

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system, the PRC Company Law and the PRC Securities Law. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and the Companies Ordinance, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for the inclusion in the articles of association of PRC issuers.

1. PRC LAWS AND REGULATIONS

A. PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, rules, local regulations and international treaties entered into by the PRC Government. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The NPC and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of the State administration and has the power to enact regulations. The ministries and commissions under the State Council are also vested with the power to issue rules within the jurisdiction of their respective departments. All regulations and rules promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event of an inconsistency, the Standing Committee of the NPC has the power to annul those inconsistent regulations and rules.

At the regional level, the provincial and municipal people's congresses and their respective standing committees may enact local regulations, and the provincial and municipal governments may promulgate regulations applicable to their own administrative areas. These local regulations must be consistent with the PRC Constitution, the national laws enacted by the NPC and regulations promulgated by the State Council.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court of the PRC has the power to give general interpretation on the application of laws in judicial proceedings in addition to its power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret regulations and rules which they have promulgated. At the regional level, the power to interpret regional regulations is vested in the regional legislative and administrative bodies which promulgate such laws and regulations.

B. PRC judicial system

Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC, the judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels: the basic people's courts, the intermediate people's courts and the high people's courts. The basic people's courts are divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions, such as the intellectual property division. The higher level people's courts supervise the lower levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of the

people's courts of the same level and lower levels. The Supreme People's Court of the PRC is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

In the people's courts, judgments or orders of the second instance are final. With regard to first instance judgments or orders made by local people's courts, a party can appeal and the people's procuratorate can lodge a protest to the people's court at the next higher level according to the procedures stipulated by laws. If no party appeals, nor does the procuratorate lodge a protest within the period for lodging the appeal, a first instance judgment or order made by a local people's court becomes final. The second instance judgments and orders made by intermediate people's courts, high people's courts and Supreme People's Court are final. Judgments or orders of the first instance of the Supreme People's Court of the PRC are also final. If, however, the Supreme People's Court of the PRC or a people's court at a higher level finds an error in a judgment that has taken effect in any people's court at a lower level, or the chief judge of a people's court finds an error in a judgment that has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (the "Civil Procedure Law"), which was adopted on April 9, 1991, prescribes the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The parties to a contract may by express agreement select a jurisdiction, provided that it is the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract, or the place of the object of the action.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. Specific time limits are imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months. If a person fails to satisfy a judgment that the court has ordered to be enforced within the stipulated time, the court will, upon application of the other party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC and who does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by a people's court in accordance with the principle of reciprocity if the PRC has entered into or acceded to an international treaty with the relevant foreign country which provides for such recognition and enforcement, unless the people's court finds that the recognition or enforcement of a judgment or ruling will violate the basic legal principles of the PRC or its sovereignty or security, or for social and public interest reasons.

C. Company Law

On December 29, 1993, the Standing Committee of the NPC promulgated the PRC Company Law, which came into effect on July 1, 1994 and was amended on December 25, 1999 and August 28, 2004, respectively.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions. On July 4, 1994, the Special Regulations were passed at the Twenty-second Standing Committee Meeting of the State Council, and were promulgated and implemented on August 4, 1994. The Special Regulations are formulated according to the provisions of sections 85 and 155 of the PRC Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions, issued jointly by the Securities Commission of the State Council and the State Restructuring Commission on August 27, 1994, prescribed provisions that must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in our Articles. References to “company” in this Appendix means a joint stock company established under the PRC Company Law, which is able to issue H Shares.

General

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

Incorporation

A company may be incorporated by means of promotion or public subscription.

A company may be incorporated by a minimum of five promoters, but more than half of the promoters must reside in the PRC.

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

The registered capital of a company is the amount of its total paid up capital as registered with the relevant administration bureau for industry and commerce. The minimum registered capital of a company is RMB10 million. The total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB50 million.

The establishment of a company must be approved by the department authorized by the State Council or by the provincial level people’s government. If the company is established by means of public subscription, the promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting shall be convened only with the presence of subscribers holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the board of supervisors of the company will be dealt with. All resolutions proposed in the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

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

A company's promoters shall be liable for:

- (i) the payment of all expenses and liabilities incurred in the incorporation process jointly and severally if the company cannot be incorporated;
- (ii) the repayment of subscription monies to the subscribers, together with interest at bank rates for a deposit of the same term, jointly and severally if the company cannot be incorporated; and
- (iii) damages suffered by the company as a result of the default of the promoters in the course of the incorporation of the company.

According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on April 22, 1993 (which is only applicable to the issue and trading of shares in the PRC and any other related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading or false statement or omit any material information.

Share capital

The promoters may make capital contribution in cash, tangible assets or in kind or by way of an injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of investment made in the form of industrial property rights and non-patented technology may not exceed 20% of the registered capital of the company. If a capital contribution is made other than in cash, a valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters, state-authorized investment organizations and legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of a nominee.

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

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

A company may offer its shares to the public overseas upon approval by the CSRC. Detailed measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of H shares proposed to be issued after accounting for the number of underwritten shares. The offering price of a share may be equal to or greater than, but may not be less than, its par value.

According to the Securities Law, which came into effect on July 1, 1999, a shareholder who owns 5% of the issued shares of a listed company is required to make a written report to the securities regulatory authorities and the relevant stock exchange, as well as to inform that listed company, and to issue a public announcement within three days after the occurrence of such event. Additional requirements are mandated by the Securities Law if the share ownership further increases.

Transfers of shares may not be entered in the register of shareholders within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Increase in capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders at a general meeting and be subject to the following conditions:

- (i) the previous issue of shares has been fully subscribed for and at least one year has elapsed since that issue, but under the Special Regulations, if a company increases its capital for the issue of H shares, the time period elapsed since the last issue of shares may be less than 12 months;
- (ii) the company has been continuously profitable for the last three consecutive years and is able to make dividend payments to its shareholders;
- (iii) there has been no false reporting in the company's financial and accounting documents during the last three years; and
- (iv) the company's expected profit rate is comparable to the bank deposit rate for the same period.

Once the shareholders in a general meeting have passed a resolution to issue new shares, the board of directors must apply to the authorized department of the State Council or to the provincial people's government for approval. Public offers require the approval of the CSRC.

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

Reduction of share capital

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

- (i) the company shall prepare a balance sheet and a list of its assets;
- (ii) the reduction of registered capital must be approved by its shareholders at a general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the Company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration for industry and commerce for the registration of the reduction in the registered capital.

Repurchase of shares

A company may not purchase its own shares other than for the purpose of reducing its capital by canceling its shares or merging with another company holding its shares or such other purposes permitted by the laws and regulations. The Mandatory Provisions provide that upon obtaining approvals from a shareholders' meeting in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or by means of an off-market contract.

Under the PRC Company Law, within 10 days following the purchase of a company's own shares, a company must, in accordance with applicable laws and regulations, cancel the repurchased shares, change its registration and issue a public announcement.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations. Listed shares may be transferred through the stock exchange on which they are listed. Unlisted shares may be transferred by an agreement which shall be registered and recognized on the stock exchange after the transfer. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares issued to promoters may not be transferred within three years after the establishment of the company. Shares held by directors, supervisors and managers of a company may not be transferred during their term of office with the company. There is no restriction under the PRC Company Law as to the shareholding percentage of a single shareholder of a company.

Shareholders

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

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

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in a stock exchange established in accordance with the law, subject to the PRC Company Law and the articles of association of the company;
- (iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (iv) if a resolution adopted in a shareholders' general meeting or a meeting of the board of directors violates any law or administrative regulations or infringes the lawful rights and interests of the shareholders, to institute an action in the People's Court demanding the cessation of the infringement;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive remaining assets of the company upon its liquidation in proportion to his or her shareholding; and
- (vii) any other shareholders' rights specified in the company's articles of association.

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

General meetings

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

The shareholders' general meeting exercises the following powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect and remove the directors and fix their remuneration;
- (iii) to elect and remove the supervisors who are representatives of the shareholders and fix their remuneration;
- (iv) to examine and approve reports of the board of directors;
- (v) to examine and approve reports of the board of supervisors;
- (vi) to examine and approve the company's proposed annual financial budget and final accounts;
- (vii) to examine and approve the company's proposals for profit distribution and for recovery of losses;
- (viii) to decide on any increase or reduction in the company's registered capital;
- (ix) to decide on the issue of bonds by the company;
- (x) to decide on issues such as the merger, division, dissolution and liquidation of the company and other matters; and
- (xi) to amend the articles of association of the company.

A shareholders' annual general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the aggregate losses of the company that are not made up reach one-third of the company's total share capital;
- (iii) a request by shareholders holding 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors; or
- (v) when the board of supervisors proposes to convene one.

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

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

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

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of any class of shares, warrants or other similar securities or bonds or debentures, the liquidation of a company and any other matters in respect of which the shareholders by ordinary resolution so decide must be approved by special resolutions which require the adoption by shareholders with more than two-thirds of the voting rights held by shareholders present at the general meeting. Shareholders may appoint representatives to attend shareholders' general meetings by a written appointment document stating the scope of the voting rights.

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

Directors

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

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

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

- (i) to convene the shareholders' general meetings and report on its work to the shareholders;
- (ii) to implement the resolutions of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager and, based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial controllers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) to propose amendments to the company's articles of association.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of a simple majority of the directors present at the meeting, except for items (vi), (vii) and (xi) above where the approval by a two-thirds majority of the directors present at the meeting is required.

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

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

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

- (1) persons without civil capacity or with restricted civil capacity;
- (2) persons who have committed the offense of corruption, bribery, infringement of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to a criminal offense, where less than five years have elapsed since the date of the completion of the implementation of this deprivation;

- (3) persons who are former directors, factory managers or managers of a company or enterprise that has become insolvent and has been liquidated due to mismanagement and who are personally responsible for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of the company or enterprise;
- (4) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally responsible for such violation, where less than three years have elapsed since the date of the revocation of the business license;
- (5) persons who have a relatively large amount of debt that has become overdue; and
- (6) persons who are civil servants.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

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

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (ii) to review the implementation of the resolutions of the board of directors; and
- (iii) to sign the company's share certificates and bonds.

Supervisors

A company shall have a board of supervisors composed of not less than three members. Each term of office of a supervisor is three years, and he or she may serve consecutive terms if re-elected. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. Directors, managers and financial controllers may not act concurrently as supervisors.

The board of supervisors exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;
- (iii) to require the director or manager to rectify any action which adversely affects the interest of the company;
- (iv) to propose the convening of extraordinary shareholders' general meetings; and
- (v) other powers specified in the company's articles of association.

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

Supervisors may also attend board meetings as non-voting members and shall have the right to speak and express views at such board meetings.

Managers and officers

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

- (i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller, and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

According to the Special Regulations and the Mandatory Provisions, the senior management of a company includes its directors, supervisors, managers, financial controller, secretary of the board of directors and other executives as specified in the articles of association of the company.

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

The articles of association of a company shall be binding on the shareholders, directors, supervisors, managers and other executives of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and institute legal proceedings according to the articles of association of the company.

Duties of directors, supervisors, managers and other senior officers

A director, supervisor, manager and other senior officers of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and other senior officers of a company are also under a duty of confidentiality to the company and are prohibited from divulging the confidential information of the company save as required by the relevant laws and regulations or agreed by the shareholders at a shareholders' meeting.

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

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit. The Mandatory Provision contains a further elaboration of such duties.

Finance and accounting

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

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

When distributing each year's after-tax profits, a company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve (except where the reserve has reached 50% of the company's registered capital) and 5% to 10% of its after-tax profit for the company's statutory welfare reserve.

When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory surplus reserve and statutory welfare reserve. The company's statutory welfare reserve shall be used for the collective welfare of the company's staff and workers.

The shareholders in a general meeting may resolve to transfer any amount from the after-tax profit of the company to the discretionary reserve after transferring the requisite amount to the statutory surplus reserve and the statutory welfare reserve.

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

- (i) to make up the company's losses;
- (ii) to expand the business operations of the company; and
- (iii) to pay up the increased registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders, provided that if the capital reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company.

After the company has made good its losses and made allocations to its statutory surplus reserve and statutory welfare reserve, the remaining profits may be distributed to the shareholders in proportion to the number of shares held by the shareholders.

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

Appointment and retirement of auditors

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

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

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

Distribution of profits

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

Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with applicable laws, regulations and the procedures set forth in the company's articles of association. Any amendment of the provisions incorporated in the articles of association in accordance with the Mandatory Provisions must be approved by the CSRC and the relevant government department authorized by the State Council for approving the establishment of the company, and must be filed with the SAIC or its regional bureaus. A company must change the particulars registered in accordance with the applicable laws and regulations if any amendments to its articles of association that are required to be registered are adopted.

Termination and liquidation

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

Under the PRC Company Law, a company may be dissolved if any of the following events occurs:

- (i) the term of its operations set out in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (ii) the shareholders at a general meeting have resolved to dissolve the company; or
- (iii) the company is dissolved by reason of a merger or spin-off.

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

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

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

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

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any unfinished business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle any remaining assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

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

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

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

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

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

Overseas listing

The shares of a company may only be listed overseas after obtaining approval from the CSRC, and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue H shares and domestic shares that has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issues, within 15 months after approval is obtained from the CSRC.

Loss of share certificates

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

Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the CSRC, under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company;
- (ii) the company fails to disclose its financial position in accordance with the requirements or the company's financial report contains any false information;
- (iii) the company has committed a material breach of laws and regulations; or
- (iv) the company has incurred losses for each of the preceding three years.

If, under the circumstances referred to in (ii) or (iii) above, an investigation has revealed that the consequences are serious, or under the circumstances referred to in (i) or (iv) above, the situation has not been rectified within the time period stipulated, the CSRC may decide to terminate the listing of a company's shares.

The CSRC may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared insolvent.

Merger and spin-off

The merger or spin-off of a company is to be decided by the shareholders at a general meeting subject to the approval of the departments authorized by the State Council or the approval of the provincial government.

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

A merger agreement must be executed in the case of a merger of companies and the relevant companies shall prepare their respective balance sheets and inventory of property.

The companies shall within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers at least three times, within 30 days of the resolution to merge. Those creditors may, within 30 days after receiving such written notice, or may, within 90 days of the first published notice if they failed to receive such notice, request the company to satisfy any unpaid debt or provide alternative guarantees where necessary.

Companies unable to repay such debts or provide alternative guarantees will not be allowed to merge. Newly merged or surviving entities shall be responsible for the debts and obligations of the companies involved in the merger.

When a company splits into two companies, their respective assets must be separated and separate financial accounts and the inventory of property must be prepared.

When a company's shareholders approve the spin-off of the company, the company shall notify all its creditors within 10 days of such resolution being passed and make a public announcement of the same at least three times in newspapers within 30 days. A creditor may within 30 days after receiving

such written notice or may, within 90 days from the first public announcement if a creditor has not received such notice, demand the company to repay any outstanding debts or to provide an appropriate security.

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

D. Securities law and regulations and supervision

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

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

In early 1998, the State Council dissolved the Securities Commission, and the former functions of the Securities Commission were assumed by the CSRC.

On April 22, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute resolution. However, if a PRC joint stock company proposes to offer shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission (or currently, the CSRC); and provisions of these regulations in relation to acquisitions of listed companies and disclosure of information shall apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence, it is possible that such provisions may be applicable to joint stock companies with shares listed on a stock exchange outside the PRC (such as the Hong Kong Stock Exchange), including our Company.

On June 12, 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Information Disclosure of Companies Publicly Issuing Shares. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies that have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company, and the merger or spin-off of a company. These measures also contain disclosure provisions in relation to acquisitions of listed companies, which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

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

On August 4, 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of foreign currency shares listed abroad, disclosure of information and articles of association of a joint stock limited company having foreign currency shares listed abroad.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning the Domestic Listed Foreign Currency Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription and trading of, and declaration of dividends and other distributions on, domestic listed foreign currency shares and disclosure of information by a joint stock limited company having domestic listed foreign currency shares.

On December 29, 1998, the Standing Committee of the NPC promulgated the Securities Law of the PRC. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. The Securities Law became effective on July 1, 1999 and was amended on August 28, 2004.

The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the PRC Company Law and other applicable laws and regulations shall apply.

On March 29, 1999, the State Economic and Trade Commission (the "SETC") and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas, which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Opinion regulates, amongst others, the appointment and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors in the board of supervisors.

E. The Arbitration Law

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

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a PRC company listed in Hong Kong, and in the case of the Hong Kong Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the articles of association, the PRC Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign currency shares and the company; (ii) a holder of overseas listed foreign currency shares and a holder of domestic shares; and (iii) a holder of overseas listed foreign currency shares and the directors, supervisors or other senior officers of the company, unless otherwise specified in the articles of association, such parties shall submit that dispute or claim to arbitration before either the China International Economic and Trade Arbitration Commission (“CIETAC”) or the Hong Kong International Arbitration Center (“HKIAC”). If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.

CIETAC is an arbitration organ for economic and trade affairs in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective on October 1, 2000, CIETAC’s jurisdiction covers disputes relating to Hong Kong. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, an arbitral award is final and binding on the parties to the arbitration and if a party fails to comply with an award, the other party to the award may apply to the court for enforcement. A court may refuse to enforce an arbitral award made by an arbitration panel if there are certain procedural irregularities (including irregularities in the composition of the arbitration panel or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration panel).

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the New York Convention shall only be applicable to disputes arising out of contractual or non-contractual commercial and/or legal relations determined in accordance with PRC law. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The new arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by arbitral authorities in China can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.

1. FOREIGN EXCHANGE CONTROL

The foreign exchange control system is regulated by three sets of provisions. On December 28, 1993, the PBOC, with the authorization of the State Council, issued the Notice to Further Reform of the Foreign Exchange Control System, which became effective on January 1, 1994. Other main regulations and implementation measures include the PRC Foreign Exchange Control Regulations,

which became effective on April 1, 1996 and was promulgated by the State Council on January 29, 1996 and amended on January 14, 1997, and the Regulations on the Foreign Exchange Settlement, Sale and Payments, which were promulgated by the PBOC on June 20, 1996 and became effective on July 1, 1996 and which contain detailed provisions regulating the settlement, sale and payment of foreign exchange by domestic enterprises, individuals, economic organizations and social organizations in the PRC.

The PBOC publishes, on each business day, the Renminbi exchange rate against other major foreign currencies. Such rate is set by reference to the previous day's trading price of Renminbi/major foreign currencies on the inter-bank foreign exchange market.

In general, all organizations and individuals within the PRC are required to sell their recurrent foreign exchange earnings to designated banks unless they have received a specific waiver. Foreign-invested enterprises, on the other hand, are permitted to retain a certain percentage of their recurring foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, the Chinese government is relaxing its control over foreign exchange. Enterprises that require foreign exchange for recurring activities such as trading and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents.

In addition, where an enterprise requires foreign exchange for the payment of dividends, such as the distribution of profits by a foreign-invested enterprise to its foreign investor, then, subject to the due payment of taxes on such dividends, the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks.

Despite the relaxation of foreign exchange control over current account transactions, the approval of the SAFE is still required before an enterprise may receive a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction that involves the purchase of foreign exchange.

When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

2. HONG KONG LAWS AND REGULATIONS

A. Hong Kong company law in its comparison with the PRC law applicable to a joint stock limited company incorporated under the PRC Company Law

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by the common law and the rules of equity. There are material differences between Hong Kong company law and PRC laws applicable to a joint stock limited company incorporated under the PRC Company Law, to which our Company is and will be subject. Certain of the material differences between the PRC Company Law and Hong Kong company law are summarized below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the PRC Company Law.

Derivative action by minority shareholders

Hong Kong company law allows minority shareholders to institute a derivative action on behalf of the general body of shareholders in cases where, for example, if one or more of the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. Although the PRC Company Law gives shareholder(s) of a company the right to institute proceedings in the People's Court to restrain any resolution adopted by shareholders in a general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the Hong Kong law. The Mandatory Provisions grant shareholders the right to institute proceedings against directors, supervisors and officers according to the articles of association of the company. Such a provision has been incorporated into the Articles. In addition, each of our Directors and Supervisors (as required by the Hong Kong Listing Rules) has given a written undertaking to our Company (acting as an agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in our Articles of Association. This allows minority shareholders to commence actions directly against defaulting Directors and Supervisors.

Remedies of our Company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company, resulting in damage to the company, such director, supervisor or manager shall be liable to the company for such damages. In addition, in compliance with the Hong Kong Listing Rules and the Mandatory Provisions, our Articles of Association set out remedies to our Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer).

Directors, officers and supervisors

The PRC Company Law, unlike Hong Kong Law, contains no provisions relating to the declaration of director's interests in material contracts, interested directors being restricted from counting towards a quorum of, and voting at a meeting of the board of directors at which a transaction in which a director is interested in being considered, restricting the authority of the directors to make major dispositions prohibiting payment to them for loss of office. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for the loss of office, all of which provisions have been incorporated in our Articles of Association, a summary of which is set out in Appendix VIII.

Under Hong Kong law, there is no requirement for the establishment of a board of supervisors for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors.

The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his or her powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Such requirement has been adopted in the Articles of Association of our Company.

Minority protection

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition a court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition,

on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

There is no specific provision in the PRC Company Law to safeguard the minority shareholders from oppression by the majority shareholders, but our Company, as required by the Mandatory Provisions, has adopted in our Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to achieve certain objectives and may not relieve a Director or Supervisor of his duty to act honestly in the Company's best interests or may not approve the expropriation by a Director or Supervisor of our assets or the individual rights of other shareholders.

Receiving agent

Under both PRC and Hong Kong law, dividends, once declared, become debts payable to shareholders, but the limitation period for a debt recovery action under the PRC law is two years while that under the Hong Kong law is six years. In accordance with the requirements of the Mandatory Provisions and the Hong Kong Listing Rules, our Articles of Association provide for the appointment of an agent in Hong Kong, which is a trust corporation registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) in Hong Kong as a receiving agent to receive all dividends declared and all other monies payable to our shareholders on behalf of such shareholders as required by the Hong Kong Listing Rules.

Variation of class rights

The PRC Company Law makes no specific provision relating to the variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in our Articles of Association, which are summarized in Appendix VIII.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company, or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. As required by the Mandatory Provisions and the Hong Kong Listing Rules, we have adopted in our Articles of Association provisions protecting class rights in a manner similar to those found under Hong Kong law. Holders of overseas-listed foreign-invested shares and Domestic Shares are defined in our Articles of Association as different classes, except where we issue (i) once every 12 months pursuant to a shareholder's mandate (obtained by way of a special resolution in general meeting), not more than 20% of each of the issued overseas-listed foreign-invested shares and the Domestic Shares existing as at the date of the shareholder's mandate; or (ii) overseas-listed foreign-invested shares and Domestic Shares in accordance with our plan at the time of establishment as approved by the CSRC and which is completed within 15 months from the date of such approval.

Share capital

For a joint stock limited company formed under the PRC Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares.

In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in a general meeting and the relevant PRC Government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant administration or industry and commerce bureau.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB50 million under the PRC Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the PRC Company Law, the shares issued in consideration of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law on a Hong Kong company.

Restriction on shareholding and transfer of shares

Under PRC law, our Domestic Shares which are denominated and subscribed in Renminbi may only be subscribed for or traded by the State, PRC legal persons, natural persons and qualified foreign institutional investors. Our overseas-listed H Shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for and traded by investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters, may not be transferred for a period of three years after the date of its establishment. There are no such restrictions on shareholdings and transfer of shares under Hong Kong law.

Notice of shareholders' meetings

Under the PRC Company Law, shareholders of a joint stock limited company must be given not less than 30 days' notice of a general meeting or, in the case of a company having bearer shares, a public announcement of a shareholder general meeting shall be made at least 45 days before the meeting. Under the Special Regulations and the Mandatory Provisions, written notice of 45 days must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a Hong Kong limited liability company, the minimum period of notice of a general meeting convened for the purpose of considering ordinary resolutions is 14 days and, where convened for the purpose of considering special resolutions, 21 days. The notice period for an annual general meeting is also 21 days.

Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is provided for in the articles of association of a company, but there must be at least two shareholders personally present. The PRC Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations, the Mandatory Provisions and our Articles of Association provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in our Company at least 20 days before the proposed date of the meeting, or if that 50% requirement is not achieved, that our Company shall within five days notify shareholders by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by those shareholders present in person or by proxy at a general meeting and a special resolution is passed by

a majority of not less than three quarters of such votes. Under the PRC Company Law, the passing of any resolution requires more than one-half of the votes of the shareholders attending in person or by proxy, except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company where the approval of a two-thirds majority is required.

Dividends

Our Articles of Association empower us to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC law the relevant limitation period is two years. The Company shall not exercise its powers to forfeit any unclaimed dividend in respect of our H Shares until after the expiry of the relevant six-year initiation period.

Conversion of shares

Under our Articles of Association (as required by the Mandatory Provisions), any proposal by us to vary or abrogate the rights conferred on any class of shares shall be approved by a special resolution of shareholders at a general meeting and by shareholders of that class at a separate meeting convened in accordance with our Articles. Circumstances considered a variation or abrogation of class rights of shareholders are discussed in the section headed “Summary of Articles of Association – Variation of rights of existing shares or classes of shares” of this prospectus. Any conversion of Domestic Shares into H shares would fall within such circumstances. Any conversion of Domestic Shares into H shares and vice versa would require, among other things, the approval of CSRC.

Financial disclosure

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

Under our Articles of Association (as required by the Mandatory Provisions and the Hong Kong Listing Rules), in addition to preparing the accounts according to PRC accounting standards, our Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards and our financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. Our Company is further required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

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

Financial Assistance for Acquisition of Shares

Although the PRC Company Law does not prohibit a company or its subsidiaries from providing financial assistance for the purpose of acquisition of shares of the company, our Articles of Association (as required by the Mandatory Provisions) contain restrictions on us and our subsidiaries providing such financial assistance similar to those under the Hong Kong Law.

Information on directors and shareholders

The PRC Company Law gives shareholders the right to inspect the articles of association of a company, minutes of the shareholders' general meetings and financial and accounting reports. Under our Articles of Association, shareholders have the right to inspect and copy, upon the payment of reasonable charges, certain information on shareholders and on Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Corporate reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance, which requires the sanction of the court. For PRC companies, such reorganizations are administratively considered and sanctioned under the PRC Company Law.

Dispute resolution

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors, managers and other senior officers can be resolved through the courts. Our Articles of Association (as required by the Mandatory Provisions) provide that disputes between a holder of H Shares and us and our Directors, Supervisors, managers or other senior officers or a holder of Domestic Shares, arising from our Articles of Association, the PRC Company Law or other relevant law or administrative regulations which concerns the affairs of our Company must, with certain exceptions, be referred to arbitration at either the HKIAC or the CIETAC, at the claimant's choice. Such arbitration is final and conclusive.

Mandatory deductions

Under the PRC Company Law, after-tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory common welfare fund of the company before they can be distributed to shareholders. There are prescribed limits under the PRC Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

Fiduciary duties

In Hong Kong, the common law concept of fiduciary duties applies to directors of a company. Under the PRC Company Law and the Special Regulations, directors and managers owe a fiduciary duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas our Articles of Association provide, as required by the PRC Company Law, that share transfers may not be registered within 30 days of the date of a shareholders' meeting or within five days of the record date set for the purpose of distribution of dividends.

B. Other legal and regulatory provisions

Upon the listing of our Company on the Hong Kong Stock Exchange, the provisions of the SFO, the Hong Kong Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

C. Securities Arbitration Rules

Our Articles of Association provide that certain claims arising under our Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of the HKIAC contain provisions allowing upon application by any party an arbitral tribunal to conduct a hearing in Shenzhen for cases involving disputes concerning the affairs of companies listed on the Hong Kong Stock Exchange and incorporated in the PRC (other than Hong Kong, Macau and Taiwan) so that the PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen on the condition that all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than in the territories of Hong Kong, Macau and Taiwan.

D. Hong Kong Listing Rules

The Hong Kong Listing Rules contain certain provisions specifically relating to the primary listing of equity securities of companies incorporated or otherwise established in the PRC. Set out below is a summary of the major provisions which apply to us.

The Joint Sponsors must be satisfied that our Directors and Supervisors appreciate the nature of their responsibilities and can be expected to honor and understand their obligations under their respective undertakings, the Hong Kong Listing Rules and applicable laws and regulations.

Accountants' report

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

Process agent

We are required to appoint and maintain throughout the period which our securities are listed on the Hong Kong Stock Exchange the appointment of a person authorized to accept service of process

and notices on our behalf in Hong Kong and must notify the Hong Kong Stock Exchange of his, her or its appointment and any termination of his, her or its appointment and his, her or its contact particulars.

Public shareholding

If at any time we have in issue securities other than the H Shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the H Shares must represent not less than 15% of our issued share capital and the aggregate number of our H Shares and other securities held by the public must constitute not less than 25% of our issued share capital.

Our Shares held by the public must constitute not less than 25% of our issued share capital unless the expected market value of our Shares at the time of listing is over HK\$10,000 million, in which case the Hong Kong Stock Exchange may accept a lower percentage of between 15% and 25%.

Independent non-executive Directors and Supervisors

Our independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of our shareholders as a whole will be adequately protected. Our Supervisors must have high moral standards, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as Supervisors.

Restrictions on purchase and subscription

Subject to our Articles of Association and obtaining government approvals, we may purchase our own Shares on the Hong Kong Stock Exchange in accordance with the Hong Kong Listing Rules. Shareholders' approvals must first be obtained prior to the carrying out of a share repurchase, by way of a special resolution of shareholders in general meeting and of the holders of Domestic Shares and the holders of H Shares at separate class meetings, in accordance with the procedures prescribed by our Articles of Association. When seeking shareholders' approval to make purchases of securities on the Hong Kong Stock Exchange or when reporting such purchases, we shall provide information to our shareholders on the proposed or actual purchase of any or all of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors shall also state the consequences of any purchases which will arise under the Hong Kong Takeovers Codes and any similar PRC law of which our Directors are aware, if any. Any general mandate given to our Directors to repurchase H Shares must not exceed 10% of the total amount of the existing issued H Shares.

Mandatory Provisions

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

Subsequent Listing

We must not apply for the listing of our H Shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of our H Shares are adequately protected.

Additional requirements

The Hong Kong Listing Rules require the Company to comply with certain additional requirements which are summarized as follows:

(1) *Redeemable shares*

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

(2) *Pre-emptive rights*

Except in the circumstances mentioned below, our Directors must obtain the approval by a special resolution of our shareholders in general meeting and the approvals by special resolutions of holders of Domestic Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with our Articles of Association, prior to:

(a) authorizing, allotting, issuing or granting:

- (i) shares;
- (ii) securities convertible into shares; or
- (iii) options, warrants or similar rights to subscribe for any shares or such convertible securities; or

(b) a major subsidiary of our Company making any such authorization, allotment, issue or grant resulting in material dilutions to the percentage of shareholding of our Company and our shareholders in such subsidiary.

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

(3) *Supervisors*

We are required to adopt rules governing dealings by our Supervisors in our securities in terms no less exacting than those of the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Hong Kong Listing Rules, issued by the Hong Kong Stock Exchange.

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

(4) *Changes to Articles of Association*

We may not at any time permit or cause any amendment to be made to our Articles of Association which would cause them to cease to comply with the Mandatory Provisions or the Hong Kong Listing Rules relating to our Articles of Association.

(5) *Documents for inspection*

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

- (a) a complete duplicate register of shareholders;
- (b) a report showing the state of our issued share capital;
- (c) our latest audited financial statements and the reports of the Directors, auditors and (if any) Supervisors;
- (d) special resolutions;
- (e) reports showing the number and nominal value of securities repurchased by us since the end of the last financial year, the aggregate amount paid for the repurchase of such securities and the maximum and minimum price paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- (f) a copy of the latest annual return filed with the SAIC or other competent PRC authorities; and
- (g) for shareholders only, copies of the minutes of meetings of shareholders.

(6) *Appointment of receiving agents*

We are required to appoint one or more receiving agents in Hong Kong to receive on behalf of the shareholders dividends declared and other monies owing by us in respect of H Shares listed on the Hong Kong Stock Exchange to be held, pending payments, in trust for holders of the H Shares.

(7) *Statements to be made on acquisition of Shares*

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

- (a) agrees with us and each of our shareholders, and we agree with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with us, each shareholder, Director, Supervisor, manager and other officer, and we, acting for ourselves and for each Director, Supervisor, manager and other officer agree with each shareholder to refer all disputes and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC

Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association. Any reference to arbitration will be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;

- (c) agrees with us and each of our shareholders that our Shares are freely transferable by the holder thereof; and
 - (d) authorizes us to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to our shareholders stipulated in our Articles of Association.
- (8) *Compliance with the PRC Company Law, the Special Regulations and our Articles of Association*

We are required to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association.

Contract between our Company and every Director and officer

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

- (a) an undertaking by the Director or officer to us to observe and comply with the PRC Company Law, the Special Regulations, our Articles of Association, the Hong Kong Takeovers Codes and an agreement that we will have the remedies provided in our Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Director or officer to us acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in our Articles of Association; and
- (c) an arbitration clause which provides that:
 - (i) Whenever any disputes or claims arise from the contract, our Articles of Association or any rights or obligations conferred or imposed by the laws and administrative regulations concerning our affairs between (1) us and our Directors or officers or (2) a holder of H Shares and a Director or officer, such disputes or claims will be referred to arbitration;
 - (ii) The entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are our shareholders, Directors, Supervisors, managers or other officers, shall submit to the arbitration.
 - (iii) Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.
 - (iv) Once the party seeking the arbitration submits a dispute or claim to the arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration. The party seeking arbitration may elect to have the dispute or claim arbitrated either by the CIETAC in accordance with its arbitration rules or by the HKIAC in accordance with its securities arbitration rules.

- (v) If the party seeking the arbitration elects to arbitrate the dispute or claim at the HKIAC, either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of the HKIAC.
- (vi) PRC laws shall govern the arbitration of disputes or claims referred to in Clause (a) above, unless otherwise provided by law or administrative regulations.
- (vii) The award of the arbitral body is final and shall be binding on the parties thereto.
- (viii) The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder; and
- (ix) Any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct the hearing in open session and to publish its award.

Contract between our Company and every Supervisor

We are also required to enter into a contract in writing with every Supervisor containing at least the following provisions:

- (a) an undertaking by the Supervisor to us to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association and an agreement that we will have the remedies provided in our Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Supervisor to us acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in our Articles of Association; and
- (c) the arbitration clause in terms set out in sub-paragraph (c) of the preceding paragraph in relation to a contract between our Company and every Director or officer subject to necessary modifications.

3. GENERAL

If any change to PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been formulated, the Hong Kong Stock Exchange may impose additional requirements or make the listing of our H Shares subject to such special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes to PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of our listing.

4. PRC LEGAL MATTERS

King & Wood, PRC Lawyers, our legal adviser on PRC law, has sent to us a letter dated June 13, 2005 confirming that it has reviewed the summaries of the PRC Company Law, the PRC Securities Law and the relevant securities regulations and the summaries of certain material differences between the Hong Kong company law and the PRC Company Law insofar as they relate to PRC law as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. This letter is available for inspection as referred to in the section headed "Documents Available for Inspection" in Appendix X.

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