
REGULATORY OVERVIEW

Overview

Our business is extensively regulated by the policies, laws and regulations of the PRC and by government authorities at both local and national levels. All aspects of our operations, including research and development, design, manufacturing, and sales and leasing activities, are subject to regulation, and so are our financing, accounting, administrative, and other non-operating activities. Many of the regulations, including environmental and safety regulations, apply to PRC firms generally or to all PRC manufacturing firms. Others, however, apply to us based on the nature of our products, which include special equipments and automotives. This section describes the regulations to which we are subject that we believe are most important for a potential investor to understand.

Regulations as to Foreign Investment Policies

The Provisions on Guiding the Directions of Foreign Investment (指導外商投資方向規定), issued by the State Council, divides foreign investment projects into four categories: encouraged, permitted, restricted and prohibited. Additional details as to each of the encouraged, restricted and prohibited categories are provided in the *Guiding Catalog of Foreign Investment Industries* (外商投資產業指導目錄) (the “Guiding Catalog”), which was jointly issued by the NDRC and the Ministry of Commerce and became effective in December 2007.

Under the Guiding Catalog, the following business activities that we engage in or are associated with are classified as “encouraged” projects:

- the manufacture of mobile cranes and crawler cranes with lifting capacity of at least 300 tons (in the form of equity or cooperative joint venture only);
- the design and manufacture of hydrostatic drive systems;
- the manufacture of high-caliber rotary drilling rigs with capacity to drill at least one meter wide and at least 30 meters deep;
- the manufacture of diaphragm wall grabs;
- the design and manufacture of crawler tractors with at least 220 horsepower and tire contact pressure of 0.03 Mpa or less;
- the design and manufacture of tractors with at least 520 horsepower;
- the maintenance of public roads and bridges;
- the manufacture of automotive detection equipment;
- the design and manufacture of integrated multi-path valves of pressure (21-31.5 MPa);
- the remanufacturing of construction machinery; and
- the manufacture of devices of road tunnel disaster control and rescuing system.

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In addition, according to the *Catalog of Priority Industries for Foreign Investment in Central and Western China* (中西部地區外商投資優勢產業目錄) jointly issued by the NDRC and MOFCOM, development and manufacture of certain types of concrete machinery, cranes, environmental and sanitation machinery, road construction machinery, earth working machinery, hydraulic valves and cylinders and other construction machinery and key parts and components in Hunan Province are classified as “encouraged” projects.

The following business activities that we engage in or are associated with are classified as “restricted” projects under the Guiding Catalog:

- the manufacture of mobile cranes and crawler cranes with lifting capacity of less than 300 tons (in the form of equity or cooperative joint venture only); and
- the manufacture of tractors with 320 horsepower or less, hydraulic excavators with lifting capacity of 30 tons or less, graders and rollers with 220 horsepower or less, road milling rework machinery, certain concrete machinery such as trailer-mounted concrete pumps, truck-mounted concrete mixers, concrete mixing stations, and truck-mounted pump trucks.

Our other business activities fall into the category of “permitted” projects.

Regulations as to Manufacturing

Manufacturing Licenses

Manufacture of many products in the PRC is subject to specific licensing requirements. Because the cranes we manufacture fall into the “special equipment” category of manufactured goods, we are required to maintain specific licenses in order to manufacture them. Three regulations contain these requirements: *the Regulations on Safety Supervision of Special Equipment* (特種設備安全監察條例), *the Regulations on Quality Control and Safety Supervision for Special Equipment* (特種設備質量監督與安全監察規定), and *the Regulations on Safety Supervision of Cranes* (起重機械安全監察規定).

We are required to obtain licenses from the competent quality supervision authority before we manufacture certain goods, such as rubber hoses, rubber hose assemblies, and loading-dock equipment, because those goods are listed in the *Industrial Products Catalog* (全國工業產品生產許可證發證產品目錄) issued by the GAQS. In addition to the Industrial Products Catalog, two legal provisions contain these requirements: the Regulations on the Administration of Production Licenses for Industrial Products (中華人民共和國工業產品生產許可證管理條例), and the implementing rules for these Regulations.

We are required to obtain licenses for the manufacture of automotive goods under *the Notice on Further Strengthening the Administration of Announcement and Registration of Automotive Manufacturing Enterprises and Products* issued by the PRC’s Ministry of Industry and Information Technology (the “MIIT”) and Ministry of Public Security (the “MPS”) (工業和信息化部、公安部關於進一步加強道路機動車輛生產企業及產品公告管理和注冊登記工作的通知). Under that regulation, a company may not manufacture automotive goods until it has obtained the approval of the MIIT in a public announcement. Vehicles and other automotive goods must pass government-mandated tests for compliance with various safety standards, technical

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specifications and environmental protection requirements. After passing these tests, automotive goods must be registered with the MPS prior to their sale.

The PRC government may also remove automotive products from the aforesaid public announcement if it determines that they no longer meet the relevant regulatory requirements. Such removal will deprive the relevant manufacturer of its entitlement to continue to manufacture or sell the removed automotive products in the PRC.

Regulations as to Research and Development

PRC companies can apply for patents on their technical achievements and are entitled to related intellectual property protection. Under the *PRC Patent Law* (中華人民共和國專利法), a company can apply for an invention, utility or design patent based on the nature of the relevant technical achievement. The duration of a patent is 20 years for inventions and 10 years for utility models and designs, in each case from the date of filing. For inventions devised by an employee in the performance of tasks assigned by the employer or using primarily the resources of the employer, the employer is entitled to apply for a patent. The patent rights for such inventions belong to the employer upon the approval of the patent application, provided that there are no prior agreements to the contrary between the employer and the employee.

Regulations as to Sales, Installment and Maintenance of Products

Automotive Certification and Inspection

Under the *Implementation Rules on Compulsory Certification of Automobiles* (機動車輛類強制性認證實施規則) issued by the GAQS, automotive products, including imported vehicles and parts and components, are subject to compulsory certification conducted by government-designated certification agencies to ensure the products are in compliance with safety and technical requirements. An automotive product is permitted to be sold in China or imported into China only after passing inspection and obtaining a China Compulsory Certification. Each automotive manufacturer is subject to annual inspection of its compulsory certification by the GAQS. If an automobile manufacture fails to pass the annual inspection, it has three months to conform to inspection standards, after which its certification will be cancelled by GAQS.

Product Quality

Under the *PRC Product Quality Law* (中華人民共和國產品質量法), manufacturers are liable for the quality of products that they produce and sellers must take reasonable steps to ensure the quality of the products they sell. If the seller of a product causes a defect in the product, the seller is liable to the user for damages caused by the product to any person or property (other than the defective product itself). Persons who are harmed or whose property is damaged by the defective product may claim such losses against the manufacturer or the seller.

Installment and Maintenance

Under the *Regulations on Safety Supervision of Special Equipment* (特種設備安全監察條例), companies engaging in the installation, improvement, or maintenance of

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electromechanical special equipment such as cranes must obtain installment, improvement, or maintenance licenses for such equipment and must operate within the scope of those licenses.

Export

Cranes and certain other products are subject to a quality licensing system for products intended for export. As a result, manufacturers of such products are required to obtain quality licenses for export within a designated period, otherwise such products will be prohibited from export. Four regulations set forth these requirements: *the Measures of Quality Management and Supervision over Export of Electromechanical Products* (出口機電產品質量管理與監督辦法), *the Administrative Measures of Quality License for Export of Electromechanical Products* (出口機電產品質量許可證管理辦法), *the Administrative Measures of License for Export Machinery Products* (出口機械產品質量許可證管理辦法), and *the Notice Regarding Enhancing the Administration on Licenses for Export Electromechanical Products* (關於加強出口機電產品質量許可證管理工作的通知).

Under *the Notice Concerning Regulating the Automobile Export System* (關於規範汽車出口秩序的通知) and *the Automotive Product Catalog* issued by the PRC government, manufacturers of certain automotive products and the automobile export companies authorized by such manufacturers must obtain an automobile export license before exporting any automotive products.

Regulations as to Finance Lease Industry

Under *the Measures for the Administration of Foreign-invested Lease Industry* (外商投資租賃業管理辦法), which were adopted on March 5, 2005 by MOFCOM, a foreign-invested enterprise wishing to provide finance leases must obtain prior approval from MOFCOM. The Measures also contain entry requirements for foreign investors, including requirements as to registered capital and term of operations, risk assets limitations, and relevant experience for senior managers and specialists of the enterprise. Also, a foreign-invested finance lease enterprise is only allowed to conduct leasing business approved by MOFCOM, and is required to submit an annual financial and operations report to MOFCOM for its review.

According to *the Notice of the MOFCOM and the State Administration of Taxation on Relevant Issues Concerning Conducting Finance Lease Business* (商務部、國家稅務總局關於從事融資租賃業務有關問題的通知), which was issued on October 22, 2004, MOFCOM is responsible for the approval of domestic finance lease enterprise pilots. Any domestic enterprise providing finance leases must satisfy the conditions as follows: (a) a minimum registered capital of RMB170 million, (b) a sound internal management system and risk control system, (c) having professionals in the areas of finance, trade, law, and accounting, etc., and senior management with no less than three-year experiences in the lease industry, (d) good operating records without any violation of laws or non-compliance records in the past two years, and (e) having the industrial background in relation to the products which it provides for the finance lease services. A finance lease enterprise is also subject to the periodic inspection by MOFCOM, and its risk assets (including the balance of guarantee) shall not exceed ten times of its total capital.

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Under the PRC laws, the finance lease enterprise is prohibited from engaging in the following businesses:

- Raising funds in the form of deposits or other disguised form;
- Providing loans to the lessee under the finance lease arrangement for working capital or other purposes;
- Securities investment or equity investment in financial institutions;
- Inter-bank borrowing or lending business; or
- Other financial businesses which are not approved by the China Banking Regulatory Commission (中國銀行業監督管理委員會).

Regulations as to Environmental Protection

Manufacturing businesses are subject to PRC environmental laws and regulations, which include the *PRC Environmental Protection Law* (中華人民共和國環境保護法), *PRC Law on the Prevention and Control of Water Pollution* (中華人民共和國水污染防治法), *PRC Law on the Prevention and Control of Atmospheric Pollution* (中華人民共和國大氣污染防治法), *PRC Law on the Prevention and Control of Pollution From Environmental Noise* (中華人民共和國環境噪聲污染防治法), and the *PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste* (中華人民共和國固體廢棄物污染環境防治法) (collectively, the “Environmental Laws”). The Environmental Laws govern a broad range of environmental matters, including air pollution, noise emissions, sewage, and waste discharge.

Under the Environmental Laws, all business operations that could cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration, and electromagnetic radiation generated in the course of production, construction, and other activities.

Under the Environmental Laws, we are also required to carry out an environmental impact assessment before commencing construction of production facilities and install pollution treatment facilities that meet the relevant environmental standards for treatment of pollutants before discharge.

Regulations as to Labor and Safety

The PRC has many labor and safety laws, including the *PRC Labor Law* (中華人民共和國勞動法), the *PRC Labor Contract Law* (中華人民共和國勞動合同法), the *Regulation of Insurance for Work-Related Injury* (工傷保險條例), the *Unemployment Insurance Law* (失業保險條例), the *Provisional Measures on Insurance for Maternity of Employees* (企業職工生育保險試行辦法), the *Interim Provisions on Registration of Social Insurance* (社會保險登記管理暫行辦法), the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例), and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time in the PRC.

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Under *the PRC Labor Law* and *the PRC Labor Contract Law*, labor contracts in written form must be executed to establish labor relationships between employers and employees. Wages cannot be lower than the local minimum wage. The employer must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employers are also required to provide for their employees a safe and sanitary work environment that meets state requirements, and to carry out regular health examinations of employees engaged in hazardous occupations.

Under *the Regulation of Insurance for Work-Related Injury* (工傷保險條例), *the Provisional Measures on Insurance for Maternity of Employees* (企業職工生育保險試行辦法), *the Interim Regulation on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例), and *the Interim Provisions on Registration of Social Insurance* (社會保險登記管理暫行辦法), we are required to provide our employees in the PRC with social insurance covering basic pension insurance, unemployment insurance, maternity insurance, injury insurance and basic medical insurance.

As a manufacturing company, we are subject to *the PRC Production Safety Law* (中華人民共和國安全生產法) (the “Production Safety Law”), which requires us to provide our workers with safe manufacturing conditions in accordance with standards set forth in various laws and administrative regulations. The law further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operations, and that companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, inspection, and maintenance of safety equipment are required to conform to applicable national or industry standards. In addition, labor protection equipment must meet national or industry standards, and companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.