced in a written agreement between the mortgagor and mortgagee. All mortgages over real estate must be registered with the relevant authorities designated by local government at county level or above. Where buildings and land use rights are forfeited pursuant to a mortgage agreement, registration of transfer of ownership must be completed in compliance with the Real Estate Measures.

Jiangsu Administrative Regulations for the Transaction of Urban Real Estate

In line with the Measures for the Administration of Real Estate, the Standing Committee of the People’s Congress of Jiangsu Province (江蘇省人民代表大會常務委員會) promulgated the Jiangsu Administrative Regulations for the Transaction of Urban Real Estate (江蘇省城市房地產交易管理條例, “**Jiangsu Real Estate Regulations**”) on 20 August 2004, which came into effect on 1 May 2005. Based on the Regulations, real estate which can be mortgaged includes buildings together with its underlying land, projects under-construction and pre-sale commercial buildings. In the case of projects under-construction, the secured creditor’s right shall be limited to the loan which is used for the construction of the projects, and shall be capped by the value of the completed portion, excluding the parts already sold or mortgaged. In the case of pre-sale commercial buildings, the secured creditor’s right shall be limited to the loan which is used for the procurement of the building. If it is necessary to assess the value of the real estate to be mortgaged, a qualified real estate assessment authority shall be appointed to conduct the assessment.

EMPLOYMENT LAWS

The Employment Contract Law

The Employment Contract Law (中國人民共和國勞動合同法) was promulgated by the Standing Committee of the National People's Congress on 29 June 2007 and came into effect on 1 January 2008. The Employment Contract Law is primarily aimed at the regulation of employee and employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts.

Under the Employment Contract Law, (a) employers must pay employees double income in circumstances where an employer fails to enter into an employment contract within one year with an employee who works for the employer for a period exceeding one month. Where such period exceeds one year, the parties are deemed to have entered into a labour contract with an "unfixed term"; (b) employees who fulfil certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labour contract with an unfixed term; (c) employees must adhere to regulations concerning commercial confidentiality and non-competition; (d) the range of situations in which employers must lawfully compensate employees has increased; (e) an upper limit has been set on the amount of compensation an employer may seek for an employee's breach of the agreed service term. The upper limit may not exceed the cost of training supplied to the employee; (f) employees in respect of whom employers have not in accordance with law made social insurance contributions may terminate their employment contracts; (g) employers who demand money or property from employees by way of guarantee or whatsoever may be fined a maximum of RMB2,000 for each employee; and (h) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay employees compensation in the order of 50% to 100% of the amount of salary so deprived.

Regulations on Social Insurance and Housing Fund

The PRC regulatory authorities have passed a variety of laws and regulations regarding social insurance and housing funds from time to time, such as the PRC Social Insurance Law (中華人民共和國社會保險法), the Regulations of Insurance for Labour Injury (工傷保險條例), the Regulations of Insurance for Unemployment (失業保險條例), the Provisional Measures on Maternal Insurance for the Enterprise Employees (企業職工生育保險試行辦法), the Interim Regulations on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Regulations on Management of Housing Fund (住房公積金管理條例) and other related laws and regulations. Pursuant to these laws and regulations, PRC enterprises must make sufficient contributions to the relevant local social insurance and housing fund regulatory authorities for their employees' pension plans, medical insurance plans, unemployment insurance plans, work-related injury insurance plans, maternity insurance plans and housing provident funds. Failure to comply with such laws and regulations may result in various fines and legal sanctions and supplemental contributions to the local social insurance and housing fund regulatory authorities.

Law on Employment Promotion

The Law of the People's Republic of China on Employment Promotion (中華人民共和國就業促進法) (the "**Law on Employment Promotion**") was promulgated by the Standing Committee of the National People's Congress on 30 August 2007 and came into effect on 1 January 2008. The Law on Employment Promotion contains provisions on employment issues including policy support, fair

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employment, employment services and management, and vocational education and training. Particularly, the Law on Employment Promotion (a) states explicitly that discriminatory employment practices should not be adopted and, in circumstances where such practices are adopted, employees have the right to launch a suit with the People's Court; (b) provides that public employment service agencies established by the People's Government at county level or above should provide employees with free services such as consultation on employment policies and laws and regulations, vocational training and placement, and price guidance for market wages; and (c) perfects an employment and unemployment registration system, stipulating that employers must complete employment registration with public employment service agencies for employees after they have been recruited, while employees who are individual operators or engaged in temporary jobs may complete employment registration with community public employment service agencies, and shall be entitled to applicable support policies upon registration.

RULES ON FOREIGN EXCHANGE AND DIVIDEND DISTRIBUTION

The Foreign Currency Administration Rules

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (外匯管理條例) which was issued by the State Council in 29 January 1996, became effective on 1 April 1996 and was amended in 14 January 1997 and 5 August 2008. Under these rules, RMB is freely convertible only for payments of current account items, including trade and service related foreign exchange transactions and dividend payments, but not for capital account expenses, including direct investment, loan or investment in securities outside the PRC. RMB may only be converted for capital account expenses once the prior approval of SAFE or the prior registration with SAFE has been obtained. Under the Foreign Currency Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from SAFE.

Capital Contribution in Foreign Currencies

On 29 August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency-denominated Capital of Foreign-Invested Enterprises, or Circular No. 142. Pursuant to Circular No. 142, the Renminbi converted from foreign-denominated currencies of a foreign-invested enterprise may only be used within the business scope of the foreign-invested enterprise as approved by the applicable government authority and may not be used for domestic equity investment unless otherwise stipulated by law or regulation. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital of a foreign-invested enterprise converted from foreign currencies. The use of such Renminbi may not be changed without SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used within the approved business scope. Violations of Circular No. 142 will result in severe penalties, such as heavy fines.

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In addition, SAFE promulgated the Notice on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses on 9 November 2010, or Circular No. 59, which requires the authenticity of settlement of net proceeds from overseas offerings to be closely examined and the net proceeds to be settled and used in the manner described in the offering documents. On 18 July 2011, SAFE issued the Supplemental Notice on the Relevant Operation Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or Circular No. 88, which became effective on 1 August 2011. According to such notice, enterprises that apply for capital settlements need to submit to the banks designated by SAFE relevant original copies of evidence to prove due payment of proceeds from previous settlements and related invoices in addition to the documents required under Circular No. 142. Banks are also required to file reports of all capital settlements processed by them on a daily basis with the local branches of SAFE.

SAFE Registration

Pursuant to the State Administration of Foreign Exchange Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (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) (the “**Circular 75**”), issued on 21 October 2005, (a) PRC residents should register with the local branch of SAFE before establishing or controlling a privately held overseas special purpose vehicle (the “**overseas SPV**”) for the purpose of overseas equity financing (including convertible debt financing); (b) when a PRC resident contributes the assets of or its equity interest in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interest into an overseas SPV, such PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE; and (c) when the overseas SPV undergoes a material event outside of the PRC, such as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. In May 2007, SAFE issued Circular of the Comprehensive Division of State Administration of Foreign Exchange on Printing and Distributing the Operating Instructions on the Circular of State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents Engaged in Financing and in Return Investment via Overseas Special Purpose Companies (國家外匯管理局綜合司關於印發《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》操作規程的通知) or “SAFE Circular No.106” and in May 2013, SAFE further promulgated Circular of the State Administration of Foreign Exchange on Printing and Distributing the Administration of Foreign Exchange in Foreign Direct Investments of Foreign Investors and Relevant Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) or “SAFE Circular No. 21”. SAFE Circular No.106 and SAFE Circular No. 21 strengthen the supervision of registrations pursuant to the Circular 75 and impose obligations on onshore subsidiaries of the overseas SPVs to coordinate and supervise the relevant PRC residents to complete registration. Under the Circular 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary’s foreign exchange activities and its ability to distribute dividends to overseas SPV, as well as the imposition of penalties in accordance with the law.

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Regulations on Employee Share Option Plan

On 25 December 2006, the PBOC promulgated the Administrative Measures for Individual Foreign Exchange. On 5 January 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange, or the Individual Foreign Exchange Rule, which, among other things, specifies approval requirements for a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly listed company. In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company (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), or Circular 7, which terminated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas Publicly-Listed Company issued by SAFE in March 2007. The purpose of Circular 7 is to regulate the foreign exchange administration of PRC domestic individuals who participate in employee stock ownership plans and stock option plans of overseas listed companies. Pursuant to Circular 7, if a PRC resident participates in any stock incentive plan of an overseas publicly-listed company, a qualified PRC domestic agent must, among other things, file on behalf of such participant an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the exercise or sale of stock options or stock such participant holds. Such participating PRC residents' foreign exchange income received from the sale of stock and dividends distributed by the overseas publicly-listed company must be fully remitted into a PRC collective foreign currency account opened and managed by the qualified PRC domestic agent before distribution to such participants. If we or our PRC optionees fail to comply with the Individual Foreign Exchange Rule and Circular 7, please see "Risk Factors — Risks Relating to Conducting Operations in China — Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions" in the prospectus.

In addition, the State Administration of Taxation has issued certain circulars concerning employee share options. Under these circulars, PRC optionees who exercise share options under any employee stock ownership plan or stock option plan of an overseas-listed company will be subject to PRC individual income tax and the PRC subsidiaries of the overseas-listed company have obligations to file documents related to employee share options with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. If PRC optionees fail to pay or the PRC subsidiaries of the overseas-listed company fail to withhold their income taxes according to relevant laws and regulations, they will face sanctions imposed by the tax authorities or other PRC government authorities.

Regulations on Dividend Distribution

The principal laws and regulations governing distribution of dividends paid by PRC wholly foreign-owned enterprises include (a) the Company Law; (b) the WFOE Law; and (c) the WFOE Law Implementation Regulation. Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds. Until such time as the accumulated reserve funds reach and remain

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above 50% of the enterprise's registered capital amount, these reserves are not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

REGULATIONS ON MERGERS AND ACQUISITIONS

On 8 August 2006, MOFCOM, the State Assets Supervision and Administration Commission (國務院國有資產監督管理委員會), the State Administration for Taxation (國家稅務總局), the State Administration for Industry and Commerce (國家工商行政管理總局), the CSRC (中國證券監督管理委員會) and SAFE jointly adopted the Provisional Rules for the Merger and Acquisition of PRC Domestic Enterprises by Foreign Investor (“關於外國投資者併購境內企業的規定”) (the “**M&A Rules**”), which came into effect on 8 September 2006. The M&A Rules provide that an offshore special purpose vehicle established for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

On 22 June 2009, MOFCOM issued the Amendments to Regulations of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於修改《關於外國投資者併購境內企業的規定》的決定), revising the provisions on the anti-monopoly review for mergers and acquisitions of domestic enterprises by foreign investors.

Under the M&A Rules, “mergers and acquisitions of PRC domestic enterprises by foreign investors” refers to a situation where a foreign investor purchases the equity interests in a domestic enterprise, or subscribes for the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; where a foreign investor establishes an enterprise, through which the foreign investor purchases the assets of a domestic enterprise and operates its assets; or where a foreign investor purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise to operate the assets.

The M&A Rules require, among other things, that an offshore SPV, formed for public listing on an overseas stock exchange and controlled directly or indirectly by PRC enterprises or individuals by mergers and acquisitions of PRC domestic enterprises, must obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. As of the date of this prospectus, the CSRC and other PRC regulatory authorities have not issued any definitive rule or interpretation concerning whether transactions like this offering are subject to the M&A Rules and the CSRC Procedure.

In August 2011, MOFCOM promulgated the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the MOFCOM Security Review Rules, to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated on 3 February 2011, or Circular No. 6. The MOFCOM Security Review Rules came into effect on 1 September 2011 and replaced the Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM in March 2011. According to these circulars and rules, security review is required for the mergers and acquisitions by foreign investors of domestic military industrial enterprises and military industry related supporting enterprises, enterprises located near key and sensitive military facilities

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and other entities relating to national defence, and the mergers and acquisitions by foreign investors of domestic enterprises which have impact on national security, in fields of important agricultural products, energy and resources, infrastructure, transport service, technology and major equipment manufacturing, etc. and may result in foreign investors' acquirement of "de facto control" over the enterprises. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to security review, MOFCOM will look into the substance and actual impact of the transaction. The MOFCOM Security Review Rules further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

In addition, various media sources have recently reported that the CSRC has prepared a report for the State Council suggesting regulating the use of the VIE structure in the context of foreign investment in China and overseas listings. However, whether the CSRC did submit such a report, the specific content of such report and whether and when any further action will be taken by the State Council, CSRC, MOFCOM or any other PRC government authority regarding the use of the VIE structure is currently unclear.