
PRC REGULATORY OVERVIEW

Our business is mainly conducted in China. The key laws and regulations regulating our business operations in China include the following:

- Measures on the Administration of Foreign Investment in the Leasing Industry (外商投資租賃業管理辦法)
- Notice of the General Office of Ministry of Communications on Improving Administration of Ship Financial Leasing in the PRC (交通運輸部辦公廳關於規範國內船舶融資租賃管理的通知)
- Regulations on Supervision and Control of Medical Equipment (醫療器械監督管理條例), Rules on Administration of License for Business Dealing in Medical Equipment (醫療器械經營企業許可證管理辦法), Official Replies to Relevant Issues about Medical Equipment Leasing (關於租賃醫療器械有關問題的批復) and Comments in Response to Some Regulatory Issues about Medical Equipment Financial Leasing (關於融資租賃醫療器械監管問題的答覆意見)
- Regulations on the Administration of Printing Industry (印刷業管理條例)
- Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business (國家稅務總局關於融資租賃業務徵收流轉稅問題的通知) and Supplemental Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business (國家稅務總局關於融資租賃業務徵收流轉稅問題的補充通知)
- Notice of Ministry of Finance and State Administration of Taxation on Some Issues about Policies on Business Tax (財政部、國家稅務總局關於營業稅若干政策問題的通知)
- Announcement of State Administration of Taxation, No.13 in 2010—Announcement on Tax Issues Concerning Lessee Selling Assets in Financial Sale-leaseback (國家稅務總局公告2010年第13號—關於融資性售後回租業務中承租方出售資產行為有關稅收問題的公告)
- The PRC Contract Law (合同法)
- Enterprise Accounting Codes No. 21—Leasing (企業會計準則第21號—租賃)
- Rules on Administration of Foreign-Invested Construction Enterprise (外商投資建築業企業管理規定) and Notice of Ministry of Construction on Circulation of the Implementation Details of Qualification Administration in Rules on Administration of Foreign-Invested Construction Enterprises (建設部關於印發建設部關於外商投資建築業企業管理規定中有關資質管理的實施辦法的通知)
- Regulation of Safe Production Licenses (安全生產許可證條例)
- Notice of Ministry of Communications on the Administrative Rules relating to Vessel Transactions (交通運輸部關於發佈船舶交易管理規定的通知)

Measures on the Administration of Foreign Investment in the Leasing Industry

MOFCOM promulgated the *Measures on the Administration of Foreign Investment in the Leasing Industry* (the “**Measures**”) on February 3, 2005 to regulate the operation of foreign-invested leasing business and financial leasing business.

The Measures apply to the establishment of foreign-invested enterprises by foreign investors such as foreign companies, enterprises and other economic organizations in the form of Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures and wholly foreign-owned enterprises in

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the PRC to engage in the leasing business or financial leasing business as well as to carry out business activities. Under the Measures, foreign investors with total assets of no less than US\$5 million are permitted to apply to MOFCOM for establishing wholly foreign-owned financial leasing companies in the PRC. Foreign-invested financial leasing companies must satisfy the following conditions: (i) the registered capital shall not be less than US\$10 million; (ii) the term of operation of a foreign-invested financial leasing company in the form of a limited liability company normally shall not exceed 30 years; and (iii) it shall be staffed by appropriate professionals and its senior management personnel shall possess the appropriate professional qualifications and not less than three years' experience in the business. Although the Measures offer a choice of investment vehicle of either a limited liability company or a joint stock company, a joint stock company may not be a viable choice for investors that wish to have a wholly foreign-owned financial leasing business in China because more than half of the promoters of a joint stock company must be domiciled in China pursuant to the PRC Company Law.

Under the Measures, foreign-invested financial leasing companies may conduct the following businesses: (i) financial leasing business; (ii) leasing business; (iii) purchase of leased property inside and outside China; (iv) maintenance of assets underlying the leases and disposal of the residual value of assets underlying the leases; (v) lease transaction consultancy and security services; and (vi) other businesses approved by MOFCOM. "Financial leasing business" is defined as the business in which a lessor, based on a lessee's selections with respect of the seller and the leased object, agrees to purchase the assets underlying the leases from a seller, makes the leased object available to the lessee for use and collects rental from the lessee. Foreign-invested financial leasing companies may carry out financial leasing business by means such as direct leasing, sub-leasing, sale-leaseback, leveraged leasing, entrusted leasing and joint leasing. The leased objects allowed include (i) movable properties such as manufacturing equipment, telecommunication equipment, medical equipment, scientific and research equipment, inspection and testing equipment, engineering and machinery equipment and office equipment; (ii) transportation equipment, such as airplanes, automobiles and ships; and (iii) intangible assets such as software and technology that are attached to the moveable properties and transportation equipment mentioned above provided that the value of such attached intangible assets shall not exceed half value of the movable properties or transportation equipment they are attached to. The Group primarily engages in financial leasing business through Far Eastern within China, a wholly owned subsidiary of the Company. As confirmed by our PRC legal advisor, the conversion of Far Eastern into a wholly foreign owned enterprise in November 2008 has been duly approved by MOFCOM and registered with SAIC, and fully complied with the Measures.

The Measures require that the risky assets of a foreign-invested financial leasing company, which are determined by the total amount of residual assets after deducting cash, bank deposits, PRC treasury securities and entrusted leased assets from the total assets of the enterprise, shall generally not exceed ten times the company's net assets as of the end of each financial year. The Measures further require that foreign-invested financial leasing companies shall submit a report on their business operations and an audited financial statements of the past year to MOFCOM for filing purposes before March 31 of each year. In accordance with the Measures and other relevant laws and regulations, Far Eastern has set up appropriate business development and capital management programs and established a comprehensive evaluation system. It actively adjusts its capital structure in light of changes in the market and the risks being confronted, by adjusting its dividend policy or financing channels. With its comprehensive evaluation system, Far Eastern is able to timely report this ratio as required by the Measures along with its year end financials to MOFCOM for filing purposes before

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March 31 of each year. During the Track Record Period, there were no significant changes in the policies or processes for managing the capital of Far Eastern. During the Track Record Period, we did not receive any comments from MOFCOM in relation to these filings. In addition, if the leased property to be imported by a foreign-invested financial leasing company based on the selection of the lessee is subject to special policy administrations such as quota or licensing, the lessee or the financial leasing company shall carry out application procedures in accordance with the relevant provisions.

Notice of the General Office of Ministry of Communications on Improving Administration of Ship Financial Leasing in the PRC

On March 28, 2008, the Ministry of Communications issued the *Notice of the General Office of Ministry of Communications on Improving Administration of Ship Financial Leasing in the PRC* (the “**Notice**”). According to the Notice, a lessor engaged in ship financial leasing in China shall be legally qualified for dealing in the business by obtaining approval from the relevant government authority. The Notice also provides that where a lessor conducts ship financial leasing in China in the form of Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures or wholly foreign-owned enterprises, the foreign investment in the enterprise shall not exceed 50% of the total investment.

To comply with the Notice, Far Eastern, as a wholly foreign-owned enterprise, ceased to provide ship financial leasing service in China since March 2008 when the Notice became effective. Instead, we entrust local financial institutions qualified for the lending business (such as banks and trust companies) to lend our money to domestic enterprises to provide financing for their ship construction or purchasing. The constructed or purchased ships will then be mortgaged to us as a guarantee for the repayment of the entrusted loans. Currently, the ship financial leasing business of our Group is mainly conducted through FEH Shipping’s wholly-owned subsidiaries. As confirmed by our PRC legal advisor, our provision of entrusted loans within the shipping industry does not contravene PRC laws and regulations. In addition, the performance of those ship leasing contracts which were entered into before the effective date of the Notice shall not be deemed by the relevant PRC authorities as a breach of the Notice.

Regulations on Supervision and Control of Medical Equipment, Rules on Administration of License for Business Dealing in Medical Equipment, Official Replies to Relevant Issues about Medical Equipment Leasing and Comments in Response to Some Regulatory Issues about Medical Equipment Financial Leasing

The State Council promulgated the *Regulations on Supervision and Control of Medical Equipment* (the “**Regulations on Medical Equipment**”) on January 4, 2000 to regulate the research, production, operation and use of medical equipment. According to the Regulations on Medical Equipment, establishment of a business dealing in category one medical equipment shall be filed for record with the drug regulatory bureaus at the provincial level. Establishment of a business dealing in category two and category three medical equipment shall be filed for review and approval with the drug regulatory bureaus at the provincial level and a license for business dealings in medical equipment shall be obtained.

The State Food and Drug Administration promulgated the *Rules on Administration of License for Business Dealing in Medical Equipment* on August 9, 2004 to regulate the administration and supervision of licenses for business dealings in medical equipment. According to these rules, entities engaged in business dealings in medical equipment shall submit relevant materials to the food/drug

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regulatory bureaus at the provincial level or the authorized food/drug regulatory agencies at the municipal level to apply for the license for business dealings in medical equipment.

The State Food and Drug Administration promulgated the *Official Replies to Relevant Issues about Medical Equipment Leasing* and *Comments in Response to Some Regulatory Issues about Medical Equipment Financial Leasing* on April 15, 2004 and June 1, 2005, respectively. Accordingly, medical equipment financial leasing conducted by financial leasing companies shall be categorized as business dealings in medical equipment and a license for business dealings in medical equipment shall be obtained in accordance with the Regulations on Medical Equipment.

Far Eastern, Shanghai Donghong and Shanghai Domin have all been issued with licenses for business dealings in category two and category three medical equipment.

Regulations on the Administration of Printing Industry

On August 2, 2001, the State Council promulgated the *Regulations on the Administration of Printing Industry* to regulate the operation of the printing industry. According to this regulation, the PRC Government implements a licensing system of printing operations and any enterprises or individuals shall obtain the operation license before engaging in the printing industry.

Shanghai Donghong has been issued a printing industry operation license for business dealings in relevant printing business.

Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business and Supplemental Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business

The State Administration of Taxation promulgated the *Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* on June 15, 2000. According to this notice, the financial leasing business conducted by entities approved by the PBOC shall be levied business tax according to the Provisional Regulations on Business Tax and no value added tax shall be levied, whether or not the ownership of the leased goods has been transferred to the lessee. For the same business conducted by other entities, value added tax rather than business tax shall be levied if the ownership of the leasing goods has been transferred to the lessee; while business tax rather than value added tax shall be levied if the ownership of the leasing goods has not been transferred to the lessee.

The State Administration of Taxation promulgated the *Supplemental Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* on November 15, 2000. According to this notice, the *Notice of State Administration of Taxation on Levying Turnover Tax on Financial Leasing Business* shall be applicable to the financial leasing business conducted by foreign-invested enterprises and foreign enterprises approved by Ministry of Foreign Trade and Economic Cooperation.

Notice of Ministry of Finance and State Administration of Taxation on Some Issues about Policies on Business Tax

The Ministry of Finance and the State Administration of Taxation jointly promulgated the *Notice of Ministry of Finance and State Administration of Taxation on Some Issues about Policies on*

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Business Tax on January 15, 2003. According to this notice, if an entity is approved by the PBOC, the Ministry of Foreign Trade and Economic Cooperation and the State Economic and Trade Commission to conduct financial leasing business, its turnover in the financial leasing business shall be calculated as the total price and off-price fees received from the lessee (including the residual value) after deducting the actual cost of leasing goods borne by the lessor. Such actual cost of leasing goods shall include the purchase price, duty, value added tax, consumption tax, miscellaneous transportation cost, installation cost, insurance premium and accrued interest on loans (including accrued interest on foreign currency and RMB-denominated loans) of the leasing goods borne by the lessor.

Announcement of State Administration of Taxation, No.13 in 2010—Announcement on Tax Issues Concerning Lessee Selling Assets in Financial Sale-leaseback

On September 8, 2010, the State Administration of Taxation promulgated the *Announcement on Tax Issues Concerning Lessee Selling Assets in Financial Sale-leaseback* for introducing some preferential tax treatments on the lessees in financial sale-leaseback. Under this announcement, “financial sale-leaseback” is defined as the business in which a lessee for the purpose of financing sells its assets to an enterprise which has been approved to engage in the financial leasing business and then have the sold assets leased back from such enterprise. According to the announcement, the lessee in financial sale-leaseback can enjoy the following preferential tax treatments: (i) no value added tax and business tax shall be imposed on the lessee’s activities of selling assets in financial sale-leaseback; (ii) the lessee’s activities of selling assets in financial sale-leaseback would not be recognized as sales income and the depreciation of the assets of financial leasing shall still be made by lessees based upon the book value before the sale of the assets. The financing interest paid by the lessee during the financial leasing period shall be deducted as financial costs before making payments of corporate income tax.

The PRC Contract Law

The National People’s Congress promulgated *the PRC Contract Law* on March 15, 1999 for regulating the civil contractual relationship among natural persons, legal persons and other organizations. Chapter 14 of the PRC Contract Law sets mandatory rules about financial leasing contracts.

Under the PRC Contract Law, the financial leasing contracts shall be in written format and shall include terms such as the name, quantity, specifications, technical performance and inspection method of the leased object, the lease term, the composition, payment term, payment method and currency of the rent and the ownership of the leased object upon expiration of the lease.

Under the financial leasing contracts, the lessor shall conclude a purchase contract based on the lessee’s selections in respect of the seller and the leased property, and the seller shall deliver the leased property to the lessee as agreed. The lessee has the rights of a buyer when taking delivery of the leased property. Without the consent of the lessee, the lessor may not modify relevant particulars related to the lessee of the purchase contract which has been concluded based on the lessee’s selections in respect of the seller and the leased property.

In respect of the usage and maintenance of the leased property, the lessee shall take due care of the leased property and use it properly. The obligation to maintain and repair the leased object while in the possession of the lessee shall be performed by the lessee. The lessor is not liable for injury to the body or damage to the property of a third party caused by the leased property while in the possession

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of the lessee. However, the ownership of the leased property vests in the lessor. If the lessee becomes bankrupt, the leased property does not become part of the property available for distribution in the bankruptcy. If the leased property fails to meet the requirements stipulated by the parties or is not fit for the purpose for which it is to be used, the lessor shall not be liable, unless the lessee selected the leased property in reliance on the technical ability of the lessor or the lessor interfered in the selection of the leased property.

The lessor and the lessee may stipulate in which party ownership of the leased property shall vest upon expiration of the lease. If they have not stipulated in which party ownership shall vest upon expiration, if such stipulation is not clear, or if ownership cannot be determined in accordance with the PRC Contract Law, the ownership of the leased object shall vest in the lessor. If the parties have stipulated that ownership of the leased property shall vest upon the lessee upon expiration of the lease, and the lessee has already paid most of the rent but is unable to pay the balance, and if the lessor terminates the contract and repossesses the leased property on those grounds, the lessee may demand a partial refund if the value of the leased property repossessed exceeds the rent and any other expenses owed by the lessee.

The PRC Contract Law includes a general mandate that the interest rate charged to a customer under a financial leasing contract shall take into account the purchase cost of the property or asset underlying a lease contract and should allow for a reasonable profit margin for the lessor, except as otherwise agreed upon by the contracting parties. Having said this, our Group's practice to adjust interest rates charged to customers with reference to PBOC benchmark interest rates fully complies with PRC Contract Law. Furthermore, there are no regulatory restrictions relating to the interest rates charged by our Group to our customers under relevant PRC laws, regulations and rules.

Enterprise Accounting Codes No. 21—Leasing

The Ministry of Finance promulgated the *Enterprise Accounting Codes No. 21—Leasing* (the “Codes”) on February 15, 2006 to regulate the accounting and information disclosure about financial leasing and operating leasing.

Under the Codes, leasing means an agreement to transfer the use rights of an asset to another party for a specified period in return for a rental payment. These Codes do not apply to the leasing of land-use rights or buildings through operating lease or the licensing of films, video tapes, scripts, writings, patents and copyrights, and the impairment losses of long-term credits formed by the financial leasing of a lessor.

In respect of any leasing, the Codes require the lessor and the lessee to classify the leasing as financial leasing or as operating leasing at the commencement of the lease. The Codes also set out factors to be considered in such classification. The accounting treatment of financial leasing and operating leasing to be applied to the lessor and the lessee are specified in separate sets of detailed provisions in the Codes. The lessor and the lessee are also required to comply with several disclosure requirements in respect of their lease transaction on the notes of their balance sheet. In addition, they are required to disclose each sale-leaseback transaction as well as the important provisions of these sale-leaseback contracts.

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Rules on Administration of Foreign-Invested Construction Enterprise and Notice of Ministry of Construction on Circulation of the Implementation Details of Qualification Administration in Rules on Administration of Foreign-Invested Construction Enterprises

The former Ministry of Construction and Ministry of Foreign Trade and Economic Cooperation jointly promulgated *Rules on Administration of Foreign-Invested Construction Enterprise* on September 27, 2002. According to it, foreign-invested construction enterprises shall make applications to the competent administrative department in charge of construction to obtain the qualification certificate for their business operations.

In accordance with *Notice of Ministry of Construction on Circulation of the Implementation Details of Qualification Administration in Rules on Administration of Foreign-Invested Construction Enterprises* issued by the former Ministry of Construction on April 8, 2003, the qualification certificate for foreign-invested construction enterprise shall also be applicable to any construction enterprise reinvested and newly established by a foreign-invested enterprise legally established in China in its own name or such enterprise established through acquisition of the equity interests of investors in another construction enterprise.

Shanghai Domin, as a construction enterprise reinvested by a foreign-invested enterprise legally established in China, has obtained the qualification certificate for foreign-invested construction enterprise for the purpose of conducting medical engineering services.

Regulation of Safe Production Licenses

The State Council of PRC promulgated the *Regulation of Safe Production Licenses* on January 13, 2004. According to it, the State implements a safe production licensing system on mining enterprises, construction enterprises and enterprises that produce dangerous chemicals, fireworks and fire crackers, and civil equipment for blasting explosions. The aforesaid enterprises may not engage in production activities without safe production licenses.

Shanghai Domin has obtained the safe production license for the purpose of conducting medical engineering services.

Notice of Ministry of Communications on the Administrative Rules relating to Vessel Transactions

The Ministry of Communications of the PRC promulgated the *Notice of Ministry of Communications on the Administrative Rules relating to Vessel Transactions* on March 5, 2010, which became effective on April 1, 2010. This notice applies to transfer of ownership of Chinese flag vessels and related brokerage activities (excluding the transaction of vessels under construction). Under this notice, any entities engaging in ship brokerage activities shall make a filing for record with the relevant governmental authorities.

From April 1, 2010 (being the effective date of this notice) to the Latest Practicable Date, Shanghai Donghong had not conducted any ship brokerage business. Shanghai Donghong will make the necessary filings according to this notice before engaging in such business in the future.

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REGULATORY BODY

MOFCOM is the principal regulatory authority responsible for the supervision and regulation of foreign-invested financial leasing company operating in China. Our Company's financial leasing business in the PRC is subject to the administration of MOFCOM.

MOFCOM is an executive agency of the State Council of the PRC. It is responsible for formulating policy on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements.

To establish a foreign-invested financial leasing company, the investor shall submit all application materials to MOFCOM's provincial branch at the place where the company will be located. MOFCOM's provincial branch shall, after preliminary examination of the submitted application materials, submit the application materials together with a preliminary examination opinion to MOFCOM within 15 working days from the date on which it receives all application materials. MOFCOM shall make a decision with respect to whether or not it shall grant an approval within 45 working days from the date on which it receives all application materials. If it decides to grant an approval, it shall issue the foreign investment enterprise approval certificate; if it decides not to grant an approval, it shall explain in written form. Pursuant to the *Decision of the State Council of PRC on the Fifth Batch of Administrative Examination and Approval Matters to be Cancelled or Delegated to Subordinate Authorities* promulgated and effected on July 4, 2010, the approval process for the establishment or modification of foreign-invested enterprises engaged in financial leasing business with a total investment amount of US\$300 million or less can be approved by provincial-level governmental authorities without the need to submit the application to national level authorities.