

REGULATORY OVERVIEW

OVERVIEW

A summary of the main PRC laws, rules and regulations applicable to our business and operations is set out below.

REGULATIONS RELATING TO THE PRC AUTOMOBILE INDUSTRY

The PRC Automobile Industry

On March 20, 2009, the State Council issued the Automobile Industry Restructuring and Revitalization Plan (汽車產業調整和振興規劃) (the “Plan”) for the period from 2009 to 2011, which clarified the areas of development of the automobile industry and provided for policy measures across multiple aspects of the automobile industry. The Plan is expected to cease to be effective by the end of 2011. Our PRC legal advisors are of the view that the Plan is a general and macro regulatory guidance by the PRC Government. We believe that the Plan has no direct attribution to the material increase in the demand in our sales and its cessation will not have any direct adverse impact on the demand in our sales.

On May 12, 2004, NDRC promulgated the Policy on Development of Automotive Industry (汽車產業發展政策) (the “Policy”) which became effective on May 21, 2004 and was further amended on August 15, 2009. The Policy contains provisions relating to, amongst other things, the PRC automobile industry’s technology policies, structural adjustments, market access administration, trademarks, product development, spare parts sales and other relevant sub-industries, distribution networks, investment administration, import administration, and automobile consumption.

Under the Provisional Measures on the Administration of the Verification of Foreign-Invested Projects (外商投資項目核准暫行管理辦法) promulgated by NDRC on October 9, 2004, which apply to the verification of sino-foreign equity and cooperative joint venture enterprises, wholly foreign-owned enterprises and domestic enterprises acquired by foreign investors, increases in registered capital of foreign-invested enterprises and other types of foreign-invested projects, projects with total investment below US\$100 million that are within the encouraged or permitted categories of foreign investment and projects with total investment below US\$50 million that are within the restricted category of foreign investment are subject to the verification of local NDRC authorities.

Specifically, projects within the restricted category of foreign investment must be verified by provincial NDRC authorities and no delegation of authority is permitted for these projects. Authorities in charge of land, urban planning, quality control, production safety supervision, industrial and commercial administration, customs, taxation and foreign exchange administration, among others, may not handle the formalities in respect of foreign-invested projects that have not passed the verification. According to the State Council Opinions on Further Improving the Use of Foreign Investment (國務院關於進一步做好利用外資工作的若干意見) issued by the State Council on April 6, 2010, certain “encouraged and permitted foreign investment” projects with total investment (including capital increases) of US\$300 million or less are subject to verification by local governments, unless the approval by the relevant the State Council departments is required under the List of the Government approved Investment Projects (政府核准的投資項目目錄). With relevant laws, regulations and approvals, departments of the State Council may delegate approval of the establishment of certain foreign invested enterprises to local governments.

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New Automobile Sales

The sale of new automobile sales is subject to the Automobile Sales Measures. The Automobile Sales Measures provide for two categories of automobile distributors, namely general automobile distributors and automobile brand dealers. Foreign automobile manufacturers are required to establish general automobile distributors in the PRC to distribute their automobiles and parts. Automobile brand dealers are defined under the Automobile Sales Measures as enterprises authorized by automobile suppliers (either automobile manufacturers or their general automobile distributors) to engage in automobile sales and services. Our PRC legal advisors, Jingtian & Gongcheng, have confirmed that under the Automobile Sales Measures, our Group is classified as an automobile brand dealer.

An automobile brand dealer must be a legal person, authorized by an automobile supplier to sell the supplier's brand of automobiles. An automobile brand dealer must comply with the supplier's requirements relating to the intellectual property rights associated with the automobile brands, such as trademarks, labels and store names, and is also subject to regulation by local municipal and commercial development authorities.

In accordance with the Automobile Sales Measures, automobile brand dealers must file registrations with the relevant local branch of MOFCOM. Further, automobile brand dealers must also file registrations with SAIC prior to commencing their business operations, and the list of registered automobile brand dealers is announced by SAIC from time to time.

30 Dealership Limitation

Prior to 2006, automobile distribution in China was subject to the 30 Dealership Limitation. Upon China's accession to the World Trade Organization in 2001, China made a commitment to abolish the 30 Dealership Limitation within five years of its accession.¹ Accordingly, each of the Automobile Sales Measures, the Measures for the Administration on Foreign Investment in Commercial Sector (外商投資商業領域管理辦法) and the 2004 Edition of the Catalogue of Industries for Guiding Foreign Investment provides that the 30 Dealership Limitation would no longer apply starting on December 11, 2006. However, there is uncertainty regarding the validity of the 30 Dealership Limitation under PRC laws and regulations because the 2007 Edition of the Catalogue of Industries for Guiding Foreign Investment included the 30 Dealership Limitation.

In response to a verbal consultation made by our PRC legal advisors, an official from MOFCOM, the competent authority to interpret the 30 Dealership Limitation, has verbally confirmed that (i) the 30 Dealership Limitation set out in the 2007 Edition of the Catalogue of Industries for Guiding Foreign Investment is not in line with China's WTO obligations to abolish the 30 Dealership Limitation; (ii) the Automobile Sales Measures was issued pursuant to China's WTO obligations; (iii) China's WTO obligations to abolish the 30 Dealership Limitation by December 11, 2006 shall prevail; and (iv) the 30 Dealership Limitation ceased to apply to automobile dealership groups with foreign ownership interests from December 11, 2006. In addition, in response to a verbal consultation made by our PRC legal advisors, an official from NDRC, another competent authority to interpret the 30 Dealership Limitation, has also verbally confirmed that (i) the Automobile Sales Measures and China's WTO obligations to

¹ China entered into the Accession to WTO Agreement (中國加入世貿組織議定書) on December 11, 2001, which states that the 30 Dealership Limitation as stipulated under Annex 9 "Schedule of Specific Commitments on Services" shall be eliminated after five years from the date of accession (i.e. December 11, 2006) when foreign chain store operators shall have the freedom of choice of any partners, legally established in China in accordance with the PRC laws and regulations.

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abolish the 30 Dealership Limitation by December 11, 2006 shall prevail; (ii) the draft Catalogue of Industries for Guiding Foreign Investment released by NDRC and MOFCOM on April 2, 2011 for public comments does not include the 30 Dealership Limitation; and (iii) the 30 Dealership Limitation currently no longer applies. Therefore, accordingly, our PRC legal advisors, Jingtian & Gongcheng, have advised that (i) there will be no substantive legal impediment for us to obtain approval from MOFCOM or its local counterparts for the establishment of new stores, including the our 14 new and planned stores; (ii) we will not be subject to any penalty for exceeding the 30 Dealership Limitation; (iii) the expansion and operation of our dealership network, including our 14 new and planned stores, once established with approval from MOFCOM or its local counterparts (where applicable), would not be restricted by the 30 Dealership Limitation; and (iv) regardless of the future interpretation of the 30 Dealership Limitation, the 30 Dealership Limitation will not be applied retrospectively to the existing dealerships operated by us, and the approvals granted to our dealerships by MOFCOM and its local counterparts will remain legal, valid and effective.

Automobile Maintenance and Repair Services

Our automobile maintenance and repair business is subject to the Regulations on the Administration of Automobile Maintenance and Repair (機動車維修管理規定) (the “Automobile Repair Regulations”) promulgated by the Ministry of Transportation on June 24, 2005, which became effective on August 1, 2005.

Under the Automobile Repair Regulations, an operator must have suitable facilities, equipment and technical personnel in order to operate an automobile maintenance and repair business. In addition, an operator must implement quality management systems and safety procedures, provide training to its technical personnel, maintain proper automobile repair and maintenance records and archives, and ensure that there are sufficient safeguards for environmental protection.

According to Automobile Repair Regulations, it will take 25 days to obtain the approval from relevant authority for the Road Transportation License and the subsequent renewal from the date that all required documents have been submitted. However, in practice, the time needed for obtaining approval may be longer and may exceed three months. Based on our past experience, the time required for renewing Road Transportation License varies depending on the location of the applicant as well as the location of the local government agency.

Project Initiation Approval and Road Transportation License

Foreign investment in automobile maintenance and repair business and automobile leasing business is also subject to the Regulations on the Administration of Foreign-Invested Road Transportation Services (外商投資道路運輸業管理規定) (the “Foreign-Invested Road Transportation Services Regulations”), which was promulgated by the Ministry of Transportation and MOFCOM on November 20, 2001 and became effective on November 20, 2001. According to Article 5, a foreign-invested road transportation services enterprise must comply with the policies on road transportation development and the requirements for enterprise qualification formulated by the department in charge of transportation under the State Council, and must meet the requirements for the development planning of road transportation services formulated by the department in charge for transportation of the place where the foreign-funded road transportation enterprise is to be established.

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Under the Foreign-Invested Road Transportation Services Regulations, all the application documents received by the local transportation bureaus should be forwarded to the Ministry of Transportation, which is the ultimate authority for granting of the project initiation approval (the “Project Initiation Approval”), and a Project Initiation Approval should be granted by the Ministry of Transportation prior to the issuance of a Road Transportation License by the relevant local transportation bureau. Under applicable PRC laws, rules and regulations, the establishment of a foreign-invested operator must be approved by the provincial branch of MOFCOM, and such foreign-invested operator must submit its Certificate of Approval for Foreign-Invested Enterprises and apply to the local department of the Ministry of Transportation for a Road Transportation License for its automobile maintenance and repair business, prior to commencing business.

Under the Road Transportation Regulations (道路運輸條例) promulgated by the State Council on April 30, 2004 which became effective on July 1, 2004, prior to commencing an automobile maintenance and repair business, an operator must file an application with the local department of the Ministry of Transportation and obtain a Road Transportation License in order to provide automobile maintenance and repair services or operate an automobile leasing business. Violation of the Road Transportation Regulations may result in fines and suspension of business operations, and criminal liability may be imposed upon a person held directly responsible, with a sentence of imprisonment for a term which may be up to five years, criminal detention, and/or fines of one to five times the amount of the illegal gains. To successfully renew the Road Transportation License, the applicant must: (i) have necessary site to repair automobiles; (ii) possess necessary equipment, facilities and employees; (iii) have adopted sound administrative rules on repairing automobiles; and (iv) have adopted necessary environment protection measures.

Used Automobile Sales

Our used automobile sales operations is subject to the Measures for the Administration of the Circulation of Used Automobiles (二手車流通管理辦法) (“Used Automobiles Measures”), promulgated by MOFCOM, the Ministry of Public Security, the SAIC and the State Administration of Taxation on August 29, 2005, which became effective on October 1, 2005.

Under the Used Automobiles Measures, a used automobile dealer must provide a customer with a written contract containing warranties relating to the quality of the used automobile and must offer arrangements for after-sales services. The Used Automobile Measures also provide for the establishment of a nationwide archival system to hold the records of used automobile dealers. Used automobile dealers must obtain operation permits and file registrations with the relevant local department of MOFCOM.

In addition, a foreign-invested used automobile dealer must obtain additional approvals from MOFCOM and file registrations with the relevant local department of MOFCOM.

Automobile Insurance

We earn commission from insurance companies which provide policies to our customers on the premises of our 4S dealership stores. As such, our business operations are subject to the Regulations on Administration of Concurrent-Business Insurance Agents (保險兼業代理管理暫行辦法) (the “Insurance Regulations”) promulgated by the China Insurance Regulatory Commission (“CIRC”) on August 4, 2000, which became effective on August 4, 2000.

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The Insurance Regulations require, amongst other things, a business which facilitates insurance coverage that directly relates to its main business to apply for a license from CIRC, and to obtain authorization documentation, subject to CIRC's supervision, from the insurance agencies. Under the Insurance Regulations, each business can only have agency arrangements with one insurance company.

Automobile Loans

We obtain financing from banks and financial institutions for our operations, including for the purchase of new automobiles to be sold to our customers. Our business operations are subject to the Measures for the Management of Automobile Loans (汽車貸款管理辦法) (the "Loans Measures"), promulgated by PBOC and the China Banking Regulatory Commission ("CBRC") on August 16, 2004 which became effective on October 1, 2004.

The Loans Measures provide that an automobile dealer may not obtain financing of a term exceeding one year for the purchase of automobiles or spare parts. An automobile dealer's asset liability ratio, which equals to its indebtedness divided by its total assets, must not exceed 80%, and it must have sufficient stable and lawful income or assets to repay both the principal and interest incurred on the loan. An automobile dealer will be subject to regular credit reviews and inspections conducted by the relevant financial institutions, the frequency of which is not specified in the Loans Measures.

In addition, an automobile dealer handling a loan application on behalf of its customers must be a legal person possessing a valid business license, an annual review certificate issued by MOFCOM and an automobile selling agent certificate issued by the automobile manufacturer of the relevant automobile.

Our dealership stores do not apply for loans on behalf of their customers. They refer their customers to banks to apply for loans directly.

Consumption Tax

The PRC Government adopted an automobile consumption tax on January 1, 1994. Pursuant to the Notice on Adjusting the Policy of Consumption Tax on Passenger Vehicles (關於調整乘用車消費稅政策的通告) promulgated by the PRC Ministry of Finance and the State Administration of Taxation, which became effective as of September 1, 2008, the personal automobile consumption tax rate for vehicles with engine displacement capacity of less than 1.0 liter has been reduced from 3% to 1%, whereas the tax rate for vehicles with larger engine displacements has been increased. In particular, the tax rate for vehicles with engine displacement of 3.0 to 4.0 liters increased from 15% to 25%, and the tax rate for vehicles with engine displacement of more than 4.0 liters increased from 20% to 40%.

Fuel-efficient Automobiles Subsidy

Pursuant to the Notice on the Launch of Energy-saving Product People-benefiting Project (關於開展“節能產品惠民工程”的通告) jointly promulgated by NDRC and the PRC Ministry of Finance on May 18, 2009 and the Implementation Provisions for the Promotion of the Fuel-efficient Automobiles under the Energy-saving Product People-benefiting Project (“節能產品惠民工程”節能汽車推廣實施細則) jointly promulgated by NDRC, MIIT and the PRC Ministry of Finance on May 26, 2009, the PRC Government provides a subsidy of RMB3,000 per automobile for purchases of certain fuel-efficient automobiles with 1.6-liter or smaller engines. NDRC, MIIT and the PRC Ministry of Finance announced a catalogue of the accredited fuel-efficient automobiles eligible for such subsidy (the "Fuel-efficient Automobiles Catalogue") in June 2010 and have subsequently made amendments to the Fuel-efficient Automobiles Catalogue.

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On September 7, 2011, NDRC, MIIT and the PRC Ministry of Finance jointly promulgated the Notice on the Adjustment of Promotion and Subsidy Policy for Fuel-efficient Automobiles (關於調整節能汽車推廣補貼政策的通知). To implement this notice, NDRC, MIIT and the PRC Ministry of Finance further amended the Fuel-efficient Automobiles Catalogue, which reduced the types of accredited fuel-efficient automobiles from about 400 to 37 as of October 1, 2011. The amount of subsidy remains RMB3,000 per automobile. As we primarily focus on luxury and ultra-luxury brand automobiles, which usually have higher capacity engines, the impact of these subsidy policies and the recent amendment on our business and operations has been limited. Neither the aforementioned subsidy policies and regulations nor the recent amendment to the Fuel-efficient Automobiles Catalogue had, during the Track Record Period, or is expected to have in the future, a material adverse effect on our business and operations.

Anti-congestion

On December 23, 2010, Beijing Municipal People's Government promulgated the Interim Provisions of Beijing Municipality on the Regulation and Control of the Amount of Passenger Vehicles (北京市小客車數量調控暫行規定), which became effective as of the same date. Pursuant to this regulation and its implementation rules, the city imposes an annual quota on the issuance of new vehicle registration plates. The quota for 2011 is 240,000. Potential automobile purchasers need to meet specific criteria and enter into a monthly draw. Only candidates who have been allocated a plate in the draw can apply to have their automobiles registered with the local vehicle administration in Beijing. Shanghai has implemented an auction system for the issuance of new vehicle registration plate since 1994. Under this system, each applicant is required to submit a "blind" bid for a vehicle registration plate. Only successful bidders can apply to have their automobiles registered with the local vehicle administration in Shanghai. Out-of-city vehicles bearing non-Shanghai registration plates are not allowed on certain roads during specified rush hours. We were not materially adversely affected by the aforementioned anti-congestion regulations during the Track Record Period.

COMPANY LAW

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

The Company Law provides for two general types of companies, namely limited liability 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 the assets of the company. A shareholder's liability is limited to the amount of registered capital contributed by such shareholder.

The Company Law also applies to foreign-invested limited liability companies.

WHOLLY FOREIGN-OWNED ENTERPRISES

The Law on Wholly Foreign-Owned Enterprises (外資企業法) promulgated by the Standing Committee of the National People's Congress on April 12, 1986 which became effective on April 12, 1986, and as amended on October 31, 2000, governs the establishment, operation and management of foreign-owned enterprises.

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MERGERS AND ACQUISITIONS

The M&A Rules govern, amongst other things, the purchase by foreign investors of equity interests in a domestic enterprise, the subscription by foreign investors of equity interests in a domestic enterprise, and the purchase and operation by foreign investors of the assets and business of a domestic enterprise.

In addition, the M&A Rules contain provisions which purport to require an offshore special purpose vehicle (“SPV”) formed for listing purposes and controlled 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. On September 21, 2006, the CSRC published procedures specifying documents and materials to be submitted by SPVs seeking CSRC’s approval of overseas listings.

Our PRC legal advisors, Jingtian & Gongcheng, advised that the listing of our Company on the Hong Kong Stock Exchange does not require CSRC approval as our Company is not an SPV as defined under the M&A Rules.

Pursuant to the Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by the General Office of the State Council on February 3, 2011 and the Provisions on the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated by MOFCOM on August 25, 2011, acquisitions of domestic enterprises by foreign investors may subject to security review.

Given that (i) our business of sale of automobile and provision of after-sales services does not fall within the scope of the security review system specified in the aforementioned regulations and (ii) we have received a certificate of approval from the local counterpart of MOFCOM in Jiangsu province for the acquisitions in the Reorganization, our PRC legal advisors, Jingtian & Gongcheng, are of the opinion that (i) the Reorganization does not fall within the scope of security review system and (ii) the aforementioned regulations do not and will not have any material adverse effect on the Listing.

PROPERTY LAW

The properties we lease and own in the PRC are subject to the Property Law (物權法), promulgated by the Standing Committee of the National People’s Congress on March 16, 2007 and became effective on October 1, 2007. Under the Property Law, any creation, modification, transfer or termination of property rights shall become effective upon registration with the relevant government authorities. The Property Law also contains specific provisions relating to land contractual operation rights, construction land use rights, residential land use rights, easement rights and various security rights.

The Administrative Measures on the Leasing of Commercial Buildings (商品房屋租賃管理辦法) (“Leasing Measures”), promulgated by the Ministry of Housing and Urban-Rural Development on December 1, 2010, which became effective on February 1, 2011, provide that, amongst others, illegal constructions may not be leased. Further, it provides that a lease must be filed with the local construction (real estate) administrative department. Although PRC courts have previously ruled that failure to file a lease with the relevant PRC government authorities does not in itself invalidate the lease, fines may be imposed by the local construction (real estate) administrative department for such violation, under the Leasing Measures.

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

According to the Provisional Regulations on Urban State-owned Land Grant and Transfer (城鎮國有土地使用權出讓和轉讓暫行條例), lease of allocated land shall be approved by the land administrative department and real estate administrative department at the county level.

FOREIGN EXCHANGE CONTROL

The Foreign Exchange Administration Regulations (外匯管理條例) promulgated by the State Council on January 29, 1996 as amended on August 1, 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 on June 20, 1996 which became effective on July 1, 1996, govern foreign exchange transactions for foreign-invested enterprises. Foreign-invested enterprises are permitted to convert after-tax dividends into foreign exchange and to remit such foreign exchange from their bank accounts in the PRC. Foreign-invested enterprises may also effect payments for current account items without SAFE approval, with valid receipts and proof of the relevant transactions. However, prior approval from SAFE is required for foreign exchange conversions for capital account items, including direct investments and capital contributions.

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 January 5, 2007 which became effective on February 2007, require PRC 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 department.

The SAFE Circular requires PRC residents with direct or indirect offshore investments, including overseas special purpose vehicles, to file a Registration Form of Overseas Investments Contributed by Domestic Individual Residents and register with SAFE, and to update such registration within 30 days of any major change in capital, including increases and decreases of capital, share transfers, share swaps, mergers or spin-offs. Failure to register may result in the prohibition of distributions or contributions from capital reductions, share transfers or liquidations, from PRC entities to the relevant offshore entity in which the PRC resident has a direct or indirect investment.

The SAFE Circular applies to each of Mr. Yang Aihua, Mr. Yang Hansong, Mr. Yang Zehua and any other individual who is a resident in the PRC and is an indirect shareholder of Suzhou Baoxin through foreign holding companies. Each of them has already registered with the SAFE Suzhou Branch as required under the SAFE Circular as of the Latest Practicable Date. Subsequent to the completion of the Global Offering, such shareholders will be required to update their registration with SAFE.

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FOREIGN EXCHANGE RATE

On July 21, 2005, PBOC changed the fixed RMB-US\$ exchange system to a floating exchange system based on market supply and demand. The closing price of foreign currencies, including the U.S. dollar, is announced by PBOC in the inter-bank foreign exchange market after the closing of the market on each working day and is the central parity for trading against RMB on the following working day. The daily trading price of the U.S. dollar against the Renminbi in the inter-bank foreign exchange market has been allowed to float within a band of 0.5% around the central parity published by PBOC since May 21, 2007, while the trading prices of non-U.S. dollar currencies against the Renminbi have been allowed to float within a band of 3.0% around the central parity published by PBOC since September 23, 2005.

SHAREHOLDER LOANS

Under existing PRC laws, rules and regulations, a foreign-invested enterprise may seek shareholder loans from offshore investors. In such event, a foreign-invested enterprise must apply to SAFE or local SAFE departments for foreign loan registration certificates and foreign exchange settlements. The aggregate amount of such foreign loans must not exceed the margin between the total investment and registered capital of such foreign-invested enterprises and must be registered with the local SAFE bureau. The recipient of a foreign loan must submit the foreign loan registration certificate to open and maintain a special foreign exchange account with a SAFE-approved bank, and may then repay the foreign loan with its own foreign exchange funds or by purchasing foreign exchange with Renminbi upon receiving SAFE approval.

DIVIDEND DISTRIBUTIONS

Under the Law on Wholly Foreign-Owned Enterprises (外資企業法), promulgated by the National People's Congress on April 12, 1986 which became effective on April 12, 1986 and as amended on October 31, 2001, and the Law on Sino-foreign Equity Joint Ventures (中外合資經營企業法) promulgated by the Standing Committee of the National People's Congress on July 8, 1979 which became effective on July 8, 1979 and as amended on April 4, 1990 and March 15, 2001, foreign-invested enterprises may not distribute after-tax profits unless they have contributed to employees' funds as specified under PRC laws, rules and regulations, and have set off financial losses during previous accounting years. Undistributed profits from previous accounting years may be distributed together with profits available for distribution during the current accounting year. Foreign-invested enterprises may remit after-tax profits as dividends to overseas equity holders without seeking SAFE approval.

ENVIRONMENTAL PROTECTION

The Environmental Protection Law (環境保護法) promulgated on December 26, 1989 by the Standing Committee of the National People's Congress which became effective on December 26, 1989, establishes the legal framework for environmental protection in the PRC. The environmental protection department of the State Council supervises environmental protection work in the PRC, and establishes national standards for the discharge of pollutants. Each of the local environmental protection bureaus is in turn responsible for the environmental protection work within their respective jurisdictions.

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Air Pollution

The Air Pollution Prevention Law (大氣污染防治法) promulgated on April 29, 2000 by the Standing Committee of the National People's Congress which became effective on September 1, 2000, establishes the legal framework for air pollution prevention in the PRC. The environmental protection department of the State Council formulates national air quality standards. Each of the local environmental protection bureaus is authorized to regulate air pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for violation.

Water Pollution

The Water Pollution Prevention Law (水污染防治法) promulgated on May 11, 1984 by the Standing Committee of the National People's Congress which became effective on November 1, 1984 and amended on March 15, 1996 and February 28, 2008, establishes the legal framework for water pollution prevention in the PRC. The environmental protection department of the State Council formulates national waste discharge standards. Enterprises which discharge waste into water must pay a treatment fee. Each of the local environmental protection bureaus is authorized to regulate water pollution within each of their respective jurisdictions by formulating more specific local standards, and may impose penalties for violation, including suspending operations.

Noise Pollution

The Noise Pollution Prevention Law (環境噪聲污染防治法) promulgated by the Standing Committee of the National People's Congress on October 29, 1996 which became effective on March 1, 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 environmental noise pollution must prepare and submit an environmental impact statement to the environmental protection department of the State Council for approval. Facilities for prevention and control of environmental noise pollution must be designed and approved by the environmental protection department of the State Council prior to commencement of the project, and built and put into use simultaneously with the project works. Facilities for prevention and control of environmental noise pollution may not be dismantled or suspended without the approval of the environmental protection department of the State Council.

Construction Projects

The Environmental Impact Appraisal Law (環境影響評價法) promulgated by the Standing Committee of the National People's Congress on October 28, 2002 which became effective on September 1, 2003, the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on November 29, 1998 which became effective on November 29, 1998, and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated by the State Environmental Protection Administration of China on December 27, 2001 which became effective on February 1, 2002, require enterprises planning construction projects to engage qualified professionals to provide assessment reports on the environmental impact of such projects. The assessment report must be filed with, and approved by, the local environmental protection bureau, prior to commencement of any construction work.

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AUTOMOBILE RECALLS

The Regulations on Recall of Defective Automotive Products (缺陷汽車產品召回管理規定) (“Recall Regulations”) promulgated by the State Administration of Quality Supervision, Inspection and Quarantine, NDRC, MOFCOM, and the General Administration of Customs on March 12, 2004 which became effective on October 1, 2004, require all automobile dealership stores to report defects in automobiles and automobile-related products to both the relevant automobile manufacturers and the PRC government authorities, and to fully cooperate with the automobile manufacturers in the conduct of automobile recall activities and with the PRC government authorities in any investigations thereto.

Under the Recall Regulations, there is a statutory warranty period within which an automobile manufacturer is required to recall an automobile if a relevant defect is discovered in the automobile. This statutory warranty period is the longer of (i) 10 years from the date on which the automobile is delivered to its first owner, and (ii) the usage period specified by the manufacturer for the automobile. The foregoing does not apply certain automobile parts and components. For example, the Recall Regulations provide that the statutory warranty period for automobile tyres shall be three years from the first date of delivery and that the statutory warranty period for non-durable components and parts shall be the relevant usage period specified by the automobile manufacturers. Our PRC legal advisors, Jingtian & Gongcheng, has advised that we, as an automobile dealership, are not liable for any costs associated with automobile recalls under PRC laws and regulations.

PRODUCT QUALITY

The principal law governing product liability in the PRC is the Product Quality Law (產品質量法) promulgated by the Standing Committee of the National People’s Congress on February 22, 1993 and as amended on July 8, 2000.

Pursuant to the Product Quality Law, a seller shall, among other things, adopt measures to keep products for sale in good quality and comply with regulations regarding the labeling of products, and shall not sell defective or damaged products, forge the origin of a product, forge or falsely use another manufacturer’s authentication marks, or substitute a fake product for a genuine product or a defective product for a high-quality product.

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

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CONSUMER PROTECTION

The Consumer Protection Law (消費者權益保護法) promulgated on October 31, 1993 by the Standing Committee of the National People's Congress which became effective on January 1, 1994, prescribes standards of behavior for businesses in dealing with consumers.

Businesses must, among other things, observe the provisions of the Consumer Protection Law and other relevant laws and regulations regarding personal safety and property protection, provide consumers with truthful information and advertising in relation to goods and services and with truthful and clear answers to consumers' questions in relation to goods and services, ensure that the actual quality of goods and services is consistent with the relevant advertisements, product descriptions or samples, and must 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 of the Consumer Protection Law provides that businesses must be responsible for the repair, replacement or return of goods if such warranties are required by PRC laws or provided under the agreements between the businesses and consumers, and further, that businesses 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 shall be responsible for replacement or return. As of the Latest Practicable Date, our PRC legal advisors have advised that no specific regulations for the automobile industry have been promulgated pursuant to Article 45.

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

COMPETITION AND ANTI-TRUST LAWS

Pursuant to the Anti-Unfair Competition Law (反不正當競爭法) promulgated by the Standing Committee of the National People's Congress on September 2, 1993 which became effective on December 1, 1993, businesses may not engage in improper market activities to undermine their competitors, including infringing trademark rights or confidential business information, generating false publicity through advertising or other means or forging and disseminating false information infringing upon the goodwill of competitors or the reputation of their products, bribing, establishing cartels, and dumping goods below cost.

REGULATORY OVERVIEW

The Anti-Monopoly Law (反壟斷法), promulgated by the Standing Committee of the National People's Congress on August 30, 2007 which became effective on August 1, 2008, requires proposals for foreign acquisitions and investment in domestic companies to undergo national security reviews, protects core Chinese industries, and grants PRC government authorities substantial discretion in making determinations as to monopolistic agreements, abuses of dominant positions, concentrations of power and abuses of administrative powers to eliminate or restrict competition.

Violation of the Anti-unfair Competition Law or the Anti-Monopoly Law may result in the imposition of fines, revocation of business licenses and criminal liability.

INTELLECTUAL PROPERTY RIGHTS

International Conventions

China is a party to several international conventions on intellectual property rights, including the Agreement on Trade-Related Aspects of Intellectual Property Rights, upon its accession to the World Trade Organization in December 2001. China is also a party to the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the World Intellectual Property Organization Copyright Treaty, the Madrid Agreement concerning the International Registration of Marks, and the Patent Cooperation Treaty.

Trademarks

The Trademark Law (商標法) was promulgated by the Standing Committee of the National People's Congress on August 23, 1982 which became effective on March 1, 1983 and amended on February 22, 1993 and October 27, 2001. 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 license from the registrant of that trademark;
- selling commodities that infringe upon the right to exclusive use of a registered trademark;
- forging or 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.

A trademark registrant may conclude a licensing contract authorizing use of its registered trademark by another person. Under the Trademark Law, the licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

REGULATORY OVERVIEW

Violation of the Trademark Law may result in the imposition of fines, confiscation and destruction of the infringing commodities.

The Provisions on Recognition and Protection of Well-Known Trademarks (馳名商標認定和保護規定) promulgated by SAIC on April 17, 2003 which became effective on June 1, 2003, protects well-known trademarks, which are recognized on a case-by-case basis by the Trademark Review and Adjudication Board of SAIC, the Trademark Office, or the PRC courts.

Copyrights

The Copyright Law (著作權法) was promulgated by the National People's Congress on September 7, 1990 and amended on October 27, 2001 and on February 26, 2010. The Implementation Rules of the Copyright Law was promulgated by the State Council on August 2, 2002 and became effective on September 15, 2002. Under the Copyright Law, copyright is automatically granted upon completion of a work and registration is voluntary. The period of copyright protection for an individual author is the lifetime of the author plus 50 years, or 50 years from the date of first publication if the author is a legal entity or organization. No protection is granted if a copyrightable work of a legal entity or organization is not published within 50 years of its completion.

The Regulations on the Protection of Computer Software (計算機軟件保護條例) promulgated on December 20, 2001 by the State Council which became effective on January 1, 2002, provides that computer software, including computer programs and related documentation, is a type of copyrightable work subject to protection under the Copyright Law.

Domain Names

The Measures for the Administration of Domain Names for Chinese Internet (中國互聯網絡域名管理辦法) (the "Domain Name Measures") were promulgated by the Ministry of Information Industry on November 5, 2004 and became effective on December 20, 2004. The Domain Name Measures regulate registrations of domain names with the Internet country code ".cn" and domain names in Chinese.

The Measures on Domain Name Dispute Resolution (2006 Edition) (中國互聯網信息中心域名爭議解決辦法 (2006年修訂)) (the "Domain Name Dispute Resolution Measures") were promulgated by the Chinese Internet Network Infrastructure Center on February 14, 2006 and became effective on March 17, 2006. The Domain Name Dispute Resolution Measures require domain name disputes to be submitted to institutions authorized by the Chinese Internet Network Information Center for resolution.

LABOR

Employment Contracts

The Labor Contract Law (勞動合同法) promulgated by the Standing Committee of the National People's Congress on June 29, 2007 which became effective on January 1, 2008, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employee contract. The Labor Contract Law stipulates that employee contracts must be in writing and signed. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. Pursuant to the Labor Contract Law, employment contracts lawfully concluded prior to the implementation of the Labor Contract Law and continuing as of the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the Labor 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, promulgated by the State Council on January 22, 1999 which became effective on January 22, 1999 (社會保險費徵繳暫行條例), and the Regulations on the Administration of Housing Accumulation Funds (住房公積金管理條例) promulgated by the State Council on April 3, 1999 which became effective on April 3, 1999 and as amended on March 24, 2002, 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 correct the deficit within a stipulated time limit.