

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 IX to this Prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the Company Law and Company Ordinance, 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.

1. PRC LAWS AND REGULATIONS

A. The PRC Legal System

The PRC legal system is based on the PRC Constitution (the "*Constitution*") and is made up of written laws, administrative regulations, local regulations, autonomy regulations, special rules, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congress of China ("*NPC*") and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. During the adjournment of the NPC, the Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of the laws enacted by the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of the provinces, autonomous regions and municipalities directly under the central government and their respective standing committees may, subject to the Constitution, laws and administrative regulations, formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas. The people's congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of such cities and promulgate the same upon approval from the standing committees of the people's congresses of provinces or autonomous regions. The standing committees of the people's congresses of the provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the provinces or autonomous regions concerned. Where conflicts with the rules and regulations of the people's governments of the provinces or autonomous regions concerned are identified in the examination for approval of local regulations of larger cities by the standing committees of the people's congresses of the provinces or autonomous regions, a decision should be made to resolve the issue. "Larger cities" refer to cities where the people's governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

The people's congresses of autonomous regions have the power to enact autonomous regulations and special rules in the light of the political, economic and cultural characteristics of ethnic groups in the region. The autonomous regulations and special rules enacted by an autonomous region shall be effective upon approval by the standing committee of the people's congresses of the provinces, autonomous regions or municipalities directly under the central government. An autonomous regulation or special rule enacted by an autonomous prefecture or autonomous county may be flexibly modified according to the flexible provisions of laws or

administrative regulations as long as such flexible provisions do not contravene the basic principles thereof, but such autonomous regulations or special regulations shall not make flexible modifications to the specific provisions under the Constitution, laws or administrative regulations enacted in respect of the national autonomous regions.

The ministries and commissions of the State Council, the PBOC, the National Audit Office and the subordinate institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdictions of their respective departments based on the laws and administrative regulations, and decisions and orders of the State Council. Provisions of departmental rules should be related to the enforcement of the laws and administrative regulations, and decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities directly under the central government and larger cities may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities directly under the central government.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law passed on June 10, 1981, the Supreme People's Court has the power to provide general interpretations of the applicable laws in judicial proceedings in addition to its power to issue specific interpretations of specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretations of the statutes and administrative regulations which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

B. The PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC, the PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal 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). These two levels of people's courts are subject to supervision by people's courts at higher levels. The people's procuratorates also have the power to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial authority in the PRC. It supervises the administration of justice by the people's courts at all levels.

The judgments or rulings of the second instance at a people's court are final. The principal may appeal against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may appeal to the people's court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the principal and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's court are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at the next higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which 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*") adopted on April 9, 1991 and amended on October 28, 2007 prescribes the provisions for instituting a civil action, the jurisdiction

of the people's courts, the procedures to be followed for conducting a civil action, the judicial procedures, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of performing the contract or the place of executing the contract or the place where the object of the action is located. However, such choice may not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a foreign court limit the litigation rights of PRC citizens and enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or a ruling made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within a stipulated period. Specific time limits are imposed on the rights to apply for such enforcement. If at least one of the parties to the dispute or arbitration is an individual, such time limit is one year. If both parties to the dispute or arbitration are legal persons or other entities, such time limit is six months. If a party fails to satisfy a judgment which the court has granted an enforcement approval within the stipulated period, the court may, upon the application of the other party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or ruling of a people's court against another party who is not or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Likewise, if the PRC has entered into a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign judgment or ruling may also be recognized and enforced in accordance with the PRC enforcement procedures by a PRC court based on the equity principle unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC or its sovereignty or national security, or social and public interest.

C. The Company Law, the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies promulgated by the State Council (the "*Special Regulations*") and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "*Mandatory Provisions*")

The Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on December 29, 1993 and came into effect on July 1, 1994. It was amended on December 25, 1999 and August 28, 2004 and revised on October 27, 2005. The revised Company Law came into effect on January 1, 2006.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations are formulated in respect of the overseas share offering and listing of joint stock limited companies. The Mandatory Provisions jointly promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on August 27, 1994 prescribe the provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix VIII of this Prospectus. References to a "company" made in this appendix are a joint stock limited company established under the Company Law with H shares.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions.

General

A "*joint stock limited company*" refers to a corporate legal person established under the Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the total amount of all assets it owns and the liability of its shareholders is limited to the extent of the shares they subscribe for.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by a minimum of two but no more than 200 promoters, and at least half of the promoters must have residence within the PRC. Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. The initial capital contribution by all promoters of the company shall not be less than 20% of the registered capital. The remainder shall be paid up in full within two years from the date of its incorporation by the promoters. For investment companies, the remainder may be paid up in full within five years. Shares in the company shall not be offered to others unless the registered capital has been paid up. For companies incorporated by public subscription, the registered capital of which is the total paid up capital as registered with the relevant registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them under the articles of association. The full amount of capital contribution shall be paid up if the payment is made in one lump sum. The first installment of capital contribution shall be paid forthwith if the payment is made in installments. Procedures relating to the transfer of titles for non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters' agreement. After the promoters have completed the initial capital contribution, a board and a supervisory board shall be elected and the board shall apply for registration of incorporation by filing the articles of association with the company registration authorities, together with a capital verification certificate issued by a capital verification institution established by laws and other documents as required by the law or administrative regulations. Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided for by the laws or administrative regulations. A promoter who offers shares to the public must publish a share offering prospectus and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up the amounts for the number of shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities houses established by laws, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and furnish evidences of receipt of subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established by laws must be engaged to conduct capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days. The inauguration meeting shall be formed by the subscribers. Where the shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days after

the subscription monies for the shares issued have been fully paid up, the subscribers may demand the promoters to refund the subscription monies so paid together with the interest at bank rates for a deposit for the same period. Within 30 days after the conclusion of the inauguration meeting, the board shall apply to the registration authorities for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall individually and collectively be liable for:

- (i) the debts and expenses incurred from incorporation if the company cannot be incorporated;
- (ii) the refund of subscription monies paid by the subscribers together with interest at bank rates for a deposit for the same period if the company cannot be incorporated; and
- (iii) the compensation of the damages suffered by the company as a result of the promoters' default in the course of its incorporation.

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 issue and trading of shares in the PRC and their related activities), if a company is established by subscription, the promoters of such company are required to take joint responsibility for the accuracy of the contents of the share offering prospectus and to ensure that the share offering prospectus does not contain any misleading statement or omit any material information.

Share capital

The promoters may make capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for the assets prohibited to be contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation and verification of the assets contributed pursuant to the relevant provisions of the laws or administrative regulations on valuation must be carried out without any over-valuation or under-valuation. The amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

A company may issue registered or bearer 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. 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 known as domestic shares. 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 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.

Increase in share capital

Under the Company Law, an issue of shares shall be conducted in a fair and equitable manner. Shares of the same class shall rank *pari passu* with one another. Shares of the same class in the same offer shall be issued on the same terms and at the same price. The same price per share shall be paid by any organization or individual who subscribe for the shares.

Where a company is issuing new shares, resolutions shall be passed by the general meeting or the board in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders. When a company launches a public issue of new shares upon the approval by the CSRC, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the company has been paid up, the change must be registered with the company registration authorities and an announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies in relation to the incorporation of a company.

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 Company Law:

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

Repurchase of shares

A company may not purchase its own shares other than for one of the following purposes:

- (i) reducing its registered capital;
- (ii) merging with another company which holds its shares;
- (iii) granting shares to its employees as incentives; and
- (iv) acquiring its own shares at the request of its shareholders who vote against a resolution regarding a merger or separation in a general meeting.

The acquisition by a company of its own shares on the grounds set out in (i) to (iii) above must be approved by way of a resolution of a general meeting. Following the acquisition by a company of its own shares in accordance with the foregoing, such shares must be canceled within 10 days from the date of the acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

The acquisition by a company of its own shares in accordance with (iii) under the first paragraph hereof shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the employees within one year.

Transfer of shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse on the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and addresses of the transferees into its share register. No changes of registration in the share register provided in the foregoing shall be effected during a period of 20 days prior to the convening of a shareholders' general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder.

Shares held by promoters may not be transferred within one year after the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year from the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company. They shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they have left their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Shareholders

Under the Company Law, the rights of shareholders include the rights:

- (i) to receive return on assets, participate in significant decision-making and select the management personnel;
- (ii) to petition the people's court to revoke any resolution passed at a general meeting or a meeting of board that has been convened illegally or whose voting has been conducted in an illegal manner, or any resolution that is in violation of the articles of association, provided that such petition shall be submitted within 60 days of the passing of such resolution;
- (iii) to transfer their shares according to the applicable laws and regulations and the articles of association;
- (iv) to appoint a proxy to attend general meetings;
- (v) to inspect the articles of association, share register, counterfoil of company debentures, minutes of general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make suggestions or enquiries in respect of the company's operations;
- (vi) to receive dividends in respect of the number of shares held;
- (vii) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (viii) any other shareholders' rights provided for in the articles of association.

The obligations of shareholders 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 subscription monies agreed to be paid

in respect of the shares taken up by them and any other shareholders' obligation specified in the company's articles of association.

General meetings

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law. The general meeting may exercise its powers as follows:

- (i) to decide on the company's operational objectives and investment proposals;
- (ii) to elect and remove the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;
- (iii) to review and approve the reports of the board;
- (iv) to review and approve the reports of the supervisory board or supervisors;
- (v) to review and approve the company's annual financial budgets and final accounts;
- (vi) to review and approve the company's profit distribution proposals and loss recovery proposals;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of corporate bonds;
- (ix) to decide on the issues such as merger, separation, dissolution and liquidation of the company;
- (x) to amend the company's articles of association; and
- (xi) any other authority stipulated under the articles of association.

General meeting is required to be held once every year. An extraordinary general meeting is required to be held within 2 months after the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the laws or less than two-thirds of the number specified in the articles of association;
- (ii) the aggregate outstanding losses of the company amounted to one-third of the company's total share capital;
- (iii) shareholders individually or aggregately holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- (iv) the board deems necessary;
- (v) the supervisory board so requests; or
- (vi) other circumstances as provided for in the articles of association.

General meeting shall be convened by the board, and presided over by the chairman of the board. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall preside over the meeting. Where the board is incapable of performing or not performing its duties of convening the general meeting, the supervisory board shall convene and preside over such meeting in a timely manner. In case the supervisory board fails to convene and preside over such meeting, shareholders individually or aggregately holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

A notice of the general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. In accordance with the Mandatory Provisions, a notice of the general meeting stating, among other things, matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his written reply regarding his attendance of the meeting to the company 20 days before the date of the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting. Shareholders individually or aggregately holding more than 3% of the company's shares may submit interim proposals to the board in writing 10 days before the general meeting.

The board shall notify other shareholders within two days after receiving such proposal and table such interim proposal for review by the general meeting. Interim proposals shall be within the authority of the general meeting and shall carry specific subjects and matters for resolution. A general meeting shall not make any resolution in respect of any matters not set out in the above two types of notices. Holders of bearer share certificates who wish to attend the general meeting shall deposit his share certificates with the company five days before the meeting, which shall remain in custody by the company until the close of the general meeting.

Shareholders present at a general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, separation, dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which must be passed by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company must be approved by way of resolution of the general meeting, the directors shall convene a general meeting promptly to vote on such matters. The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the general meeting for the election of directors and supervisors at the general meeting. Under the accumulative voting system, each share shall be entitled to the votes equivalent to the number of directors or supervisors to be elected for the election of directors or supervisors at the general meeting, and shareholders may consolidate their voting rights when casting a vote.

Minutes shall be prepared in respect of matters considered at the general meeting and the chairman and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities, and bonds, the liquidation of the company and any other matters in respect of which the shareholders are required to be decided by ordinary resolution, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a general meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened 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, or if that 50% level is not achieved, the company shall within 5 days of the last day for receipt of the replies notify shareholders again by announcement of the matters to be considered at the meeting and the date and venue of the meeting and the general meeting may be held by the company thereafter.

The Mandatory Provisions require class shareholders' meetings to be held in the event of a variation or derogation of the class rights of a shareholder class. For this purpose, holders of domestic shares and H Shares are deemed to be shareholders of different classes.

Directors

A company shall have a board, which shall consist of five to 19 members. Members of the board may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the Company Law, the board may exercise its powers as follows:

- (i) to convene the general meetings and report on its work to the general meetings;
- (ii) to implement the resolutions passed by the shareholders at the general meetings;
- (iii) to decide on the company's operational plans and investment proposals;
- (iv) to formulate the company's annual financial budgets and final accounts;
- (v) to formulate the company's profit distribution proposals and loss recovery proposals;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to formulate proposals for the merger, separation or dissolution of the company or change of corporate form;
- (viii) to decide on the setup of the company's internal management;
- (ix) to appoint or dismiss the company's general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remunerations;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other authority stipulated under the articles of association.

Meetings of the board shall be convened at least twice a year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days after receiving such proposal, and preside over the same. The board may otherwise determine the means and the period for which the notice to be given for convening an extraordinary meeting of the board. Meetings of the board shall be held only if more than half of the directors are present. According to the Mandatory Provisions, meetings of the board shall not be held unless more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend the meetings of the board in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of the authorization of his/her representative.

If a resolution of the board violates any laws, administrative regulations or the articles of association, and as a result of which the company suffers from serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the Company Law, the following persons may not serve as a director in a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the socialist economic order, and have been sentenced to criminal punishment, where less than 5 years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than 5 years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who were directors, factory managers or managers of a company or enterprise which has become bankrupt and has been liquidated and who were personally liable for the bankruptcy of such company or enterprise, where less than 3 years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or which were ordered for closure resulting from violation of laws and who were personally liable for such revocation or closure, where less than 3 years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively substantial amount of debts due and outstanding. Where a company elects or appoints a director in violation of the aforesaid provisions, such election or appointment shall be null and void. Directors committing the above during their terms of office shall be released of their duties by the company.

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 shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing or not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

Supervisors

A company shall have a supervisory board composed of not less than 3 members. The supervisory board is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board are elected by more than half of all the supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory board meetings. Directors and senior management shall not act concurrently as supervisors.

Each term of office of a supervisor is 3 years and he/she may serve consecutive terms if re-elected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers as follows:

- (i) to review the company's financial position;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolutions;
- (iii) when the acts of a director or management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;
- (iv) to propose the convening of extraordinary general meetings and to convene and preside over shareholders' meetings when the board fails to perform the duty of convening and presiding over general meetings under the Company Law;
- (v) to submit proposals to the general meetings;
- (vi) to bring actions against directors and senior management pursuant to the relevant provisions of the Company Law;
- (vii) to exercise any other authority stipulated under the articles of association.

Supervisors may be present at the meetings of the board, and make enquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operations of the company and, when necessary, may engage an accounting firm to assist its work at the costs of the company.

Managers and senior management

A company shall have a general manager who shall be appointed or removed by the board. The general manager may exercise his/her powers as follows:

- (i) to manage the production, operation and administration of the company, and arrange for the implementation of the resolutions of the board;
- (ii) to organize and implement the annual plans and investment proposals of the company;
- (iii) to formulate the setup proposals for the establishment of the company's internal management structure;
- (iv) to formulate the fundamental management system of the company;
- (v) to formulate the company's internal rules;
- (vi) to recommend the appointment or dismissal of deputy managers and any financial officer of the company;

(vii) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board);

(viii) to exercise any other authority granted by the board.

Other provisions in the articles of association on the general manager's powers shall also be complied with. The general manager shall be present at the meeting of the board. However, the non-managing director shall have no voting rights at the meeting of the board.

According to the Company Law, senior management refers to the general manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

Duties of the directors, supervisors, general managers and other senior management

Directors, supervisors, general manager, deputy manager and senior management are required under the Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties in good faith. Directors, supervisors, managers and management personnel are prohibited from accepting bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

- (i) misappropriating company funds;
- (ii) depositing company funds into accounts maintained in their own names or the names of other individuals;
- (iii) lending company funds to others or providing guarantees in favor of others on the company properties which is in violation of the articles of association or without approval of the general meeting or the board;
- (iv) entering into contracts or transactions with the company which is in violation of the articles of association or without approval of the general meeting or the board;
- (v) Using his/her position to procure business opportunities for himself/herself or others that should have otherwise been available to the company or operating for his/her own benefit or operating on behalf of others businesses similar to that of the company without approval of the general meeting;
- (vi) accepting for their own benefits commissions from a third party dealing with the company;
- (vii) unauthorized divulgence of confidential information of the company;
- (viii) any other acts in violation of his/her fiduciary duty towards the company.

Income generated by directors or senior management in violation of the foregoing provisions shall be reverted to the company.

A director, supervisor or senior management who contravenes any laws, regulations or the company's articles of association in the performance of his/her duties resulting in any loss to the company shall be personally liable to the company.

Where a director, supervisor or senior management is required to attend a general meeting, such director, supervisor or senior management shall attend the meeting and answer the enquiries from shareholders. Directors and senior management shall furnish all truthful facts and information to the supervisory board or the supervisors (for companies with limited liability that do not have a supervisory board) without impeding the discharge of duties by the supervisory board or the supervisors.

Where a director or senior management contravenes any laws, regulations or the company's articles of association in the performance of his/her duties resulting in any loss to the company,

shareholders holding individually or aggregately more than 1% of the company's shares consecutively for 180 days may request in writing the supervisory board to institute a litigation at a people's court on their behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of their duties resulting in any loss to the company, the aforesaid shareholders may request in writing the board to institute a litigation at a people's court on their behalf. In the event that the supervisory board or the board refuses to institute a litigation after receiving the written request from the shareholders as provided above, or fails to institute litigation within 30 days from the date of receiving the request, or in case of emergency where failure to institute a litigation immediately will result in irrecoverable damages to the company's interests, shareholders mentioned in the foregoing shall have the power to institute a litigation directly at a people's court in their own name for the company's benefits. For other parties who infringe the lawful interests of the company resulting in losses to the company, such shareholders may institute a litigation at a people's court in accordance with provisions in the foregoing paragraphs. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, shareholders may also institute a litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other senior management shall have fiduciary duties towards the company. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and accounting

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial statements shall be made available for shareholders' inspection at the company's registered office at least 20 days before the convening of an annual general meeting. A joint stock limited company established by way of public subscription shall publish its financial statements. When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made appropriations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' meeting or a general meeting, make further appropriations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits after taxation are distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

Profits distributed to shareholders by a resolution of a general meeting or the board before losses have been made good and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. Shares held by the company shall not be entitled to any distribution of profits.

The premium over the nominal value of the shares of the company on issue and other incomes as required by relevant government authorities to be treated as the capital reserve fund shall be

accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make up for the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory ones. The company's assets shall not be deposited in any account opened under the name of an individual.

Appointment and retirement of auditors

Pursuant to the Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a general meeting or the board in accordance with the articles of association. The accounting firm should be allowed to make statements when shareholders at a general meeting or the board are going to conduct a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, accounting books, financial and accounting reports and other accounting information to the newly-engaged accounting firm without any refusal, withholding and false information. The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company.

Profit distribution

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 the articles of association

Any amendments to the articles of association must be made in accordance with the procedures set forth in applicable laws, regulations and the articles of association. Any amendment of provisions incorporated into the articles of association in accordance with the Mandatory Provisions will only be effective after it has been approved by the company approval department authorized by the CSRC and the State Council and filed with the SAIC or any of its local bureaus for registration. If the amendment to the articles of association is required to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

Dissolution and liquidation

A company shall be dissolved for any of the following reasons:

- (i) the term of its operations set forth in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;
- (ii) the shareholders have resolved at a general meeting to dissolve the company;
- (iii) the company is dissolved by reason of its merger or separation;
- (iv) the business license is revoked or the company's operation is ordered to close or is dissolved in accordance with the laws;
- (v) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company experience serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses for shareholders.

In the event of paragraph (i) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with provisions set out in the preceding paragraphs shall require the approval of shareholders present at the general meeting representing more than two-thirds of the voting rights.

Where the company is dissolved under the circumstances set forth in paragraphs (i), (ii), (iv) or (v) above, it should establish a liquidation team within 15 days from the date on which the dissolution matter arises. Members of the liquidation team shall be appointed by directors or shareholders at a general meeting. If a liquidation team is not established within the prescribed period, the company's creditors can file an application with a people's court, requesting the court to appoint relevant personnel to form a liquidation team for liquidation. The people's court should accept such application and form a liquidation team to conduct liquidation in a timely manner.

The liquidation team may exercise its powers during the liquidation as follows:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of assets;
- (ii) to notify the company's creditors or publish announcements;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any overdue tax as well as any tax arising during the liquidation process;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the company's remaining assets after its debts have been paid off; and
- (vii) to represent the company in civil procedures.

The liquidation team shall notify the company's creditors within 10 days after its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation team within 30 days upon receipt of the notification or within 45 days from the date of the announcement if he has not received any notification. A creditor shall state all matters relevant to his creditor's rights in making his claim and furnish evidences. The liquidation team shall register such creditor's rights. The liquidation team shall not make any settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation team shall draw up a liquidation plan and submit the same to a general meeting or a people's court for endorsement. The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts shall be distributed to shareholders according to the proportion of their capital contribution in the case of a company with limited liability or according to shareholding proportion in the case of a joint stock limited company. The company shall exist during the liquidation period, although it cannot be engaged in operating activities that are not related to the liquidation. The company's properties shall not be distributed to shareholders before repayments are made in accordance with the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation team becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws.

Following such declaration by the people's court, the liquidation team shall hand over the liquidation affairs to the people's court.

Upon completion of the liquidation, the liquidation team shall submit a liquidation report to a shareholders' meeting, a general meeting or a people's court for confirmation. Thereafter, the report shall be submitted to the companies' registration authority in order to cancel the company's

registration, and an announcement of its termination shall be published. Members of the liquidation team are required to discharge their duties in good faith and in compliance with relevant laws. Members of the liquidation team shall be prohibited from abusing their authority to accept bribes or other unlawful incomes and from misappropriating the company's properties. Members of the liquidation team are liable to indemnify the company and its creditors in respect of any loss arising from their willful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

Overseas listing

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

Loss of share certificates

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court in the event that his/her share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificate(s).

The Mandatory Provisions have separate provisions governing the loss of share certificates and H share certificates of shareholders of overseas listed foreign shares, which are set out in the articles of association.

Suspension and termination of listing

The new and amended Company Law has deleted provisions governing the suspension and termination of listing. The new Securities Law of the PRC (the "***Securities Law***") has been amended as follows: the trading of a company's shares on a stock exchange may be suspended if so decided by the stock exchange under any of the following circumstances:

- (1) the total issued share capital or the shareholding distribution no longer complies with the mandatory requirements for a listed company;
- (2) the company fails to make public its financial position in accordance with the requirements or there is false information in the company's financial report which is likely to mislead investors;
- (3) the company has committed a material breach of the laws;
- (4) the company has incurred losses for the last three (3) consecutive years; or
- (5) any other circumstances as required by the listing rules of the relevant stock exchange(s).

The new Securities Law has been amended as follows: the stock exchange shall decide to terminate the listing and trading of a listed company's stocks if the company is in any of the following circumstances:

- (1) where the company fails to meet the listing requirements as a result of any change in its total issued share capital or shareholding distribution, and where the company fails to meet the listing requirements within the period as prescribed by the stock exchange;
- (2) where the company fails to make public its financial position according to the relevant provisions or has any false record in its financial and accounting reports, and refuses to make any correction;

- (3) where the company has incurred losses for the last three (3) consecutive years and fails to make profits in the subsequent year;
- (4) where the company is dissolved or is declared bankrupt; or
- (5) under any other circumstances as required by the stock exchange's listing rules.

Merger and separation

A merger agreement shall be signed by merging companies and the involved companies shall prepare their respective balance sheets and inventory of assets. The companies shall within 10 days from the date of passing the resolution of the merger notify their respective creditors and publish an announcement in newspapers within 30 days. The creditors may, within 30 days upon receipt of the notification, or within 45 days from the date of the announcement if he has not received any notification, request the company to settle any outstanding debt or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a separation, the company's assets shall be divided accordingly and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's separation is approved, the company should notify all its creditors thereof within 10 days from the date of passing such resolution and make public the same in newspapers within 30 days. Unless agreed in writing by the creditors in respect of the settlement of debts, obligations in respect of the liabilities of the company before the separation shall be incidentally borne by the separated companies.

Changes in the particulars of the companies as a result of the merger or separation shall, if so required, be registered with the company registration authorities.

In accordance with the laws, cancellation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

D. Securities Laws and Regulations and Regulatory Regimes

The PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. The CSRC is the supervisory and regulatory institution for securities in the PRC. It is responsible for the formulation of policies relating to securities, the drafting of securities laws and regulations, the supervision of the securities markets, market intermediaries and participants, the supervision and regulation of the domestic and overseas public offerings of securities by Chinese companies, as well as the supervision and regulation of securities transactions.

On April 22, 1993, the State Council promulgated the **Provisional Regulations Concerning the Issue and Trading of Shares** (the "**Provisional Securities Regulations**"). The Provisional Securities Regulations stipulate the application and approval procedures for public offerings of equity securities, trading in equity securities, acquisitions of listed companies, deposit, settlement, clearing and transfer of listed equity securities, disclosure of information, investigation, penalties and dispute settlement with respect to listed companies. The Provisional Securities Regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC requires the approval of the State Council Securities Commission (or the CSRC at present). The provisions set out in the Provisional Securities Regulations in relation to the acquisition of listed companies and disclosure of information are expressed to apply to listed companies in general instead of being confined to companies listed on any particular stock exchange. Such provisions may therefore be applicable to joint stock limited companies whose shares are listed on a stock exchange outside the PRC (e.g. the Hong Kong Stock Exchange).

On August 4, 1994, the State Council promulgated the Special Regulations. These regulations deal mainly with the issue, subscription and trading of overseas listed foreign shares, declaration of

dividends and other distributions, and the disclosure of information in respect of the articles of association of joint stock limited companies with overseas listed foreign shares.

On December 25, 1995, the State Council promulgated the Provisions of the State Council on Foreign Currency Stocks Listed in the Domestic Stock Market Issued by Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription and trading of domestic listed foreign shares, declaration of dividends and other distributions, and the disclosure of information of joint stock limited companies with domestic listed foreign shares.

On December 29, 1998, the Standing Committee of the NPC promulgated the Securities Law of the PRC which came into effect on July 1, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities markets. On October 27, 2005, amendments were made to the Securities Law of the PRC. The Securities Law of the PRC is applicable to the issue of and trading in shares, corporate bonds and other securities designated by the State Council in accordance with the laws in the PRC. Where the Securities Law of the PRC does not apply, the provisions of the Company Law and other applicable laws and administrative regulations shall apply.

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

On May 7, 2006, the CSRC promulgated the Administrative Measures on the Issuance of Stocks by Listed Companies, which state the conditions and procedures for public offer and private placing of securities, including shares, convertible corporate bonds and other securities recognized by the CSRC. The measures also set forth information disclosure requirements, supervision procedures and penalties on non-compliance.

On December 31, 2006, the CSRC promulgated the Administrative Measures on Information Disclosure by Listed Companies. Under these measures, the CSRC is responsible for overseeing the disclosure of information by companies which have offered shares to the public in the PRC. These measures require share offering prospectus and listing reports to be issued in connection with a public share offering in the PRC, and require the companies which have offered shares to the public to publish regular reports (including annual, interim and quarterly reports) and announcements relating to material transactions and major issues.

E. Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the People's Republic of China (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, economic disputes involving foreign parties where all parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. The Arbitration Law provides that an arbitration committee may, before the promulgation of the arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for settlement of disputes, a people's court will refuse to handle the case even though one party institutes legal proceedings at such people's court, unless the arbitration agreement has lapsed.

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, in a contract between the company and each director or supervisor, to the effect

that whenever any dispute or claim arises from any right or obligation provided in the articles of association, the Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of H shares and the company's directors, supervisors or other management personnel, such parties shall refer such dispute or claim to arbitration at either the China International Economic and Trade Arbitration Commission (the "**CIETAC**") or the Hong Kong International Arbitration Center (the "**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 in accordance with the securities arbitration rules of the HKIAC.

The CIETAC is an economic and trade arbitration organ in the PRC. In accordance with the CIETAC Arbitration Rules as amended on January 11, 2005 (which became effective on May 1, 2005), the jurisdiction of the CIETAC covers disputes involving Hong Kong. The CIETAC is located in Beijing with branch offices in Shenzhen and Shanghai. Under the Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the award, the other party to the award may apply to a people's court for enforcement of the same. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee or the giving of an award beyond the scope of the arbitration agreement or the jurisdiction of the arbitration commission).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against the other party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") 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 in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights 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 to the Convention by the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards based on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention to disputes deemed under the PRC laws to be arising from contractual or non-contractual mercantile legal relations. An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was signed on June 18, 1999. 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 was made in accordance with the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC.

2. HONG KONG LEGAL AND REGULATORY PROVISIONS

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

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by common law. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Bank is and will be subject, particularly in the area of investor protection. Certain of the material

differences between the 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 Company Law.

Derivative action by minority shareholders

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders.

Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board 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 Companies Ordinance.

However, each of the Directors and Supervisors (as required by the Hong Kong Listing Rules) has given a written undertaking to the Bank (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This may allow minority shareholders to commence actions directly against defaulting Directors.

Remedies of the Company

Under the 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, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Hong Kong Listing Rules and the Mandatory Provisions, the Articles of Association set out remedies of the Bank 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 Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Bank, and for prohibitions of certain unauthorized benefits, but contain no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders' approval. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers. Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he 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.

Minority protection

There is no specific provision in the Company Law to guard against oppression by the majority shareholders of minority shareholders but the Bank, as required by the Mandatory Provisions and the Hong Kong Listing Rules, has adopted in the 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.

Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. In accordance with the requirements of the Mandatory Provisions and the Hong Kong Listing Rules, the 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 to receive all dividends and all other monies payable to H Share holders on behalf of such shareholders as required by the Hong Kong Listing Rules. The Articles of Association also contain provisions which provide that unclaimed dividends may only be forfeited by the Bank after six years from declaration.

Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate 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 the Articles of Association, which are summarized in this Appendix. Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question.

The Bank (as required by the Hong Kong Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where the Bank issues and allots, in any 12-month period pursuant to a shareholders' 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 invested shares existing as at the date of the shareholders' mandate. For the purpose of the above, holders of overseas non-listed foreign invested shares are treated as the same class of holders of domestic invested shares.

Share capital

For a joint stock limited company formed under the 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 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 SAIC.

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 Company Law. Hong Kong law does not effectively prescribe any minimum capital requirements for a Hong Kong company. Under the Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company's registered capital if the concerned joint stock limited company is not one of those hi-tech companies specified by the State Council. There is no such restriction under Hong Kong law on a Hong Kong company.

Restriction on shareholding and transfer of shares

The Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to below. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, shares in a joint stock limited company held by its promoters, directors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

Notice of meetings

Under the Company Law, shareholders of a joint stock limited company must be given 20 days' notice of a general meeting or, in the case of bearer shares, such notice should be published 30 days before the meeting. Under the Special Regulations and the Mandatory Provisions (which apply to the Bank) written notice of 45 days must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where 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

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise. The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions provide that a company's annual 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 Bank at least 20 days before the proposed date, or if that 50% level is not achieved, that the Bank shall within five days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

Voting

Under Hong Kong company law, ordinary resolutions are passed by more than one half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three quarters of such votes. Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting 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

The Articles of Association empower the Bank 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 laws the relevant limitation period is two years.

Financial disclosure

A joint stock limited company is required under the 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 situation 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 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.

Under the Articles of Association (as required by the Hong Kong Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Bank must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Bank 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.

Information on directors and shareholders

The Company Law gives shareholders the right to inspect the Bank's Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at 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. Under the PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting and the relevant governmental authorities.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts. The Articles of Association provide that disputes between a holder of H Shares and the Bank and its Directors, Supervisors, managers or other senior officers or a holder of domestic shares, arising from the Articles of Association, the Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions, be referred to arbitration at either the Hong Kong International Arbitration Center or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

Mandatory deductions

Under the 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 Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

3. HONG KONG LISTING RULES

The Hong Kong Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited liability company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

Compliance advisor

The Bank is required to retain, for at least one year following its listing or such shorter period as the Hong Kong Stock Exchange may permit, the services of a compliance advisor that is acceptable to the Hong Kong Stock Exchange, to provide us with professional advice on continuous compliance with Hong Kong Listing Rules, and to act at all times, in addition to our two authorized representatives, as our principal channel of communication with the Hong Kong Stock Exchange. If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require us to terminate the compliance advisor's appointment and appoint a replacement as soon as possible.

The compliance advisor must keep the Bank informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Bank. It must act as the principal channel of communication between the Bank and the Hong Kong Stock Exchange if the Bank's authorized representatives are expected to be frequently outside Hong Kong.

Accountant's reports

An accountant's 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. Such report will normally be required to conform to either Hong Kong accounting standards or International Financial Reporting Standards.

Process agent

We are required to appoint and a person authorized to accept service of process and notices on our behalf in Hong Kong throughout the period during which our securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

Public shareholding

If at any time we issue securities other than the H Shares that are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that all of our H Shares must be held by the public, the H Shares must represent not less than 10% 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.

Independent non-executive directors and supervisors

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 general body of shareholders will be adequately represented. Supervisors must have the character,

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 governmental approval and the Articles of Association, we may purchase our own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of Hong Kong Listing Rules. Approvals by way of a special resolution of holders of domestic shares and unlisted Foreign Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, we are required to provide information on any proposed or actual purchases of any or all of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. We must also state the consequences of any purchases which will arise under either or both of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and any similar PRC law of which the Directors are aware, if any. Any special approval or general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

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 H Shares are adequately protected.

Preemptive rights

Except in the circumstances mentioned below, Directors must obtain the approval by special resolution of shareholders of the Bank 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 the Articles of Association prior to:

- (i) authorizing, allotting, issuing or granting Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares or such convertible securities; or
- (ii) any major subsidiary making any such authorization, allotment, issue or grant so as materially to dilute the percentage of our equity interest in such subsidiary.

No such approval will be required, except to the extent that our existing shareholders have by special resolution in general meeting given a mandate to the 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 each of the existing issued domestic shares, unlisted Foreign Shares and H Shares as of the date of the passing of the relevant special resolution or, such Shares are part of our plan at the time of our establishment, to issue domestic shares, unlisted Foreign Shares and H Shares as long as such plan is implemented within 15 months from the date of approval by the State Council Securities Policy Committee.

Amendment to articles of association

We may not permit or cause any amendment to our Article of Association which would cause them to cease to comply with the Company Law, the Mandatory Provisions or the Hong Kong Listing Rules.

Documents for inspection

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

- (i) a complete duplicate register of shareholders;
- (ii) a report showing the state of the issued share capital of the Bank;
- (iii) our latest audited financial statements and the Directors', auditors and (if any) Supervisors' reports thereon;
- (iv) special resolutions;
- (v) reports showing the number and nominal value of securities repurchased by the Bank since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between domestic shares, unlisted Foreign Shares and H Shares);
- (vi) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and
- (vii) for shareholders only, copies of the minutes of meetings of shareholders.

Statements in share certificates

We are required to ensure that all our listing documents and H Share certificates include the statement stipulated below and to instruct and cause our H Share Registrar not to register the subscription, purchase or transfer of any of our H 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 H Shares bearing statements to the following effect, that the holder of H Shares:

- agrees with us and each of our Shareholders, and we agree with each of our Shareholders, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- agrees with us, each of our Shareholders, Directors, Supervisors, managers and other officers, and we acting both for ourselves and for each of our Directors, Supervisors, managers and other officers, agree with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Share;
- authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.