
REGULATORY OVERVIEW

OVERVIEW

Our operations are mainly carried out by our subsidiaries in the PRC. The establishment and operations of our PRC subsidiaries shall comply with the laws and regulations in respect of:

- incorporation and corporate governance in compliance with, including, without limitation, the PRC Company Law (公司法), Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定), the PRC Law on Wholly Foreign owned Enterprises (外資企業法) and the PRC Law on Sino-foreign Equity Joint Ventures (中外合資經營企業法);
- ascription and utilisation of property in accordance with, including, without limitation, the Property Law of the PRC (物權法), the Administration of the Leasing of Urban Premises Procedures (城市房屋租賃管理辦法), the Urban Real Estate Administration Law of the PRC (城市房地產管理法), the Land Administration Law of the PRC (土地管理法), the Law of the PRC on Urban and Rural Planning (城鄉規劃法), the Construction Law of the PRC (建築法);
- compliance of business scope with industrial policies stipulated in the Guidance Catalogue of Industries for Foreign Investment (amended in 2007) (外商投資產業指導目錄 (2007年修訂));
- foreign exchange, shareholder loans, dividend distribution, outward remittance and overseas investment under current accounts and capital accounts in accordance with the Foreign Exchange Administration Regulations of the PRC (外匯管理條例), Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) and other related laws and regulations;
- tax payment and filing of tax returns in accordance with the relevant tax rates and regulations of the PRC Law on Enterprises Income Tax (企業所得稅法), PRC Provisional Regulations on Value-added Taxes (增值稅暫行條例) and other related laws and regulations;
- environmental protection measures in compliance with the PRC Environmental Protection Law (環境保護法), PRC Air Pollution Prevention Law (大氣污染防治法), PRC Water Pollution Prevention Law (水污染防治法) and other related environmental laws and regulations;
- purchase and utilisation of sulfuric acid as industrial detergents in accordance with Regulations for Administration of Precursor Chemicals (易制毒化學品管理條例), Measures for Administration of the Purchase, Sales and Transportation of Precursor Chemicals (易制毒化學品購銷和運輸管理辦法);
- quality of products and related liabilities in compliance with the PRC Product Quality Law (產品質量法), the PRC Law on the Protection of the Rights and Interests of Consumers (消費者權益保護法), and the PRC Administrative Rules on Production Licence of Industrial Products (工業產品生產許可證管理條例);

REGULATORY OVERVIEW

- intellectual property management and protection in accordance with the PRC Patent Law (專利法), the PRC Trademark Law (商標法), the PRC Copyright Law (著作權法) and the Measures for Administration of Domain Names for the Chinese Internet (中國互聯網絡域名管理辦法); and
- employment and social security liabilities in compliance with the PRC Labour Law (勞動法), the PRC Labour Contract Law (勞動合同法), the Interim Regulations on the Collection and Payment of Social Security Funds (社會保險費徵繳暫行條例), the Regulation on the Administration of Housing Provident Funds (住房公積金管理條例) and the Regulation on Labour Security Supervision (勞動保障監察條例).

A summary of the abovementioned laws and regulations applicable to our PRC subsidiaries is set out below.

COMPANY LAW

The establishment and operation of our subsidiaries in China is governed by the PRC Company Law (公司法), which was promulgated by the Standing Committee on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, and 27 October 2005.

The PRC Company Law recognizes two general types of companies, limited liabilities companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed.

The amendments to the PRC Company Law adopted in October 2005 seek to make reform in various aspects and simplify the establishment and operation of companies incorporated in the PRC by lowering capitalisation requirements, increasing shareholder and creditor protection, improving corporate governance, and relaxing rules regarding the establishment of subsidiaries. Further, the restriction relating to the total investment of a company in other entities exceeding 50% of its net assets has been removed, the incorporation of one-shareholder limited liability companies in addition to wholly State-owned enterprises is permitted, and the PRC Company Law shall apply to foreign-invested limited liability companies and foreign-invested joint stock companies subject to stipulations otherwise provided by the laws on foreign investment.

PROPERTY LAW

The properties we lease and own in the PRC are subject to the Property Law of the PRC (物權法) promulgated by the Fifth Meeting of the Tenth National People's Congress ("NPC") on 16 March 2007 and became effective on 1 October 2007. Pursuant to the Property Law, property rights are the exclusive rights which directly dominate a specific property, which include ownership, usufruct rights and security rights to the property. Except as otherwise provided by law, any creation, modification, transfer or termination of any right in immovable properties shall become effective upon registration according to law and any creation or transfer of any right in movable properties shall become effective upon delivery except as otherwise provided by law. Any creation,

REGULATORY OVERVIEW

modification, transfer or termination of any property right in respect of any vessel, aircraft and motor vehicle without registration may not challenge any bona fide third party. Any creation, modification, transfer or termination of any property right resulting from the legal documents of the People's Courts or arbitration commissions, or the expropriation decisions made by the people's governments, shall become binding as from the date of their coming into effect. All lawful properties of the State, collectives and individuals are protected by law, and may not be damaged by any entity or individual. The State implements the system of compensated use of natural resources. The term of valid construction land use rights in respect of residential houses may be extended automatically upon expiry of such term. The Property Law of the PRC also makes specific regulations on land contractual operation right, construction land use right, residential land use right, right of easement and various security rights.

The Administration of the Leasing of Urban Premises Procedures (城市房屋租賃管理辦法) (the “**Leasing Procedures**”), promulgated by the former Ministry of Construction on 9 May 1995, which became effective on 1 June 1995, provide that premises without title certificates may not be leased. Further, under the Urban Real Estate Administration Law of the PRC (城市房地產管理法) promulgated by the Standing Committee on 5 July 1994 which became effective on 1 January 1995 and as amended on 30 August 2007, a lease must be filed with the real estate administrative department.

The Land Administration Law of the PRC (土地管理法) promulgated by the Standing Committee on 25 June 1986 which became effective on 1 January 1987 as and amended on 29 December 1988 and 28 August 2004, provides that a Land Use Certificate of State-Owned Land must be obtained from the land administrative department prior to usage of collectively-owned land. Violation of the Land Administration Law of the PRC may result in the imposition of fines and confiscation of the land involved.

The Law of the PRC on Urban and Rural Planning (城鄉規劃法)(the “**Urban and Rural Planning Law**”) was adopted by the Standing Committee on 28 October 2007 and took effect as at 1 January 2008. To construct buildings, structures, roads, pipelines and other projects in an area covered by the plan of a city or town, the developing unit or individual shall apply for a Construction Work Planning Permit. Where a unit engages in construction without obtaining the Construction Work Planning Permit or without complying with the provisions in the said permit, it shall be ordered to discontinue construction by the department in charge of urban and rural planning under the local people's government at or above the county level; if measures for rectification can be adopted to eliminate the impact on the implementation of the plan, it shall be ordered to make rectification within a time limit and be fined not less than five percent but not more than ten percent the cost of the construction project; otherwise, it shall be ordered to demolished the project within a time limit; if the project cannot be demolished, the realty or the unit's unlawful income shall be confiscated, and it may, in addition, be fined not more than ten percent the cost of the construction project.

The Construction Law of the PRC (建築法) (the “**Construction Law**”) was adopted by the Standing Committee on 1 November 1997 and became effective on 1 March 1998. According to the Construction Law, prior to commencement of construction projects, construction units shall apply for a Commence Permits for Construction Works from the competent construction administrative departments under the prefecture-county governments or above, except for small projects below the threshold value set by the competent construction administrative department under the State Council. Construction enterprises, which engage in construction operation without Commence Permits for

REGULATORY OVERVIEW

Construction Works or at the time when the application for construction operation has not yet been approved, shall be ordered to rectify the non-compliance activity. Construction enterprises of which construction projects do not meet the requirements on commencing construction shall be ordered to stop construction operation and may be imposed fines.

M&A PROVISIONS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the “**M&A Provisions**”), promulgated by the Ministry of Commerce, China Securities Regulatory Commission (“**CSRC**”), State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce (“**SAIC**”) and State Administration of Foreign Exchange (“**SAFE**”) on 8 August 2006, and effective as at 8 September 2006 and amended on 22 June 2009 by the Ministry of Commerce, stipulates principles regarding equity acquisition and asset acquisition of domestic enterprises by foreign investors. According to the M&A Provisions, such equity acquisition and asset acquisition shall subject to the approval of competent governmental authorities.

In addition, the M&A Provisions stipulates provisions which purport to require an offshore special purpose vehicle (the “**SPV**”) formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, to obtain CSRC’s approval prior to the listing and trading of the SPV’s securities on an overseas stock exchange.

According to Article 2 of the M&A Provisions, acquisition of a domestic enterprise by a foreign investor refers to the circumstance where a foreign investor purchases by agreement the equity interests of a domestic non-foreign-enterprise (the “**domestic enterprise**”) or subscribes the increased capital of the domestic enterprise, and thus changes such domestic enterprise into a foreign invested enterprise; or a foreign investor establishes a foreign invested enterprise, through which it purchases by agreement the assets of a domestic enterprise and operates such assets; or a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish foreign invested enterprise through which it operates such assets. Aotecar Nanjing and Aotecar Xiangyun are foreign invested enterprises since the date of their establishment and they were not established by way of equity acquisition or asset acquisition as defined by M&A Provisions. Therefore, our PRC Legal Advisers are of the opinion that M&A Provisions are not applicable to the establishment or capital alterations of Aotecar Nanjing and Aotecar Xiangyun.

According to the Section (iii) headed “Special Rules of Special Purpose Vehicle” under the Chapter (IV) of the M&A Provisions and our PRC Legal Advisers’ understanding to PRC laws, a SPV formed for overseas listing purpose and directly or indirectly controlled by PRC enterprise(s) or individual(s), is required to obtain approval from the CSRC for its overseas listing in the event that SPV acquires share of or equity interests in domestic enterprise by way of share swap. On the basis that the Company is not directly or indirectly controlled by PRC enterprise(s) or individual(s) as the SPV defined in the M&A Provisions and there is no circumstance where a foreign investor acquires equity interests in our PRC subsidiaries by way of share swap, our PRC Legal Advisers are of the opinion that the M&A Provisions is not applicable to the Listing and the Listing is in turn not subject to CSRC approval as required in the M&A Provisions.

REGULATORY OVERVIEW

FOREIGN INVESTMENT REGULATIONS

The establishment, operation and management of a wholly foreign-owned enterprise (“WFOE”) is governed by the PRC Law on Wholly Foreign-owned Enterprises (外資企業法), which was promulgated by the Standing Committee on 12 April 1986 and amended on 31 October 2000, and similarly the establishment procedures, verification procedures and approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labour matters of a Sino-foreign equity joint venture is governed by the PRC Law on Sino-foreign Equity Joint Venture (中外合資經營企業法), which was promulgated by the NPC on 8 July 1979, amended on 4 April 1990 and amended on 15 March 2001 for the second time.

The Guidance Catalogue of Industries for Foreign Investment (amended in 2007) (外商投資產業指導目錄(2007年修訂)) (the “Catalogue”) promulgated by the Ministry of Commerce and National Development and Reform Commission on 31 October 2007 contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign invested industries, restricted foreign invested industries and prohibited foreign invested industries. Any industry not listed in the Catalogue is a permitted foreign invested industry. Investments in the PRC conducted by foreign investors, WFOEs and Sino-foreign equity joint ventures shall comply with the Catalogue, including obtaining approval with commerce authorities of different levels. Our Group’s business belongs to the category of permitted foreign invested industries.

FOREIGN EXCHANGE REGULATION

Subject to the PRC rules and regulations on currency conversion pursuant to the Foreign Exchange Administration Regulations of the PRC (外匯管理條例) promulgated by the State Council on 29 January 1996 as amended on 14 January 1997 and 1 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by the People’s Bank of China (“PBOC”) on 20 June 1996 and became effective on 1 July 1996, our PRC subsidiaries, as foreign invested enterprises, are permitted to convert their after tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. Details are set out in “Distribution and remittance of dividends” under “Shareholder Loans, Dividend Distribution and Outward Remittance for Foreign Invested Enterprises” below. If foreign invested enterprises require foreign exchange for transactions relating to current account items, they may, without approval of SAFE, effect payment from their exchange account or convert and pay at the designated foreign exchange banks, upon provision of valid receipts and proof. However, convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contributions, is still subject to restriction, and prior approval from SAFE or its relevant branches must be sought.

The Implementation Rules of the Administrative Measures for Individual Foreign Exchange (個人外匯管理辦法實施細則) promulgated by SAFE on 5 January 2007 which became effective on 1 February 2007 and the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership plans and Share Option Schemes of Overseas Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程), promulgated by SAFE and became effective on 28 March 2007 require, among others, PRC

REGULATORY OVERVIEW

individuals who are granted shares or share options pursuant to an employee share option or share incentive plan by an overseas-listed company, to register with SAFE or a local SAFE branch.

FOREIGN EXCHANGE RATE

On 21 July 2005, PBOC declared that the fixed RMB-USD exchange system was replaced by the floating exchange system based on market supply and demand and under strict administration. PBOC will announce the closing price of a foreign currency such as the US dollar traded against RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against RMB on the following working day. The daily trading price of the US dollar against RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of 0.3% around the central parity published by PBOC, while the trading prices of non-US dollar currencies against RMB will be allowed to move within a certain band announced by PBOC. PBOC will make adjustment of the RMB exchange rate band when necessary according to market development as well as the economic and financial situation. PBOC is responsible for maintaining a stable RMB exchange rate at an adaptive and equilibrium level based on market conditions with reference to a basket of currencies. On 23 September 2005, the PRC Government widened the daily trading band for RMB against non-US dollar currencies to the range of 3% for inter-bank spot foreign exchange market to improve the flexibility of the new foreign exchange system. It was declared by PBOC on 18 May 2007 that since 21 May 2007, the daily trading price of the US dollar against RMB in the inter-bank spot foreign exchange market will be allowed to enlarge floatation scope within a band of 0.5% around the central parity published by PBOC instead of band of 0.3%.

SHAREHOLDER LOANS, DIVIDEND DISTRIBUTION AND OUTWARD REMITTANCE FOR FOREIGN INVESTED ENTERPRISES

Shareholder Loans

In accordance with PRC laws and regulations regarding foreign exchange regulation, foreign investors must apply to competent foreign exchange administration authorities for foreign loan registration and foreign exchange settlement if they intend to provide shareholder loans to foreign invested enterprises established in the PRC.

The aggregate amount of long and medium-term non-RMB loans, short-term non-RMB loans and RMB loans guaranteed by overseas institutions must be limited to the difference between the total investment amount and the registered capital of the foreign invested enterprise as approved by the relevant examination and approval authority.

The borrowers shall, within 15 days upon the signature of loan contracts, handle the registration procedures at the local foreign exchange administration authorities in order to obtain the Registration Certificate of Foreign Loans. Upon the registration of foreign loans, the debtors can repay the loans through their own foreign exchange funds or by purchasing foreign exchange with RMB upon approval of the foreign exchange administration authority. When the borrowers obtain foreign loans, they shall open and maintain a special foreign exchange account with the Bank of China or other banks approved by SAFE. If the borrowers fail to obtain the said certificate as required, it will not be able to open such an account and it will not be able to make remittances.

REGULATORY OVERVIEW

Distribution and Remittance of Dividends

Under the PRC Law on Wholly Foreign owned Enterprises (外資企業法), the PRC Law on Sino-foreign Equity Joint Venture (中外合資經營企業法) and the implementing rules, foreign invested enterprises shall not distribute profits unless they have paid income taxes as specified by the PRC tax laws, contributed the legal accumulation fund and set off financial losses during the previous accounting years. The contribution rate of reserve funds shall be no less than 10% of the after-tax profit. The undistributed profits during the past accounting years can be distributed together with the profits available for distribution during the current accounting year.

The after-tax profits of foreign invested enterprises, if authorised by the board of directors, may be remitted overseas as dividends to equity holders.

In accordance with the relevant PRC laws and regulations, unless otherwise provided by the articles of associations of the enterprises, the investors of foreign invested enterprises shall distribute their incomes according to the proportion of their contribution to the registered capital of the foreign invested enterprise.

FOREIGN EXCHANGE REGISTRATION RELATING TO OVERSEAS SPVS AND ROUND-TRIP INVESTMENT IN CHINA BY DOMESTIC RESIDENTS

The Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas SPVs and Round-trip Investment in China by Domestic Residents (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular**”) promulgated by SAFE on 21 October 2005 which became effective on 1 November 2005 requires:

- PRC domestic residents who plan to establish or control an overseas SPV, which is established or controlled for the purpose of equity financing with assets or equity interests of domestic enterprises held by such PRC domestic residents and to conduct foreign direct investment in China (referred to as “Round-trip Investment” in the SAFE Circular), must conduct foreign exchange registration with the local foreign exchange administration authority;
- PRC domestic residents who have contributed their assets or shares of a domestic enterprise into overseas SPVs, or have raised funds overseas after such contribution, must conduct foreign exchange registration for the modification of the record concerning the overseas SPVs with the local foreign exchange administration authority; and
- PRC domestic residents who are the shareholders of overseas SPVs are required to go through registration for the modification of the record with the local foreign exchange administration authority within 30 days from the date of any major capital change event, such as an increase or decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no round-trip investment is involved.

REGULATORY OVERVIEW

Except Mr. Qian, none of Shareholders is a PRC domestic resident. As advised by our PRC Legal Advisers, since the acquisition of equity interests in our Group by Mr. Qian is by way of cash and share incentive rather than contributing his assets or equity interests in a domestic enterprise into SPV for the purpose of overseas equity financing, our PRC Legal Advisers are of the opinion that the Company and its overseas subsidiaries are not SPVs as defined in the SAFE Circular and Mr. Qian's investment in our Group does not constitute a Round-trip Investment as defined in the SAFE Circular. Therefore, none of Shareholders is subject to the registration requirements under the SAFE Circular in respect of their investments in our Group.

TAXATION

Enterprise Income Tax

The PRC Law on Enterprise Income Tax (企業所得稅法) (the “**New EIT Law**”) was promulgated by the NPC on 16 March 2007 and effective on 1 January 2008. Under such law, enterprises and other organisations which generate income in the PRC are required to pay enterprise income tax in the PRC.

The New EIT Law provides a unified tax rate at 25% for all PRC resident enterprises, including domestic and foreign invested enterprises. Non-PRC Resident Enterprises (means companies established pursuant to a non-PRC law with their de facto management conducted outside the PRC, but which have established organisations or premises in the PRC, or which have generated income within the PRC without having established organisations or premises in the PRC) which have not established organisation or premises within the PRC, or if established, the income derived is in fact not associated with such organisations and premises in the PRC, are subject to enterprise income tax at a rate of 20% of their income generated within the PRC. The 20% tax rate applicable to such Non-PRC Resident Enterprises has been further reduced to 10% by the implementation rules of the New EIT Law.

On 26 December 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the PRC Enterprise Income Tax Law (國務院關於實施企業所得稅過渡優惠政策的通知) (the “**Transition Preferential Policy Circular**”), which became effective simultaneously with the New EIT Law. Under the New EIT Law and the Transition Preferential Policy Circular, enterprises that were established before 16 March 2007 and already enjoyed preferential tax treatments will continue to enjoy them (i) in the case of preferential tax rates: the tax rate will gradually increase from 15% to 25% for a period of five years from 1 January 2008 (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term.

The New EIT Law and its implementing rule permit certain high and new technology enterprises strongly supported by the State which hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the Implementation Rules, to enjoy a reduced 15% enterprise income tax rate subject to certain new qualification criteria.

On 14 April 2008, the State Administration of Taxation, the Ministry of Science and Technology and the Ministry of Finance jointly issued the Measures for Administration of the

REGULATORY OVERVIEW

Accreditation of High and New Technology Enterprises (高新技術企業認定管理辦法) delineating the specific criteria and procedures for the accreditation of high and new technology enterprises.

According to the Circular on Issues concerning the Implementation of Preferential Enterprise Income Tax Treatment for High and New Technology Enterprise (國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知), promulgated by the State Administration of Taxation on 22 April 2009 and effective retrospectively as at 1 January 2008, upon the accreditation/re-examination of qualified high and new enterprise, such high and new enterprise can apply to enjoy the preferential enterprise income tax as at the current year beginning from the valid period approved by the accreditation/re-examination. The enterprises, upon obtaining the Certificate of High and New Technology Enterprise issued by the administrative departments for accreditation of high and new technology enterprises of province, autonomous region, municipality or municipality with independent planning status, can apply to the competent tax authorities for tax reduction and exemption; upon the fulfilment of those procedures, the high and new technology enterprise can make advance enterprise income tax declaration at a rate of 15% or enjoy a transitional preferential tax treatment.

Value-added Tax

Pursuant to the PRC Provisional Regulations on Value-added Tax (增值稅暫行條例) which was promulgated by the State Council on 13 December 1993, effective on 1 January 1994, amended on 5 November 2008, and their implementation rules, the sale of products within the PRC, the importation of products and the provision of processing, repair and /or replacement services within the PRC are subject to value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17%, or, in certain limited circumstances, 13%, depending on the product type.

ENVIRONMENTAL PROTECTION REGULATION

The PRC Environmental Protection Law (環境保護法) promulgated on 26 December 1989 by the Standing Committee which became effective on 26 December 1989, establishes the legal framework on environmental protection in the PRC. The administration department of environmental protection of the State Council implements unified supervision and management of the national environmental protection work, and establishes national standards for the discharge of pollutant. Each of the local environmental protection bureaus is in turn responsible for the environmental protection work within their respective jurisdictions.

Air Pollution

The PRC Air Pollution Prevention Law (大氣污染防治法), adopted on 5 September 1982 and amended on 29 August 1995 and 29 April 2000 respectively by the Standing Committee, is effective as at 1 September 2000. The environmental protection department of the State Council formulates the national air environmental quality standards. Each of the local environmental protection bureaus is authorised to regulate air pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for infringement.

Enterprises which emit pollutant into the air must comply with the national and relevant local air environmental quality standards. If the smoke emitted exceeds the national or local air

REGULATORY OVERVIEW

environmental quality standards, the relevant enterprises must rectify their actions within a limited timeframe, and the environmental protection authority at the county level or above can impose a penalty upon such enterprises.

Water Pollution

The PRC Water Pollution Prevention Law (水污染防治法) was adopted on 11 May 1984 amended on 15 May 1996 and 28 February 2008 respectively by the Standing Committee and took effect on 1 June 2008, according to which, the environmental protection department of the State Council governs the national waste discharge standards and the local provincial governments promulgate more specific local waste discharge standards. The discharge of waste must comply with both the national and local waste discharge standards.

Enterprises which discharge waste into water must pay a treatment fee. If the waste discharged exceeds the national or local waste discharge standards, the relevant enterprises must pay a higher waste treatment fee. The competent environmental protection department has the right to order the enterprises which severely pollute water to correct their actions by reducing their waste discharge within a stipulated time period or order the enterprises to stop production or be closed.

Noise Pollution

The PRC Noise Pollution Prevention Law (環境噪聲污染防治法) promulgated by the Standing Committee on 29 October 1996 which became effective on 1 March 1997, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, renovation or expansion project which might cause noise pollution must prepare and submit an environmental impact statement to the competent environmental protection department for approval. Facilities for prevention and control of noise pollution must be designed, approved by the competent environmental protection department prior to commencement of the project, and built and put into use simultaneously with the project works. Facilities for prevention and control of noise pollution may not be dismantled or left idle without the approval of the competent environmental protection department.

Solid Waste Pollution

The Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (固體廢物污染環境防治法) was promulgated on 30 October 1995 and amended on 29 December 2004 by the Standing Committee, according to which, the environmental protection department of the State Council is in charge of promulgating national standards relating to the discharge of solid wastes. Manufacturers are required to register with the environmental protection department relating to each type of solid waste discharged by such manufactures. If a manufacturer fails to register, the environmental protection department has the right to order the manufacturer to rectify its action or impose a fine on the same manufacturer.

On 20 March 2003, Aotecar Nanjing obtained a Pollutant Discharge Permit from the Environmental Protection Bureau of Qinhuai District and had successfully renewed it in the following years. At present, Aotecar Nanjing holds the renewed Pollutant Discharge Permit which is valid until 31 March 2011 and permits Aotecar Nanjing to discharge such water pollutants as

REGULATORY OVERVIEW

chemical oxygen demand, ammonia nitrogen, suspended substances, lipid series and solid pollutants such as emulsion.

On 31 March 2010, Aotecar Xiangyun has obtained a Pollutant Discharge Permit from the Environmental Protection Bureau of Jiangning District, which is valid until 31 March 2011 and permits Aotecar Xiangyun to discharge such water pollutants as chemical oxygen demand, ammonia nitrogen, suspended substances and animal-plant oil.

On 31 March 2010, Aotecar Casting has obtained a Pollutant Discharge Permit from the Environmental Protection Bureau of Jiangning District, which is valid until 31 March 2011 and permits Aotecar Casting to discharge such water pollutants as chemical oxygen demand, ammonia nitrogen, suspended substances, animal-plant oil and such gas pollutants as smoke dust and sulfur dioxide.

Each of Aotecar Nanjing, Aotecar Xiangyun and Aotecar Casting had not failed in renewing their pollutant discharge permit.

Construction Project Environmental Protection

The PRC Law on Appraising of Environment Impacts (環境影響評價法) (the “**Environment Impacts Appraising Law**”) was promulgated on 28 October 2002 by the Standing Committee and became effective on 1 September 2003. Pursuant to the Environment Impacts Appraising Law, the State practices classified management over the appraisals of the environmental impacts of construction projects according to the seriousness of the impacts. The construction entities shall work out the environmental impact appraisal documents according to the relevant regulations and submit them to the environmental protection department for approval. Where any construction entity fails to submit its environmental impact appraisal documents of the construction project concerned and unlawfully start the construction, it shall be ordered by the administrative department of environmental protection that is entitled to examine and approve the environmental impact appraisal documents to stop the construction and go through the relevant procedures within a prescribed time period. If it fails to go through the relevant procedures within the time period, it may be fined from RMB50,000 to RMB200,000, and the person in-charge and other personnel of the construction entity who are held to be directly responsible shall be given an administrative punishment.

According to the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) (the “**Construction Project Environmental Protection Regulations**”), promulgated by the State Council of the PRC on 29 November 1998 and effective on the same day, the construction unit shall, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. A construction unit that fails to file an application for acceptance checks on completion of construction of the environmental protection facilities of a construction project having gone into trial production for more than 3 months shall be ordered by the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form to go

REGULATORY OVERVIEW

through the formalities of acceptance checks on completion of the environmental protection facilities within the prescribed time limit; whoever fails to complete the said formalities shall be ordered to stop the trial production and may be imposed a fine of not more than RMB50,000.

REGULATION ON THE PRECURSOR CHEMICALS

For the purpose of strengthening the administration of precursor chemicals, regulating the production, distribution, purchase, transportation and import and export of precursor chemicals, preventing precursor chemicals from being used in manufacturing drugs and maintaining the economic and social order, the following two statutes are formulated: Regulations for Administration of Precursor Chemicals (易制毒化學品管理條例), promulgated by the State Council on 26 August 2005, effective on 1 November 2005; and Measures for Administration of the Purchase, Sales and Transportation of Precursor Chemicals (易制毒化學品購銷和運輸管理辦法), promulgated by the Ministry of Public Security of the PRC on 22 August 2006 and effective on 1 October 2006.

The PRC adopts the classified administration and licensing system to the production, distribution, purchase, transportation and import and export of precursor chemicals. The precursor chemicals are classified into three categories. Category I includes the major materials that can be used for producing drugs. Categories II and III include the chemical agents that can be used for producing drugs.

Any entity that is to purchase precursor chemicals under any item in Category I other than pharmaceuticals shall apply for a purchase licence at the public security organ of the local people's government at the provincial level; any entity that purchases precursor chemicals under any item in Categories II and III shall file it for record with the public security organ of the local people's government at the county level. An entity may purchase precursor chemicals only after it has obtained the purchase licence or the record-keeping certification for purchase. The record-keeping certification is valid for one month and one-time use only. The entity, which does not commit any non-compliance activity in this regard within one year after filing, may apply for a multiple-use record-keeping certification that is valid for six months. During our operation, our PRC subsidiaries use sulfuric acid as one of the substances stipulated in Category III as industrial detergents.

Where an entity, in violation of the provisions, engages in the purchase of precursor chemicals and commits any of the following acts, the public security organ shall confiscate the precursor chemicals illicitly purchased, and impose on the purchaser a fine of not less than 10 times but not more than 20 times of the value of the precursor chemicals illicitly purchased; in case 20 times of such value is less than 10,000 Yuan, the fine shall be 10,000 Yuan; and if a crime is constituted, the relevant violator shall be investigated for criminal liabilities according to law:

- without authorization, engaging in the purchase of any precursor chemicals without permission or filing for record; and
- engaging in the purchase of any precursor chemicals with the licence or record-keeping certification of another person or with a forged, altered or invalid licence or record-keeping certification.

Aotecar Nanjing and Aotecar Xiangyun need to use sulphuric acid in their production process that is classified as precursor chemicals in Category III and therefore is subject to a filing

REGULATORY OVERVIEW

requirement prior to purchase. Aotecar Nanjing and Aotecar Xiangyun have duly filed with the competent public security authority for their purchase of sulphuric acid.

PRODUCT QUALITY

The principal law governing product quality liability is the PRC Product Quality Law (產品質量法) (the “**Product Quality Law**”), which was promulgated by the Standing Committee on 22 February 1993 and as amended on 8 July 2000. Pursuant to the Product Quality Law, a seller shall have the following obligations:

- a check-for-acceptance system for stock replenishment shall be adopted to examine the quality certificates and other labels of such stock;
- measures shall be adopted to keep products for sale in good quality;
- lose-effect or defective or deteriorated products shall not be sold;
- products must be sold with labels that comply with the relevant provisions;
- shall not forge the origin of a product or falsely use the name and address of another producer;
- shall not forge or falsely use another producer’s authentication marks, names of famous/premium brand or other product quality marks; and
- shall not mix impurities or imitations into products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

Violation of the Product Quality Law may result in the imposition of fines, suspension of business operations, revocation of business licences and criminal liability. Aggrieved consumers may seek compensation from both manufacturer and the retailer. A retailer may seek reimbursement from the manufacturer in cases where the defect is due to the manufacturer.

PRODUCTION LICENCE OF INDUSTRIAL PRODUCTS AND IMPLEMENTATION PROCEDURES

The PRC Administrative Rules on Production Licence of Industrial Products (工業產品生產許可證管理條例), which was promulgated on 9 July 2005 by the State Council of the PRC and became effective on 1 September 2005, provides that a production licensing system be implemented for enterprises engaging in the production of important industrial products listed in the Catalogue for Industrial Products Implementing Products Licencing System of Industrial Products (實行生產許可證制度管理的產品目錄) (the “**Licence Catalogue**”) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine (the “**AQSIQ**”). No enterprise or individual may produce, sell, or use the products in the Licence Catalogue without obtaining a production licence for industrial products (the “**Production Licence**”). To obtain a Production Licence, an enterprise must have a business licence, professional technical personnel, production

REGULATORY OVERVIEW

conditions and inspection and quarantine measures, technology, skills and documents regarding production of its process that are commensurate with the product, and a sound and effective system for quality administration. The products of the enterprise shall also comply with state standards, industrial standards and requirements for protection of health, personal life, and property security. The enterprise may not use outdated skills and processes, carry out productions which may result in high energy consumption, environmental pollution, or waste resources. The Implementation Measures of the PRC Administrative Rules on Production Licences of Industrial Products (工業產品生產許可證管理條例實施辦法), which was promulgated on 15 September 2005 by AQSIQ and became effective on 1 November 2005, provides the application procedures licensing for industrial products under the administration of the production licensing system of production within the PRC. The enterprise shall submit an application to the local provincial administration of quality supervision, inspection and quarantine for the production of the products that are included in the Licence Catalogue. An acceptance of the application decision will be made within five days of receipt of the application documents of the applicant. A decision on whether to grant the license shall be made by AQSIQ within 60 days of acceptance of the application and the production licensing certificate which is valid for five years shall be issued within 10 days of a decision. The entrusting enterprise and entrusted enterprise which engage in consigned processing of products under the administration of production licensing system for industrial products shall file with the local provincial administration of quality supervision, inspection and quarantine.

As air conditioning compressor has been listed in the licence catalogue since 2007, each of Aotecar Nanjing and Aotecar Xiangyun is required to obtain a production licence. Aotecar Nanjing has obtained a production licence on 19 October 2007, which is valid until 18 October 2012 and permits Aotecar Nanjing to produce automobile air-conditioning compressors (scroll automobile air-conditioning compressors of WXB Series, WX Series and WXH Series, and piston passenger automobile air-conditioning compressors of ATC Series).

Aotecar Xiangyun obtained a Production Licence on 2 July 2010 which is valid until 1 July 2015 and permits Aotecar Xiangyun to produce automobile air-conditioning compressors (scroll automobile air-conditioning compressors of WX Series and WXH Series). Our PRC Legal Advisers advised that, as Aotecar Xiangyun conducted production business prior to the obtaining of the Production Licence, it may be subject to administrative penalties including confiscation of products so produced and the resultant income gained, and fines of an amount equivalent to three times of the value of the products so produced and the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局) may impose a fine on the past non-compliance. However, on the basis that (i) Aotecar Xiangyun has properly rectified its non-compliance by obtaining a valid Production Licence, and (ii) the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局), being the competent authority, confirmed in writing on 12 October 2010 that Aotecar Xiangyun is in compliance with the laws and regulations in connection with Production Licence and administration of product quality, and Aotecar Xiangyun's products are in line with the relevant national quality standards, (iii) the competent authority had actual knowledge that Aotecar Xiangyun had once conducted production prior to the obtaining of the Production Licence, our PRC Legal Advisers consider the risk of Aotecar Xiangyun being sanctioned due to the above non-compliance to be low.

REGULATORY OVERVIEW

MANUFACTURING SAFETY

Pursuant to the Law of Manufacturing Safety of the PRC (安全生產法) effective on 1 November 2002, manufacturers must establish a comprehensive management system to ensure manufacturing safety in accordance with the applicable laws and regulations. Manufacturers shall provide production safety education and training programs to their employees. The design, manufacture, installation, use, checking and maintenance of the safety equipment are required to conform to applicable national or industrial standards. The labour protection equipment must meet national or industrial standards and the manufacturers shall supervise and educate their employees to use such equipment according to the prescribed internal rules. Manufacturers not meeting relevant legal requirements are not permitted to commence their manufacturing activities.

CONSUMER PROTECTION

The PRC Law on the Protection of the Rights and Interests of Consumers (消費者權益保護法) (the “**Consumer Protection Law**”), promulgated on 31 October 1993 by the Standing Committee which became effective on 1 January 1994, prescribes standards of behaviour which business operators must observe in their dealings with consumers:

Business operators must, among other things, observe the provisions of the Consumer Protection Law and other relevant laws and regulations regarding personal safety and protection of property, provide consumers with truthful information and advertising in relation to goods and services, truthful and clear answers to consumers’ questions in relation to goods or services, and using method ensure that the actual quality of goods and services is consistent with the relevant advertisements, product descriptions or samples, not impose unreasonable or unfair terms on consumers or exclude civil liability unreasonably.

Article 35 of the Consumer Protection Law stipulates that consumers whose legitimate rights and interests are infringed upon during the purchase or use of a product may demand compensation from the relevant vendor. In the event the liability is attributable to another supplier or the manufacturer, the vendor may in turn demand recovery of any compensation paid to the consumer from the supplier or manufacturer, as the case may be. In addition, consumers who suffer personal injury or property damage due to product defects may demand compensation from either the vendor or the manufacturer. If the liability is attributable to the manufacturer, the vendor may demand recovery of any compensation which it paid to the consumer. If the default and liability are attributable to the vendor, the manufacturer may demand recovery of any compensation which it paid to the consumer.

In addition, Article 45 provides that business operators must be responsible for the repair, replacement or return of goods if such goods are guaranteed by the PRC laws or pursuant to agreements between the business operators and consumers, and further, that business operators must bear the reasonable cost of transportation for large commodities in the event of repair, replacement or return. Article 45 also stipulates that should a product not work properly after being repaired twice within the term of guaranteed repair, the business operators shall be responsible for replacement or return.

REGULATORY OVERVIEW

Violation of the Consumer Protection Law may result in the imposition of fines, suspension of business operations, revocation of business licences and criminal liability.

INTELLECTUAL PROPERTY RIGHTS

International Conventions

China has adopted legislations governing intellectual property rights, including patents, copyrights, trademarks and domain names. China is a party to several international conventions on intellectual property rights and became a member to the Agreement on Trade Related Aspects of Intellectual Property Rights (與貿易有關的知識產權協議) upon its accession to the World Trade Organisation in December 2001. China is also a party to the Paris Convention for the Protection of Industrial Property (保護工業產權巴黎公約), the Berne Convention for the Protection of Literary and Artistic Works (保護文學和藝術作品伯爾尼公約), the Universal Copyright Convention (世界版權公約), the Madrid Agreement Concerning the International Trademark Registration of Marks (商標國際註冊馬德里協定) and the Patent Cooperation Treaty (專利合作條約).

Trademark Regulations

The PRC Trademark Law (商標法) (the “**Trademark Law**”) was promulgated by the Standing Committee on 23 August 1982 which became effective on 1 March 1983 and amended on 22 February 1993 and 27 October 2001. The PRC Trademark Law seeks to improve the administration of trademarks, protect the right to exclusive use of trademarks and encourage producers and operators to guarantee the quality of their goods and services and maintain the reputation of their trademarks, so as to protect the interests of consumers and of producers and operators.

Under the Trademark Law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

- using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of that trademark;
- selling the commodities that infringe upon the right to exclusive use of a registered trademark;
- forging, manufacturing without authorization the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorization;
- changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and
- causing other damage to the right to exclusive use of a registered trademark of another person.

REGULATORY OVERVIEW

In the event of any of the abovementioned acts which infringe upon the right to the exclusive use of a registered trademark, the infringer would be imposed a fine, ordered to stop the infringement acts immediately, and give the infringed party compensation.

Also, under this law, a trademark registrant may, by concluding a trademark licensing contract, authorise another person to use its registered trademark. The licensor shall supervise the quality of the commodities on which the licensee uses the licensor's registered trademark, and the licensee shall guarantee the quality of the commodities on which the registered trademark is to be used.

Patent Law

The Patent Law of the PRC (專利法) (the “**Patent Law**”) was promulgated by the Standing Committee on 12 March 1984 which became effective on 1 April 1985 and amended on 4 September 1992, 25 August 2000 and 27 December 2008. The purpose of the Patent Law is to protect and encourage invention, foster applications of invention and promote the development of science and technology. A patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a term of 20 years in the case of an invention and a term of ten years in the case of a utility model and design, starting from the application date. A third-party user must obtain consent or a proper licence from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights.

Copyright Law

The principal regulations governing the copyright in the PRC are the Copyright Law of the PRC (著作權法) (the “**Copyright Law**”), which was promulgated by the Standing Committee on 7 September 1990 and amended on 27 October 2001 and on 26 February 2010, the Implementation Rules of the Copyright Law (2002 Revision) (著作權法實施條例(2002年修訂)), which was promulgated by the State Council on 2 August 2002 and became effective on 15 September 2002, and the Regulations on the Protection of Computer Software (計算機軟件保護條例), which was promulgated by the State Council on 20 December 2001 and became effective on 1 January 2002. Under the Copyright Law, copyright is automatically granted upon the completion of a work and registration of copyright works is voluntary. The rights of authorship alteration and integrity of an author shall be unlimited in time. The protection period of right of publication and other rights is lifetime of the author and 50 years from the death of the author if the author is an individual. Where the copyright belongs to a legal entity or organisation or in respect of a service work where the legal entity or organisation enjoys the copyright (except the right of authorship), the protection period of publication and other rights is 50 years from the date of first publication.

The Regulation on the Protection of Computer Software (計算機軟件保護條例) provides that computer software, including computer programs and related documentation, is a type of copyrightable work subject to protection under the Copyright Law.

REGULATORY OVERVIEW

LABOUR

Employment Contracts

The PRC Labour Law (勞動法) (the “**Labour Law**”) was promulgated on 5 July 1994 by the Standing Committee which became effective on 1 January 1995, and was amended on 27 August 2009. According to the Labour Law, workers enjoy the rights to equal opportunities of employment and choice of jobs, the right to labour remuneration and the right to Social Insurance protection and welfare and other rights as provided by law; employers shall establish and improve their rules and regulations according to law and ensure that the workers enjoy their rights and perform their obligations; the State shall adopt all possible measures to promote employment, develop vocational education, formulate labour standards, regulate social income, improve Social Insurance and so on.

The PRC Labour Contract Law (勞動合同法) promulgated by the Standing Committee on 29 June 2007 which became effective on 1 January 2008, governs the relationships between employers and employees and makes specific provisions in relation to the terms and conditions of an employment contract. The PRC Labour Contract Law stipulates that employment contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entry into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. Pursuant to the PRC Labour Contract Law, employment contracts lawfully concluded prior to the implementation of the Labour Contract Law and continuing as at the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the Labour Contract Law but no written employment contract was concluded, a contract must be concluded within one month after its implementation.

Employee Funds

Under applicable PRC laws, rules and regulations, including the Interim Regulations on the Collection and Payment of Social Security Funds (社會保險費徵繳暫行條例) promulgated by the State Council on 22 January 1999 which became effective on 22 January 1999, and the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例) promulgated by the State Council on 3 April 1999 which became effective on 3 April 1999 and as amended on 24 March 2002, the Regulations on Labour Security Supervision (勞動保障監察條例) promulgated by the State Council on 1 November 2004 which became effective on 1 December 2004, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

As advised by our PRC Legal Advisers, except as disclosed in the paragraphs under “Summary – Non-compliance of the Group”, “Risk Factors”, “Regulatory Overview – Production licence of industrial products and implementation procedures” and “Business” in this prospectus, the Group complied with, in all material respects, all the relevant laws and regulations in the PRC and obtained all requisite licences, approvals and permits from relevant regulatory authorities in the PRC for its operations.