

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

This appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix VI of this prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

THE PRC COMPANY LAW

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations of the State Council on Overseas Offering and Listing of Shares by Joint Stock Limited Companies, or the Special Regulations, and the Mandatory Provisions for Companies Listing Overseas, or the Mandatory Provisions. References to a “company” are to a joint stock limited company established under the PRC Company Law with overseas listed foreign invested shares.

General

A “joint stock limited company” is a corporate legal person established 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 they hold, and the liability of the company is limited to the full amount of all the assets it owns.

Establishment

A company may be established by promotion or public subscription.

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

A company may be established by a minimum of five promoters, but at least half of the promoters must reside in the territory of the PRC. According to the Special Regulations, state-owned enterprises or enterprises with the majority of their assets owned by the PRC government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies, if incorporated by promotion, may have less than five promoters.

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 RMB 10 million. The total share capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB 50 million.

The establishment of a company must be approved by the department authorized by the State Council or by the provincial level government.

Share Capital

The promoters may make capital contributions in cash, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

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 except for a joint stock limited company in the high and new technology industry.

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

A company may issue registered or bearer share certificates. However, shares issued to promoters, state-authorized investment organizations and PRC legal persons shall be in the form of registered share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic invested shares.

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

The share offering price may be equal to or greater than, but may not be less than, the par value of the company's shares.

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 the shareholders in a shareholders' general meeting and meet the following conditions:

- the previous issue of shares has been fully subscribed and at least one year has elapsed since that issue, but under the Special Regulations, if a company increases its capital through an issue of overseas listed foreign invested shares, the time period elapsed since the last issue of shares may be less than 12 months;
- the company has been profitable for the last three consecutive years and is able to make dividend payments to its shareholders;
- there has been no false reporting in the company's financial and accounting documents during the last three years; and
- the company's forecast profit margin is comparable to the bank deposit rate for the same term.

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

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Reduction of Share Capital

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

- the company shall prepare a balance sheet and other financial statements;
- the reduction of registered capital must be approved by shareholders at a shareholders' general meeting;
- the company shall inform its creditors of the capital reduction within 10 days and publish a public announcement of the reduction in a newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- the creditors of the company may within the statutory time limit require the Company to repay its debts or provide guarantees for the debts; and
- the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of shares

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

Under the Company Law, within 10 days following the purchase by a company of its own shares, a company must in accordance with applicable law and administrative regulations cancel the repurchased portion of its shares, change its registration and issue a public notice.

Transfer of shares

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

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. Registered shares may be transferred after the shareholders endorse the share certificates or in any other manner specified by applicable laws and regulations. Bearer shares are transferred by delivery of the certificates to the transferee.

Shares issued to promoters may not be transferred within three (3) years after the establishment of the company. Shares held by directors, supervisors and the manager of a company may not be transferred during their term of office with the company.

There is no restriction under the PRC Company Law on the percentage of shareholding by a single shareholder in a company.

Transfers of shares shall 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 for determining distribution of dividends.

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Shareholders

Shareholders have the 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:

- to attend shareholders' general meetings in person or by proxy, and to vote in accordance with the number of shares held;
- to transfer his or her shares at a legally established stock exchange in accordance with the PRC Company Law and the articles of association of the company;
- 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;
- if a resolution to be adopted at a shareholders' general meeting or by the board of directors violates any law or administrative regulation or infringes the lawful rights and interests of shareholders, to initiate legal proceedings in the People's Court to stop the passing of such resolution;
- to receive dividends in accordance with the number of shares held;
- to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; and
- 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 subscription monies in respect of shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of 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.

Shareholders' General Meetings

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

The shareholders' general meeting exercises the following powers:

- to decide on the company's business policies and investment plans;
- to elect and replace the directors and decide on matters relating to the remuneration of directors;
- to elect and replace the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;
- to examine and approve reports of the board of directors and the supervisory committee;
- to examine and approve the company's proposed annual budget and final accounts;
- to examine and approve the company's profit distribution plans and plans for recovery of losses;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters; and
- to amend the company's articles of association.

The shareholders' general meeting shall be held once a year. An extraordinary shareholders' general meeting shall be held within two months after the occurrence of any of the following circumstances:

- 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;
- the accumulated losses of the company reach one-third of the company's total share capital;
- shareholders holding 10% or more of the Company's issued and outstanding shares request the convening of an extraordinary shareholders' general meeting;
- the board of directors deems necessary; or
- the supervisory committee so requests.

Shareholders' general meetings shall be convened by the board of directors, and presided 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 are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Mandatory Provisions, 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 proposed at the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution of a company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by shareholders present, including those represented by proxies at the meeting.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, separation, merger, dissolution, liquidation, and amendments to the articles of association, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the shareholders' general meeting.

A shareholder may appoint a proxy to attend a shareholders' general meeting on his or her behalf by a power of attorney stating the scope of the exercise of the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a shareholders' general meeting may be held when written replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date. If that 50% level is not achieved, the company shall within five days

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

of the last day for receiving written 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 shareholders' general meeting may be held thereafter.

The Mandatory Provisions require class shareholders' meetings to be held in the event of a variation or abolition of the rights of class shareholders. Holders of domestic invested shares and holder of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

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

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

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

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed by the shareholders at shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual budget and final accounts;
- to formulate the company's profit distribution plans and plans for recovering losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division or dissolution of the company;
- to decide on the company's internal management structure;
- to appoint or dismiss the company's general manager and, on the general manager's recommendation, to appoint or dismiss the deputy general manager and financial officers of the company and to decide on their remunerations; and
- to formulate the company's basic management system.

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

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

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

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

opposed the resolution, and that such opposition was 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 a director of a company:

- persons without civil capacity or with restricted civil capacity;
- persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the completion of this deprivation;
- persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to a mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- persons who have a relatively large amount of debts due and outstanding; or
- persons who are State civil servants.

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

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

- to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- to check on the implementation of the resolutions of the board of directors; and
- 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 officers shall not act concurrently as supervisors.

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The board of supervisors exercises the following powers:

- to examine the company's financial affairs;
- to supervise the directors and managers in their performance of their duties and to ascertain whether they have violated laws, regulations or the articles of association of the company;
- when an act of a director or manager is harmful to the company's interests, to require him or her to rectify such act;
- to request the convening of extraordinary shareholders' general meetings; and
- 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 as described above also apply to supervisors of a company.

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:

- supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's internal rules;
- 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);
- attend board meetings; and
- other powers conferred by the board of directors or the company's articles of association.

The Special Regulations provide that the senior management of a company includes the financial controller, the 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 also apply to managers and officers of the company.

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

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Duties of Directors, Supervisors, Managers and Officers

Directors, supervisors, managers and 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. Directors, supervisors, managers and officers of a company are also under a duty of confidentiality to the company and are prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

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

The Special Regulations and the Mandatory Provisions provide that directors, supervisors, managers and officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit. The Mandatory Provisions (which have been incorporated into our articles of association, a summary of which is set out in Appendix VIII) further elaborates such duties.

Financial Reporting

A company must at the end of each financial year prepare a financial report which shall be audited and verified in accordance with law.

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

Appointment and Retirement of Auditors

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

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

If a company removes or ceases to engage the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations at a shareholders' general meeting. The appointment, removal or engagement of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

Distribution of Profits

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

Amendment of Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment to the provisions incorporated in

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

the articles of association in accordance with the Mandatory Provisions will only be effective upon approval by the companies approval department authorized by the State Council and the CSRC.

Termination and Liquidation

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

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

- the term of its operation stipulated in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- a resolution is passed at a shareholders' general meeting to dissolve the company; or
- the company needs be dissolved due to its merger or separation.

Where the company is dissolved in the first two circumstances described above, a liquidation committee must be appointed by the shareholders at a shareholders' general meeting.

Following a creditor notification process, the liquidation committee shall be responsible for dealing with the company's assets and settling claims.

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

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant competent authority for verification. Thereafter, the liquidation committee shall submit the report to the company registration authority to cancel the company's registration and issue a public notice of the termination of the company's business.

Overseas Listing

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

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

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that registered share certificates are either stolen or lost, for a declaration that such certificates are revoked. Upon such a declaration, the shareholder may apply to the company for the issuance of replacement certificates.

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The Mandatory Provisions provide for a separate procedure regarding the loss of H share certificates (which has been incorporated in our articles of association).

Suspension and termination of listing

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

- the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;
- the company failed to publish its financial statements in accordance with the applicable requirements or there is false information in the company's financial report;
- the company has committed a major breach of the law; or
- the company incurred losses in each of the preceding three years.

The securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to dissolve itself or is lawfully ordered by the its competent authority to close down, or the company is declared bankrupt.

Merger and Separation

The merger or separation of a company is to be decided by the shareholders in general meeting, subject to the approval of the departments authorized by the State Council or the approval of the relevant provincial government.

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

The companies should within 10 days of the resolution of the merger notify their respective creditors and issue a public notice to the creditors in newspapers at least three times within 30 days of the resolution to merge. Those creditors who had not received a written notice may within 90 days after the first public notice is given, or within 30 days after receiving a written notice, request the company to repay any outstanding debts or provide guarantees. Companies unable to repay such debts or provide guarantees will not be allowed to merge. The new amalgamated entity shall be responsible for the debts and obligations of the companies merged.

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

When a company's shareholders approve the separation of the company, the company should notify all its creditors within 10 days of such resolution being passed and issue a public notice at least three times in newspapers within 30 days. A creditor may within 30 days after receiving a written notice or, a creditor who has not received such notice may within 90 after the first public notice is given request that the company repay any outstanding debts or provide an appropriate guarantee.

SECURITIES LAW AND SUPERVISION

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

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The CSRC is the securities regulator in the PRC and is responsible for formulating securities policies, drafting securities regulations, supervising securities markets, market intermediaries and participants, regulating public offers of securities by PRC companies in the PRC or overseas, and regulating the trading of securities.

The Provisional Regulations Concerning the Issue and Trading of Shares (promulgated in 1993) deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement.

In 1993, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information of the Public Offering Companies. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public both in the PRC and overseas. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and annual reports and announcement of material transactions or matters by companies which have offered shares to the public.

The Provisional Measures Prohibiting Fraudulent Conduct relating to Securities (promulgated in 1993) prohibit the use of insider information in connection with the issue of or trading in securities; the use of funds or information or the abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading and in respect of which there is any material omission.

The Regulations of the State Council Concerning the Domestic Listed Foreign Shares of Joint Stock Limited Companies (promulgated in 1995) regulates the issue, subscription and trading of domestic listed foreign shares, declaration of dividends and other distributions and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The Securities Law of the PRC (effective 1999 and amended 2004) was the first national securities law in the PRC and is the fundamental law comprehensively regulating the issue and trading in the PRC of shares, corporate bonds and other securities designated by the State Council.

On March 29, 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Promotion of the Standardized Operation and In-Depth Reform of Companies Listed Overseas, or the Opinion, which is aimed at regulating the internal operation and management of the PRC companies listed overseas. We will be subject to the Opinion upon our H shares being listed on the Hong Kong Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors on the board of directors and the appointment and functions of external supervisors on the supervisory committee.

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

THE ARBITRATION LAW

The Arbitration Law of the PRC, or the Arbitration Law, governs arbitration in the PRC, and is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

accordance with the Arbitration 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 People's Court except when the arbitration agreement is void.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the 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 shares and the company; (ii) a holder of overseas listed foreign shares and a director, supervisor, or senior management; or (iii) a holder of overseas listed foreign shares and a holder of domestic shares, unless otherwise specified in the articles of association, such parties shall submit that dispute or claim to arbitration before either the China International Economic and Trade Arbitration Commission, or CIETAC, or the Hong Kong International Arbitration Centre, or HKIAC, for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organ in the PRC. Pursuant to the CIETAC Arbitration Rules, CIETAC's jurisdiction covers disputes relating to the Hong Kong Special Administrative Region. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

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

A party seeking to enforce an arbitral award of a PRC arbitration organ against a party who or whose property is not in the territory of 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 accede to by the PRC. The PRC has acceded to the New York Convention on the enforcement of arbitral awards. 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. Following the resumption of sovereignty over Hong Kong by the PRC on July 1, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. From February 2000, the Memorandum of Understanding on the Agreement for Reciprocal Enforcement of Arbitral Awards between Hong Kong and China provides that PRC arbitral awards will be able to be enforced in Hong Kong and Hong Kong arbitration awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong legislative council and the Supreme People's Court of the PRC and became effective on February 1, 2000.

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

HONG KONG LAWS AND REGULATIONS

Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by the common law. We, being a joint stock limited company established in the PRC seeking a listing, are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited company established in the PRC issuing overseas listed foreign shares to be listed on the Hong Kong Stock Exchange.

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

Corporate existence

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

Under the PRC Company Law, a company may be incorporated by either promotion or public subscription. A company established by public subscription will only acquire its corporate existence after it has completed its initial share offering to the public and such a company may only issue further shares after a year has elapsed since its last share offer. Under the PRC Company Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB50 million. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the shares allotted by a joint stock limited company in return for injection of industrial property rights and non-patented technology generally shall not exceed 20% of the registered capital of a company. There is no such restriction on a Hong Kong company under Hong Kong law.

Share capital

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

Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

natural persons. The overseas listed foreign shares issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC. Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within three years after the date of establishment of the company. Shares in a joint stock limited company held by its directors, supervisors and manager cannot be transferred during their respective terms of office. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

Financial assistance for acquisition of shares

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

Variation of class rights

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

Directors

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

Board of supervisors

Under the PRC Company Law, the board of directors of a joint stock limited company is subject to the supervision of a board of supervisors. There is no mandatory requirement for the establishment of a board of

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

Derivative action by minority shareholders

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

Protection of minorities

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

Notice of shareholders' meetings

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

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is provided for in the articles of association of the company, which shall not in any event be less than two members. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by 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 members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires one half or more of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, merger, separation or dissolution of a joint stock limited company which requires two-thirds or more of votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

Financial disclosure

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

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

The Special Regulations require that there shall 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 shall also be disclosed simultaneously.

Information on directors and shareholders

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

APPENDIX VII SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

shareholders and directors similar to that available under Hong Kong law to shareholders of a company incorporated in Hong Kong.

Receiving agent

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

Corporate reorganization

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

Arbitration of disputes

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

Mandatory transfers

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

Securities Arbitration Rules

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