
REGULATORY OVERVIEW

Enterprises engaging in the scrap copper recycling and cable manufacturing businesses in China are subject to a range of laws and regulations that govern various aspects of their business activities, including recycling, processing solid waste, selling recycled copper products, manufacturing, producing and selling cables and various ancillary activities. This section sets forth a summary of the most significant aspects of the PRC laws and regulations relating to our business and operations.

REGULATION OF RECYCLING

The Circular Economy Promotion Law of the PRC (《中華人民共和國循環經濟促進法》), which was implemented on January 1, 2009, regulates the activities of recycling and resource recovery in production. According to this law, the State Council and local governments are required to set up funds designated for the development of circular economy, and to support the technological research and development of circular economy, demonstration and promotion of circular economy technologies and products, implementation of important circular economy projects, development of information service for circular economy and other matters. The State will give tax preferences for industrial activities conducive in promoting circular economy, such as reducing, reusing and recycling activities conducted in the process of production, circulation and consumption.

VALUE-ADDED TAX

In accordance with the Interim Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》), effective from January 1, 2009, all entities engaging in sales of products, provision of processing, repairs and replacement services or importation of goods within the territory of the PRC are subject to value-added tax (“VAT”). The applicable VAT rate for taxpayers selling or importing products, other than those falling in the categories subject to a VAT rate of 13%, is 17%.

Under the Notice on Adjusting and Improving the Value-Added Tax Policies for Products and Labor Services that Comprehensively Utilize Resources (Cai Shui [2011] No. 115) (《關於調整完善資源綜合利用產品及勞務增值稅政策的通知》) (the “Comprehensive Utilization of Resources Policy”), promulgated on November 21, 2011, enterprises which produce copper using scrap cars and other types of scrap materials as raw materials and which satisfy the criteria set out below are entitled to a refund of 50% of their VAT upon collection:

- (1) scrap materials must account for 90% or more of the total raw materials used;
- (2) the facilities in relation to the Comprehensive Utilization of Resources Policy must have completed the environmental impact assessment procedure and received approval from local environmental protection department;
- (3) the relevant products produced must be submitted to a product quality inspection agency certified by a quality and technical supervision authority at provincial level or above for quality inspection, and have obtained a test report certifying that the products meet the requirements of relevant product quality standards and the requirements for production technology stipulated therein;
- (4) if any waste is discharged in production processes, it must be discharged to a waste disposal facility and the final waste must satisfy the requirements under the Chinese Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB 18918-2002);

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- (5) the enterprises must have not been subject to any environmental administrative or criminal penalty by any environmental protection authority at county level or above; and
- (6) the prior year data in relation to the Comprehensive Utilization of Resources Policy must be filed annually with the competent tax authority before February 15.

The State Administration of Taxation of Youxian District ratified Tongxin's entitlement to such preferential tax treatment on December 3, 2012 for the period from October 2012 to October 2014. Such entitlement must be renewed upon expiration. Xiangbei obtained the approval by the State Administration of Taxation of Miluo Municipal on September 14, 2012 to enjoy the preferential tax treatment starting from August 1, 2011 and Jinxin obtained the approval by the Direct Branch of Mianyang State Taxation Bureau (綿陽市國家稅務局直屬稅務分局) on November 28, 2013 to enjoy the preferential tax treatment starting from September 1, 2013. These approvals have no specified expiration date. Jinxin, Tongxin and Xiangbei are eligible to apply for renewal of such treatment so long as they are able to continue to meet the aforesaid criteria specified in the Comprehensive Utilization of Resources Policy.

In accordance with the Notice of the Tax Preferential Policies for Promoting the Employment of the Disabled (《關於促進殘疾人就業稅收優惠政策的通知》) (Cai Shui [2007] No. 92), effective from July 1, 2007 (the "Social Welfare Enterprise Policy"), and the Notice of the Collection of the Tax Preferential Policies for Promoting the Employment of the Disabled (《關於促進殘疾人就業稅收優惠政策徵管辦法的通知》) (Guo Shui Fa [2007] No. 67), effective from July 1, 2007, enterprises promoting the employment of the disabled confirmed by the authority of civil affairs and approved by the local tax authorities can enjoy a certain amount of VAT refund upon collection, calculated based on six times of the local provincial government's authorized minimum wages with a maximum limit of RMB35,000 per year per disabled person. Our subsidiary, Jinxin, as a social welfare enterprise certified by local department of civil affairs, enjoys the VAT refund policy and the refund for the VAT paid is exempted from corporate income tax. This VAT tax policy has no specified expiry date. The Certificate of Social Welfare Enterprise issued to Jinxin remains valid until the end of 2015 and Jinxin must continue to meet the requirements for treatment as a social welfare enterprise to renew its certification. According to Cai Shui [2007] No. 92, such requirements are the same as those which need to be fulfilled when applying to be qualified as a social welfare enterprise.

According to the Qualification Guideline of Welfare Enterprises (《福利企業資格認定辦法》), effective from July 1, 2007, enterprises that apply for qualification as social welfare enterprises must fulfill the following conditions:

- (1) each disabled employee must be a full-time employee and the enterprise must enter into a labor contract or service agreement with the disabled employee with a term of one year or more, and the employee must not work elsewhere at the same time;
- (2) in the month prior to the application, the average monthly-employed employees with disabilities must account for 25% or more of the total number of employees, with a minimum requirement of 10 disabled employees;

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- (3) in the month prior to the application, the salary paid to each disabled employee must be not less than the minimum salary required in the jurisdiction where the enterprise operates;
- (4) in the month prior to the application, the enterprise must have fully contributed social insurance including basic pension insurance, basic medical insurance, unemployment insurance and work-related injury insurance for each disabled employee as required by the applicable local standards;
- (5) there are suitable types of work and positions for each disabled employee; and
- (6) the internal roads and buildings must fulfill the barrier-free design guidelines set out by the government.

Under the Interim Regulations of the PRC on Value-Added Tax and the Administrative Measures for the Recognition of the Qualification of A General Taxpayer of Value-Added Tax (《增值稅一般納稅人資格認定管理辦法》), effective from March 20, 2010, taxpayers who have been approved by local tax authorities as general VAT payers are required to issue VAT invoices to their buyers and indicate sales and output tax on such VAT invoices when selling products or taxable services. However, business entities including individuals, individual businesses and enterprises which have chosen to pay VAT as a small-scale taxpayer, may not apply for the recognition of the qualifications of a general taxpayer. If their total sales during the relevant period reach the minimum amount leviable for VAT as stipulated by the relevant finance and taxation departments of the State Council of the PRC, they are required to pay VAT at the rate of 3% of their total sales to the relevant PRC tax authorities. Therefore, this type of taxpayers does not have the qualification to issue VAT invoices to their buyers. Both types of taxpayers need to declare and pay VAT by themselves and purchasers who buy products from such taxpayers have no obligation to withhold and remit VAT on their behalf.

In addition to purchasing scrap copper from general VAT payers, our relevant PRC subsidiaries (Jinxin, Tongxin and Xiangbei) have been purchasing scrap copper from suppliers who do not have the qualification to issue VAT invoices. As advised by our PRC legal advisors, Chen & Co., this business practice complies with laws and regulations of the PRC.

CORPORATE INCOME TAX

In accordance with the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) effective from January 1, 2008, resident enterprises are required to pay corporate income tax on their income derived from both inside and outside the PRC. For non-resident enterprises with institutions or establishments inside the PRC, they are required to pay corporate income tax on their income earned by its institutions or establishments from inside the PRC as well as income which is generated outside the PRC but is actually related to such institutions or establishments. The rate of corporate income tax is 25%.

In accordance with the aforesaid regulations of Cai Shui [2007] No. 92 and Guo Shui Fa [2007] No. 67, enterprises promoting the employment of the disabled as confirmed by the authority of civil affairs and approved by the local tax authorities can enjoy super-deduction of the actual wages paid to disabled staff from the taxable income before levying corporate income tax. Our subsidiary, Jinxin has enjoyed such preferential tax policy.

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In accordance with the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58), effective from January 1, 2011, and the Notice on Corporate Income Tax Issues concerning the In-depth Implementation of the Western Development Strategy (《關於深入實施西部大開發戰略有關企業所得稅問題的公告》), effective from January 1, 2011, enterprises in western China which engage in the businesses falling with the encouraged category as defined in the above two notices and whose revenue generated from such businesses account for more than 70% of their total revenue, can enjoy a preferential corporate income tax rate of 15% upon approval by local tax authorities. Jinxin and Tongxin received such approval from local tax authorities in May 2013 to enjoy a preferential corporate income tax rate of 15%, applicable retrospectively to the period beginning on January 1, 2012. The preferential corporate income tax rate under the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy (Cai Shui [2011] No. 58) is applicable to qualified enterprises until December 31, 2020, provided that they make the required annual filings to the relevant tax authorities and continue to meet the requirements under the policy.

The table below sets forth detailed information on entitlements to VAT refunds and other preferential tax treatment enjoyed by our PRC subsidiaries:

Preferential tax treatment	Benefiting entities	Validity
VAT refunds under the Comprehensive Utilization of Resources Policy	Tongxin Xiangbei Jinxin	The approval for Tongxin to receive relevant VAT refunds remains valid until October 2014. The approvals for Xiangbei and Jinxin have no specified expiration date. Jinxin, Tongxin and Xiangbei are eligible to apply for renewal so long as they are able to continue to meet the criteria specified in the Comprehensive Utilization of Resources Policy.
VAT refunds under the Social Welfare Enterprise Policy	Jinxin	The Certificate of Social Welfare Enterprise issued to Jinxin remains valid until the end of 2015 and Jinxin must continue to meet the qualifications of a social welfare enterprise in order to renew its certificate.
Preferential corporate income tax rate of 15% based on the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy	Jinxin Tongxin	The preferential corporate income tax rate remains effective until December 31, 2020.

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REGULATION OF POST-WENCHUAN EARTHQUAKE REHABILITATION AND RECONSTRUCTION

According to Regulations on Post-Wenchuan Earthquake Rehabilitation and Reconstruction (《汶川地震災後恢復重建條例》), effective from June 8, 2008, and the Notice of Ministry of Land and Resources on the Policies of Special Supports for Post-Earthquake Rehabilitation and Reconstruction (《國土資源部關於實行保障災後恢復重建特殊支持政策的通知》), effective from June 11, 2008, land for approved projects of the post-earthquake restoration and reconstruction can be used first in accordance with the overall planning of land use. The relevant land use formalities and approvals can be gone through concurrently according to relevant provisions while the projects are being constructed.

The land and structures and other ancillary facilities of Jinxin, Tongxin and Baohe Xinshiji, and the land of Baohe Taiyue have been confirmed by local governmental authorities as projects of the Post-Wen Chuan – Earthquake Restoration and Reconstruction and therefore are permitted to be used by us and constructions can start before relevant approvals are obtained.

REGULATION OF PRODUCTS

In accordance with the Administrative Measures on Collection of Recyclable Resources (《再生資源回收管理辦法》) effective from May 1, 2007, enterprises engaging in recyclable resources collection, such as the copper recycling business of Jinxin, Tongxin and Xiangbei, are required to file basic information about the enterprises, including name, registered capital and address, with the local commercial department or its authorized agency and with the public security organs of the government at the county level. Jinxin, Tongxin and Xiangbei have filed such required information with the local commercial departments and public security organs.

In accordance with the Regulation of the PRC on Administration of Production License for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》) effective from September 1, 2005, enterprises are not allowed to produce products that fall into special catalogs without obtaining a Production License for Industrial Products. The Implementation Rules of Production License for Electric Wires or Cables (the “Implementation Rules”) (《電線電纜產品生產許可證實施細則》) effective from January 19, 2011 and amended on April 26, 2013 specifically enumerate 26 kinds of electric wires and cables for which relevant production licenses need to be obtained in the “The Catalog of Product Unit, Product Variety, Product Specifications and Product Model for Electric Wires or Cables” attached to the Implementation Rules. Manufacturers are required to meet the criteria in the Implementation Rules with respect to their technicians, production conditions, methods of inspection and production process documents. As a consequence, Baohe Xinshiji will need to obtain the Production License for Industrial Products before manufacturing certain core products of power cables listed in the aforesaid catalog.

The revised Implementation Measure of Regulation of the PRC on Administration of Production License for Industrial Products (《中華人民共和國工業產品生產許可證管理條例實施辦法》) (the “Measure”) came into force on June 1, 2010. Under this Measure, parties under the processing arrangement for producing the products which require the Production License for Industrial Products

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must respectively file their business licenses, Production License for Industrial Products of the outsourcing supplier and notarized processing contracts with the authority of production where they are registered. As of the date of this prospectus, Baohe Xinshiji had entered into processing arrangements with Sichuan Xinshiji to manufacture cables and connecting wires. Baohe Xinshiji and Sichuan Xinshiji filed the required documents with the relevant provincial authority in March 2013.

According to the Provisions on the Administration of Compulsory Product Certification (《強制性產品認證管理規定》) effective from September 1, 2009, certain products that fall into special catalogs have to be certified regarding their designs, models, quality and other matters and labeled with China Compulsory Certificates (CCC) marks before being sold through sales channels or being used in operation. Some wires and cables produced by Sichuan Xinshiji are included in the catalog of the products required to be certified. Sichuan Xinshiji has obtained six CCCs. Baohe Xinshiji is required to obtain its own CCCs for products required to be certified before manufacturing such products in its own facility.

In accordance with the Catalog of Safety for Mining Products (《關於公佈執行安全標誌管理的煤礦礦用產品目錄(第一批)的通知》) effective from November 30, 2001, enterprises are required to obtain the Safety Certificate of Approval for Mining Products (“Safety Certificate”) from the Mining Products Safety Approval and Certification Center (the “MA Center”), which is an independent legal entity authorized by the State Administration of Work Safety (“SAWS”), before they manufacture certain products for mining, such as mining fire-retardant cable. Sichuan Xinshiji, as the manufacturer of cable and electronic wires for mining under the processing arrangement, was issued with 24 Safety Certificates in 2011 according to the aforesaid regulations, and such Safety Certificates are valid for five years. Baohe Xinshiji will need to obtain the Safety Certificates before it commences manufacturing the products governed by the regulations in its own facility.

PRODUCTION SAFETY

According to the Production Safety Law of the PRC (《中華人民共和國安全生產法》), effective from November 1, 2002 and amended on August 27, 2009 (the “Safety Law”), entities engaging in production are required to implement production safety measures as specified in the Safety Law and other relevant laws, administrative regulations, national standards and industry standards. Any entity that does not implement such measures for safe production is prohibited from engaging in production and business operation activities. Entities are required to provide their employees with education and training on production safety. Entities must also provide their employees with protective gears that meet national and industry standards, as well as supervision and proper training to ensure their correct use.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), which came into force on December 26, 1989, enterprises which cause environmental pollution and other public hazards are required to incorporate and implement environmental protection policies into their plans and set up a responsibility system for environmental protection. These enterprises must implement effective measures to prevent and control the pollution and harm caused to the

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environment by waste gases, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities. Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project.

According to the Regulation on the Administration of the Collection and Usage of Fees for Pollution Discharge (《排污費徵收使用管理條例》), effective from July 1, 2003, enterprises discharging pollutants into the environment directly are required to pay fees for the discharge in accordance with the Law of the PRC on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste (《中華人民共和國固體廢物污染防治法》) and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》). The environmental protection administrative departments of the local governments at or above the county level where the enterprises are located, which have been granted authority by the environmental protection administrative department of the State Council of the PRC, have the right to determine the amount of pollutant discharge fees to be paid by the enterprises based on the categories and quantities of pollutants discharged.

Xiangbei has obtained the Pollutant Discharge Permit which is valid until October 2016. Jinxin and Tongxin have separately obtained the Pollutant Discharge Permits, which are valid until November 25, 2014, and Baohe Taiyue has obtained the Temporary Pollutant Discharge Permit which is valid until March 31, 2014. The permits allow Jinxin, Tongxin, Xiangbei and Baohe Taiyue to discharge certain categories and quantities of waste water or gases after processing by their environmental protection installations.

Protection Department of Sichuan Province promulgated the Provisional Regulation on the Management of the Pollutant Discharge Permits in Sichuan Province (《四川省排污許可證管理暫行辦法》), which became effective on April 23, 2013. According to this Implementation Opinion, enterprises are required to apply for the formal Pollutant Discharge Permit only after the new construction projects have passed the acceptance inspection by the local department of environmental protection and acquired inspection approvals. As Baohe Taiyue and Baohe Xinshiji had not obtained the environmental completion verification as of the Latest Practicable Date, they are not yet eligible to apply for the formal Pollutant Discharge Permits.

In accordance with the Administrative Regulation on Environmental Protection for Construction Projects (《建設項目環境保護管理條例》), effective from November 29, 1998, and the Law of the PRC on Environmental Impact Assessment (《中華人民共和國環境影響評價法》), effective from September 1, 2003, the PRC Government has established a regime of environmental impact assessment for construction projects. Construction cannot commence until after the environmental impact assessment documents of the construction project have been reviewed by the approving authorities, and approval is granted after such review.

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LABOR REGULATION

Under the Labor Law of the PRC (《中華人民共和國勞動法》), effective from January 1, 1995 and amended on August 27, 2009, and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated on June 29, 2007 and came into force on January 1, 2008 and amended on December 28, 2012, labor contracts must be concluded in writing when labor relationships are to be or have been established between enterprises or institutions and employees. When hiring employees, employers must faithfully notify the employees of the job responsibilities, working conditions, location, occupational harm, working safety status, remuneration and other information as requested by the employees. Employers are also required to pay the employees the amount of their remuneration fully and in a timely manner as provided in their employment contracts. Upon revocation or termination of a labor contract, employers are required to provide to the employees sufficient proof in support of such revocation or termination, and to complete the transfer of the employees' social insurance personnel files within 15 days thereafter.

In accordance with the Regulation on the Employment of the Disabled (《殘疾人就業條例》), which was promulgated by the State Council and effective from May 1, 2007, employers are required to sign labor contracts with disabled staff and provide appropriate working conditions and protections. Disabled staff are required to be treated equally in certain respects, including salary, social welfare and promotion.

According to the same requirements as set out under the Qualification Guideline of Welfare Enterprise, Jinxin was issued the Certificate of Social Welfare Enterprise by the Department of Civil Affairs of Mianyang City in January 2010. The certificate will expire in 2015. See the section headed "Regulatory Overview – Value-Added Tax" in this prospectus.

According to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), effective from July 1, 2011, a social insurance system has been established to cover basic pension, basic medical, occupational injury, unemployment and maternity insurance. Under this system, employees are required to participate in insurance packages including basic pension, basic medical and unemployment, for which premiums are to be paid by both the employers and the employees. Employees are also required to participate in occupational injury and maternity insurance, the contribution of which is the sole responsibility of the employers under the relevant laws.

In addition, the PRC has adopted detailed regulations, rules and provisions to implement the social insurance system, including the Regulation of Insurance for Work-Related Injury (《工傷保險條例》), the Regulation of Unemployment Insurance (《失業保險條例》), the Provisional Measures on Maternity Insurance of Employees (《企業職工生育保險試行辦法》), the Provisional Measures on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Provisional Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and other related rules issued by the relevant governmental authorities and local governments at various levels from time to time.

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We are required to provide our employees in the PRC with social insurance covering basic pension, basic medical, occupational injury, unemployment and maternity insurance. We were not in compliance with certain social insurance requirements. For example, Xiangbei did not make any contribution of maternity insurance for its employees from January 2011 to March 2013 and Baohe Xinshiji only made contribution of social insurance for certain of its employees from September 2012 to June 2013. For more details, see the section headed “Business – Compliance” in this prospectus.

In accordance with the Regulation on the Administration of Housing Funds (《住房公積金管理條例》), effective from April 3, 1999 and amended on March 24, 2002, employers in the PRC must complete the registration of a housing fund with the competent housing fund management center and open housing fund accounts for their employees with designated banks and contribute to the housing fund for their employees at a rate of no less than 5% of the employees’ average monthly wages in the preceding year. Employers who fail to register and open the accounts may be ordered to complete the register within a prescribed period by the competent management center, and will be liable for a monetary fine of RMB10,000 to RMB50,000 if they fail to register within the prescribed period.

We are required to provide our employees in the PRC with housing funds and each of our PRC subsidiaries registered and established an account of housing fund in April 2013. We were not in compliance with certain housing fund requirements. For example, none of our PRC subsidiaries participated in the housing fund schemes operated by the relevant government authorities for our employees until April 2013. For more details on our past non-compliances, see the section headed “Business – Compliance” in this prospectus.

REGULATION OF FOREIGN INVESTMENT

According to the Provisions Guiding Foreign Investment Direction (《指導外商投資方向規定》) and the related Catalog of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) (the “Catalog”), as amended on December 24, 2011, our PRC subsidiaries which are foreign invested enterprises engaging in copper recycling fall within the “encouraged” category in the Catalogue, and our PRC subsidiaries which are foreign invested enterprises engaging in the production of downstream products such as copper cables and wire fall within the “permitted” category, meaning that regular approval process applies to the establishment of these subsidiaries and they are permitted to be wholly foreign-owned or joint ventures.

REGULATION OF FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in China are the Regulations on the Administration of Foreign Exchange (《中華人民共和國外匯管理條例》), as amended on August 5, 2008. According to the regulations, international payments and transfers under the current account are not subject to restriction by the State. The income of foreign exchange of domestic institutions or individuals can be remitted back into the PRC or deposited overseas. Foreign exchange income and expense under the current account must be certificated by authentic and legitimate transactions. If overseas institutions or individuals propose to make direct onshore investments, they are required to obtain approval from SAFE and other relevant PRC governmental authorities. Capital account items, such as direct offshore investments or engagement in distribution or deal of overseas valuable securities or derivative products by domestic institutions or individuals, external debts and external guaranty are not permitted without prior registration with SAFE.

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In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Financing and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (《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》) (“Circular No. 75”), which became effective on November 1, 2005. Under Circular 75, prior registration with the local SAFE branch is required for domestic legal person residents or domestic natural person residents (collectively referred to as “Domestic Residents”) to establish or to control an offshore entity (“Special Purpose Company”) for the purposes of financing that offshore entity with assets or equity interests in an onshore enterprise. “Domestic legal person residents” refers to the enterprises and institutions with legal person status or other economic organizations established within the territory of China. “Domestic natural person residents” refers to all Chinese citizens and all other natural persons, including foreigners, who habitually reside in China for economic interests.

Domestic Residents are required to complete amended registrations with the local SAFE branch upon (1) transfer of equity interests or assets of an onshore enterprise to the Special Purpose Company, or (2) subsequent overseas equity financing by the Special Purpose Company. Domestic Residents are also required to complete amended registrations or filing procedures with the local SAFE branch within 30 days of any material change in the shareholding or capital of the Special Purpose Company, such as capital increase or decrease, equity transfer or exchange, merging or splitting-up, long-term equity or debt investments, and external guaranty. Domestic Residents who have already incorporated or gained control of a Special Purpose Company that have made return investment in China before Circular No. 75 was promulgated must register their shareholding in the Special Purpose Company with the local SAFE branch on or before March 31, 2006.

Under Circular No. 75, Domestic Residents are further required to repatriate back into China all of their dividends, profits or capital gains obtained from their shareholdings in the Special Purpose Company within 180 days upon receipt. The registration and filing procedures under Circular No. 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the Special Purpose Company, such as inbound investments or shareholder loans, or capital outflow to the Special Purpose Company, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

Certain of our Shareholders are Chinese residents and are required to file foreign exchange registrations of overseas investments with the local SAFE branch under Circular 75 for their establishment of offshore companies and conducting return investment activities. These Shareholders include Mr. Chen Gonghao, Mr. Liu Hanjiu, Mr. Huang Weiping, Mr. Zhang Huayi, Mr. Zhang Tiansheng, Mr. Fan Dunxian, Mr. Wang Huailin, Mr. Long Chongzhi and Mr. Chen Hai.

For additional information, see the section headed “Risk Factors – Risks Relating to China – PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident Shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute profits to us, or otherwise adversely affect our financial position” in this prospectus.