
REGULATORY OVERVIEW

OVERVIEW

This section summarizes the key current PRC laws and regulations relevant to our business and operations in China.

REGULATIONS RELATING TO THE PRC PASSENGER VEHICLE INDUSTRY

The PRC Passenger Vehicle 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”), which clarified certain issues relating to the development of the automobile industry and formulated policies relating to multiple aspects of the automobile industry. On May 21, 2004, the NDRC promulgated the Policy on Automobile Industry Development (汽車產業發展政策) (the “Policy”), which was further amended on August 15, 2009. The Policy contains provisions relating to, among other things, 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. One of the stated aims of the Policy is to strengthen the PRC automobile industry before 2010.

Prior to 2006, automobile distribution as well as other industries falling within the restricted categories under the 2004 Edition of the Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄 (2004年修訂)) in China were subject to the restriction that foreign entities were not permitted to hold more than 49% interest in dealership groups with over 30 dealership stores (the “30 Dealerships Limitation”). Upon China’s accession to the World Trade Organization in 2001, China made a commitment to abolish the 30 Dealerships Limitation within five years of its accession¹. Accordingly, each of the (i) Measures for the Implementation of the Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法) jointly promulgated by MOFCOM, NDRC and the State Administration for Industry and Commerce on February 21, 2005 which became effective on April 1, 2005, (ii) the Measures for the Administration on Foreign Investment in Commercial Sector (外商投資商業領域管理辦法) promulgated by the MOFCOM on April 16, 2004 which became effective on June 1, 2004 and (iii) the 2004 Edition of the Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄 (2004年修訂)) promulgated by the NDRC and MOFCOM on November 30, 2004 which became effective on January, 2005, provides that the 30 Dealerships Limitation would no longer be in force commencing on December 11, 2006. However, there was uncertainty regarding the validity of the 30 Dealerships Limitation under PRC laws and regulations as the 2007 Edition of the Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄 (2007年修訂)) subsequently promulgated by NDRC and MOFCOM on November 30, 2007 which became effective on December 1, 2007 still included the 30 Dealerships Limitation.

On July 27, 2011, NDRC and MOFCOM jointly promulgated the Catalogue of Industries for Guiding Foreign Investment (Revision Draft) (外商投資產業指導目錄 (徵求意見稿)), which removed the 30 Dealerships Limitation and the 2011 Edition of the Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄 (2011年修訂)) was officially promulgated on December 24, 2011 and became effective on January 30, 2012, which officially abolished the 30 Dealerships Limitation.

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 Dealerships 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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Our PRC legal advisor, Commerce & Finance Law Offices, advised that to the best of its knowledge after due inquiry, MOFCOM, being the competent authority governing foreign investment, had not imposed any penalty on the companies operating more than 30 dealerships with foreign investment over 49% in any industry falling within the restricted categories. On this basis, Commerce & Finance Law Offices is of the view that MOFCOM will not impose any penalty on the Group even though it had more than 30 dealerships with foreign investment over 49% during the Track Record Period.

New Passenger Vehicle Sales

Our new passenger vehicle sales business is subject to the Measures for the Implementation of the Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法) (the “Measures”) jointly promulgated by the MOFCOM, the NDRC and the SAIC on February 21, 2005, which became effective on April 1, 2005.

The Measures recognize two categories of automobile distributors—general automobile distributors and automobile dealers. General automobile distributors are defined under the Measures as “enterprises engaged in providing automobiles and spare parts” whereas automobile dealers are defined as “enterprises authorized by automobile suppliers to engage in automobile sales and services.” Our PRC legal advisor, Commerce & Finance Law Offices, has confirmed that we are classified as an automobile dealer under the Measures.

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

According to the Measures, automobile suppliers must also file the relevant documents in relation to the automobile dealer with the SAIC prior to the commencement of business operations of the automobile dealers.

Sale of Pre-owned Vehicles

The Measures for the Administration of the Circulation of Used Automobiles (二手車管理流通辦法) (the “Used Automobiles Measures”), jointly 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, provides that used automobile dealers must provide their customers with written contracts containing warranties relating to the quality of the used automobiles purchased and must offer arrangements for after-sale services. The Used Automobiles Measures also provide for the establishment of a nationwide archival system to keep records of used automobile dealers. Used automobile dealers must obtain operation permits and file registration with relevant local department of MOFCOM.

Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that our sale of pre-owned vehicles certified by the relevant manufacturers through our CPO centers are not subject to the Used Automobiles Measures. On the basis that these pre-owned vehicles are certified by the relevant manufacturers, the sales of these pre-owned vehicles are treated as sales of new passenger vehicles and are governed by the relevant laws, rules and regulations set out in the paragraph entitled “—Regulations Relating to the PRC Passenger Vehicle Industry—New Passenger Vehicles Sales.”

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After-sales Services

Our after-sales services are subject to the Regulation on the Administration of Automobile Maintenance and Repair (機動車維修管理規定) (the “Automobile Repair Regulation”) promulgated by the Ministry of Transport on June 24, 2005, which became effective on August 1, 2005.

Under the Automobile Repair Regulation, an operator must possess suitable facilities, equipment and technicians in order to provide after-sales services. In addition, an operator must implement quality management systems and safety procedures, provide training to its technicians, maintain proper automobile repair and maintenance records and archives, and ensure that there are sufficient safeguards for environmental protection.

According to the Automobile Repair Regulation, the relevant authority will grant a renewed Road Transportation License within 25 days from the date of submission of all required documents. However, in practice, the time required for obtaining/renewing approval depends on the location of the applicant as well as the local government authority and may exceed three months.

Road Transportation Licenses

Under the Road Transportation Regulation (道路運輸條例) promulgated by the State Council on April 30, 2004, which became effective on July 1, 2004, prior to the commencement of 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 (道路運輸經營許可証) to provide automobile maintenance and repair services. Violation of the Road Transportation Regulation may result in fines and suspension of business operations, and criminal liability may be imposed on a person held directly responsible and/or fines of between two and ten times of the amount of the illegal gains. For successful renewal of Road Transportation License, the applicant shall: (a) have necessary site to repair passenger vehicles; (b) possess necessary equipment, facilities and employees; (c) have adopted sound administrative measures on automobile repair; and (d) have adopted necessary measures for environmental protection.

Foreign investment in automobile maintenance and repair 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 the MOFCOM 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 local department in charge for transportation where the foreign-funded road transportation enterprise is to be established.

Under the Foreign-Invested Road Transportation Services Regulations, all the application documents of a foreign-invested enterprise received by the local transportation bureau should be forwarded to the Ministry of Transportation, which is the ultimate authority granting 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

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establishment of a foreign-invested operator must be approved by the provincial branch of the 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. As of the Latest Practicable Date, Shanghai Yongda Lujie Automobile Sales and Services Co., Ltd. (上海永達路捷汽車銷售服務有限公司), as the sole foreign-invested enterprise which is engaged in automobile maintenance and repair business in our Group, has obtained the Road Transportation License and Project Initiation Approval issued by the Shanghai Municipal Transportation and Port Authority.

Automobile Rental

Our automobile rental business is subject to the Administration Regulation on Automobile Leasing of Shanghai (上海市出租汽車管理條例) (the “Automobile Leasing Regulation”), which became effective on September 1, 1995 and was amended on May 27, 1997, January 17, 2001, October 10, 2003 and June 22, 2006, respectively.

Under the Automobile Leasing Regulation, enterprise engaged in automobile rental business must apply for and obtain the Qualification Certificate for Operation of Automobile Lease of Shanghai (上海市汽車租賃經營資格證書), which is valid for three years. The Qualification Certificate for Operation of Automobile Lease of Shanghai is also subject to annual inspection of relevant governmental authorities.

Automobile Insurance

We receive commissions from insurance companies which provide their services to our customers on our premises. As such, our 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 Regulation”) promulgated by the China Insurance Regulatory Commission (the “CIRC”) and became effective on August 4, 2000.

The Insurance Regulation requires, among other things, a business which facilitates insurance coverage directly related to its main business, to apply for a license from the CIRC, and to obtain power of attorney, subject to CIRC’s supervision, from the insurance agencies. Under the Insurance Regulations, each business may work with only one insurance agency.

Automobile Loans

We obtain financing from banks and financial institutions for our operations, including for the purchase of new passenger vehicles for sale. 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”), jointly promulgated by the PBOC and the CBRC on August 16, 2004, which became effective on October 1, 2004.

The Loans Measures provide that an automobile dealer may not obtain financing for a term exceeding one year, for the purchase of automobiles and/or spare parts. The automobile dealer’s balance sheet ratio, or the asset liability ratio, which equals to its indebtedness divided by 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. As of December 31, 2009 and 2010 and 2011, our Group’s asset liability ratio calculated by dividing its total liabilities by total assets was 75.0%, 72.3% and 78.7%, respectively.

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In addition, an automobile dealer applying for a loan must be a legal person with business license, an annual review certificate issued by the relevant local branch of SAIC and an automobile selling agent certificate issued by the automobile manufacturer and there can be no material non-compliance or no record of bad credit on the part of the automobile dealer and its senior officials.

We do not apply for loan on behalf of our customers and will refer them to banks for application directly.

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”的通知) 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.

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.

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 for registration of their automobiles with the local vehicle administration authority in Beijing.

Shanghai has implemented an auction system for the issuance of new automobile 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 for registration of their vehicles with the local automobile 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.

Automobile Recalls

The Regulation on Recall of Defective Automotive Products (缺陷汽車產品召回管理規定) promulgated by the State Administration of Quality Supervision, Inspection and Quarantine, the

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NDRC, MOFCOM, and the General Administration of Customs on March 12, 2004, which became effective on October 1, 2004, requires all automobile dealerships to report defects in automobiles and automobile-related products to both the relevant automobile manufacturers and the relevant 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 relevant investigations.

COMPANY LAW

The incorporation and operations of our subsidiaries in the PRC 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 respectively.

The Company Law recognizes two general types of companies, 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 the registered capital contributed.

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

MERGERS AND ACQUISITIONS

The M&A Rules govern, among 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 require an offshore special purpose vehicle ("SPV") formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, to obtain CSRC 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 approval of overseas listings.

Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that the listing of our Company on the Hong Kong Stock Exchange does not require CSRC approval as Yongda International was established as a foreign-invested enterprise before September 8, 2006, the effective date of the M&A Rules.

MOFCOM SECURITY REVIEW RULES

On August 25, 2011, the MOFCOM promulgated the Implementation Rules of MOFCOM on the Security Review Rules regarding Merger of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) (the "MOFCOM Security Review Rules"), which became effective on September 1, 2011.

Under the MOFCOM Security Review Rules, a national security review is required for certain mergers and acquisitions by foreign investors raising concerns about national defense and security. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the national security review, the MOFCOM will assess the substance and actual

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impact of the transaction. The MOFCOM Security Review Rules further prohibit foreign investors from circumventing the national security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

Cheung Tak On indirectly held 50% interest in the PRC entities comprising the Group through Grouprich International, an offshore entity prior to September 1, 2011, the effective date of the MOFCOM Security Review Rules. On this basis, 50% interest in the PRC entities was considered being held by an offshore shareholder before the MOFCOM Security Review Rules came into effect and our PRC legal advisor, Commerce & Finance Law Offices, has advised us that the Reorganization is not subject to the national security review.

PROPERTY LAW

The properties which 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. All lawful property of the State, collectives, and individuals are protected by law against embezzlement and encroachment. 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.

Under the Urban Real Estate Law (城市房地產管理法) promulgated by the Standing Committee of the National People's Congress on July 5, 1994 which became effective on January 1, 1995 and as amended on August 30, 2007, and the Measures for Administration of Leases of Commodity Properties (商品房屋租賃管理辦法) promulgated by the Ministry of Construction on December 1, 2010 and became effective on February 1, 2011, parties to a building lease should enter into a written lease contract and register the lease with the relevant real estate administration authority. Whenever a lease is signed, amended, extended or terminated, the parties are required to register the details with the relevant real estate administration authority. Parties will be subject to fines if they fail to register the details after being ordered by the relevant authorities.

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 and 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 usage of collectively-owned land. Violation of the Land Administration Law may result in the imposition of fines and confiscation of the land concerned.

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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SINO-FOREIGN JOINT VENTURES

The Law on Sino-Foreign Equity Joint Ventures (中外合資經營企業法), promulgated by the National People's Congress and became effective on July 8, 1979 and as amended on April 4, 1990 and March 15, 2001, governs the establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange restrictions, accounting practices, taxation and labor matters of a Sino-foreign joint equity venture.

REGULATIONS RELATING TO TAX

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知) promulgated by the PRC Ministry of Finance and the State Administration of Taxation, which became effective on September 1, 2008, the personal automobile consumption tax rate for automobiles with engine displacement capacity of less than 1.0 liter has been reduced from 3% to 1%, whereas the tax rate for automobiles with larger engine displacements has been increased. In particular, the tax rate for automobiles with engine displacement of 3.0 to 4.0 liters increased from 15% to 25%, and the tax rate for automobiles with engine displacement of more than 4.0 liters increased from 20% to 40%.

PRC Enterprise Income Tax

According to the EIT Law (企業所得稅法) promulgated by the National People's Congress on March 16, 2007 and the Implementation Rules of Enterprise Income Tax Law (企業所得稅法實施條例) promulgated by the State Council on December 6, 2007, which both took effect on January 1, 2008, the enterprise income tax rate for both domestic and foreign-invested enterprises is 25%. For enterprises established before March 16, 2007 that are entitled to preferential income tax treatments under the related tax laws and administrative regulations, the EIT Law and its Implementation Rules provides for a five-year transitional period, during which the applicable tax rate shall be converted to the unified rate at 25% gradually.

Under the EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises." Pursuant to the EIT Law and its implementation rules, enterprises established outside PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and subject to the uniform 25% EIT rate on their worldwide income. According to the implementation rules of the EIT Law, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. Our management is currently based in China and is expected to remain in China in the future. It is not clear whether we would be considered to be a "resident enterprises" or not. Although the EIT Law provides that dividend income between "qualified resident enterprises" is exempted income, the implementation rules refer to "qualified resident enterprises" as enterprises with "direct equity interest," and therefore it is not clear whether dividends we receive from our subsidiaries, including our Hong Kong and BVI subsidiaries, would be eligible for such exemption if we were considered to be a PRC resident enterprise. If we are considered a PRC resident enterprise and thus required to withhold income tax for any dividends we pay to our non-PRC resident enterprise investors, the amount of dividends we can pay to our Shareholders could be materially reduced. In addition, any gain realized on the transfer of ordinary shares by our non-PRC resident enterprise

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investors would be subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. See “Risk Factors—Under the EIT Law, we and our non-PRC subsidiaries may be classified as “resident enterprises” of China and such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.”

Tax Collection for Share Transfer by Non-PRC Resident Enterprises

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) or SAT Circular 698, issued by the State Administration of Taxation on December 10, 2009 with retrospective effect from January 1, 2008, except for the purchase and sale of equity through a public securities market, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5%; or (ii) does not tax foreign income of its residents, the foreign investor must report the Indirect Transfer to the competent tax authority of the PRC resident enterprise. If the tax authority, upon examining the nature of the Indirect Transfer, deems that the Indirect Transfer has no reasonable commercial purpose other than to avoid PRC tax, the tax authority may disregard the existence of the overseas holding company used for tax planning purposes and re-characterize the Indirect Transfer.

Value-Added Tax

All taxpayers engaged in the sale of goods, provision of processing, repairs and replacement services, and importation of goods within the territory of the PRC are required to pay VAT. Our sales and services are subject to VAT and the applicable tax rate is 11% and 17%.

PRC Business Tax

Taxpayers providing taxable services in the PRC are required to pay a business tax at a normal tax rate of 5% of their revenues, unless otherwise provided.

Dividend Withholding Tax

Pursuant to the EIT Law and the Implementation Rules, dividends generated after January 1, 2008 and distributed to us by our PRC subsidiaries are subject to a 10% withholding tax, provided that we are classified as a “non-resident enterprise” by the relevant PRC tax authorities under the EIT Law. However, as described in “—PRC Enterprise Income Tax,” we may be considered a PRC resident enterprise for EIT purposes, in which case dividends received by us from our PRC subsidiaries may be exempt from the PRC withholding tax because such income is exempted under the EIT Law for a PRC resident enterprise recipient.

FOREIGN EXCHANGE CONTROLS

The Foreign Exchange Management Regulations (外匯管理條例) promulgated by the State Council on January 29, 1996 as amended and became effective 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 PBOC 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

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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 Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicles and Investing Back in China by Domestic Residents (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular”) promulgated by SAFE on October 21, 2005 which became effective on November 1, 2005 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 SAFE’s records in the event of any major change in capital, including increases and decreases of capital, share transfers, share swaps, mergers or divisions.

The SAFE Circular applies to each of Cheung Tak On, Cai Yingjie, Gu Mingchang, Wan Zhanggen, Wang Zhigao and Qiao Suixiang, who is a PRC resident and is an indirect shareholder of Yongda International through offshore holding companies. Each of them has already registered with the SAFE Shanghai Branch as required under the SAFE Circular as to their offshore investments. Our PRC legal advisors, Commerce & Finance Law Offices, has advised that there is no material legal impediment for the aforementioned shareholders to update the registration reflecting: (1) the share transfer from Asset Link to Palace Wonder and Yongda Employee Incentive Company Limited pursuant to the Family Trust and Yongda Employee Trust respectively; and (2) shareholding change in connection with the Global Offering.

The Implementation Rules of the Administrative Measures for individual Foreign Exchange (個人外匯投資管理辦法實施細則) promulgated by SAFE on January 5, 2007 which became effective on February 1, 2007, requires 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. In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Publicly-Listed Companies (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知(匯發[2012]7號)), or the Share Option Rules, which replaced the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Share Ownership Plans or Share Option Plans of Overseas Publicly-Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程(匯綜發[2007]78號)) issued by SAFE in March 2007. Under these rules, PRC residents who participate in share incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures as required by the authorities. Participants of a share incentive plan who are PRC residents shall retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of share options, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the share incentive plan if there is any material change to the share incentive plan, change in the PRC agent or the overseas entrusted institution or any other material changes.

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FOREIGN EXCHANGE RATE

On July 21, 2005, the PBOC changed the fixed Renminbi-U.S. dollar exchange system to a floating exchange system based on market supply and demand. The closing price of foreign currencies, including the US dollar, is announced by the 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 Renminbi on the following working day. The daily trading price of the US 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, whilst the trading prices of non-US dollar currencies against the Renminbi has 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 and regulations, a foreign-invested enterprise may seek shareholder loans from offshore investors. In such case, a foreign-invested enterprise must apply to the SAFE or its local counterparts 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 FIEs and shall be registered with the local counterpart of the SAFE. 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 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 by the Standing Committee of the National People's Congress, which became effective on December 26, 1989, provides for the legal framework for environmental protection in the PRC. The environmental protection department of the State Council supervises environmental protection 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 within their respective jurisdictions.

Air Pollution

The Air Pollution Prevention Law (大氣污染防治法) promulgated by the Standing Committee of the National People's Congress on April 29, 2000, which became effective on September 1, 2000,

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provides for the legal framework for prevention of air pollution 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 specific local standards, and may impose penalties for breaches.

Water Pollution

The Water Pollution Prevention Law (水污染防治法) promulgated by the Standing Committee of the National People's Congress on May 11, 1984, which became effective on November 1, 1984 and was amended on March 15, 1996 and February 28, 2008, provides for the legal framework for prevention of water pollution 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 specific local standards, and may impose penalties for breaches, 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, provides for the framework for prevention of noise pollution in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, renovation or expansion project which might cause noise pollution must prepare and submit an environmental impact statement to the environmental protection department of the State Council for approval. Facilities for prevention and control of noise pollution must be designed, approved by the environmental protection department of the State Council prior to commencement of the project, and built and commence operation with the projects simultaneously. Facilities for prevention and control of noise pollution may not be dismantled or left idle 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.

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.

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

CONSUMER PROTECTION

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

An enterprise must, among other things, observe the provisions of the Consumer Protection Law and other relevant laws and regulations regarding personal safety and protection of property, provide consumers with true information and advertising in relation to goods and services, true 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, 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 during the purchase or use of a product may demand compensation from the relevant retailer. In the event that the liability is attributable to another supplier or the manufacturer, the retailer may in turn demand reimbursement of any compensation paid to the consumer from the supplier or manufacturer, as the case may be. In addition, consumers who sustain personal injury or property damage due to product defects may demand compensation from either the retailer or the manufacturer. If the liability is attributable to the manufacturer, the retailer may demand recovery of any compensation which it paid to the consumer. If the default and liability are attributable to the retailer, the manufacturer may demand reimbursement of any compensation which it paid to the consumer.

In addition, Article 45 provides that the relevant enterprises must be responsible for the repair, replacement or return of goods if such goods are guaranteed by PRC laws or pursuant to agreements between the enterprises and consumers, and further, that the relevant enterprises 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 relevant enterprises shall be responsible for replacement or return.

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 the defect is attributable to the manufacturer.

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COMPETITION AND ANTI-TRUST LAWS

Pursuant to the 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, enterprises may not engage in improper market activities to undermine their competitors, including infringing trademark or confidential business information, generating false publicity through advertising or other means, or forging and disseminating false information infringing the goodwill of competitors or the reputation of their products, bribing, establishing cartels, and dumping goods below cost.

The Anti-trust 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 discretion to determine whether certain agreements constitute monopolistic agreements or whether there is any abuse of dominant positions, concentration of power and abuse of administrative powers to eliminate or restrict competition.

Violation of the Competition Law and/or the Anti-trust 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 was amended on February 22, 1993 and October 27, 2001. Under the Trademark Law, any of the following acts shall be an infringement of the right to exclusive use of a registered trademark:

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

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- 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.

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

In addition, if any third party uses a famous trademark in the registration of the name of an entity and the registered owner of the famous trademark is of the view that this may mislead the public, the registered owner may apply to the relevant administration and industry commerce authority for the revocation of the registration granted to the third party.

Domain Names

On November 5, 2004, the Ministry of Industry and Information Technology promulgated the Measures for Administration of Domain Names for the Chinese Internet, or Domain Name Measures (中國互聯網絡域名管理辦法). The Domain Name Measures regulate the registration of domain names, such as the first tier domain name “.cn.” In February 2006, the China Internet Network Information Center issued the Measures on Domain Name Disputes Resolution (中國互聯網絡信息中心域名爭議解決辦法 (2006修訂)) and its implementation rules, pursuant to which China Internet Network Information Center can authorize a domain name dispute resolution institution to decide disputes.

LABOR PROTECTION

Employment Contracts

The Employment Contract Law (勞動合同法) was promulgated on June 29, 2007 and became effective on January 1, 2008 and the Implementation Rules of the Employment Contracts Law (勞動合同法實施條例) was promulgated and became effective on September 18, 2008. This law and its implementation rules govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and the amendment to, employment contracts. To establish an employment relationship, a written employment contract shall be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract shall be signed within one month after the date on which the employer first engages the employee.

Employee Funds

Under applicable PRC laws and regulations, including the Social Insurance Law (社會保險法), promulgated by the Standing Committee of the National People’s Congress on October 28, 2010, which became effective on July 1, 2011, the Interim Regulations on the Collection and Payment of

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Social Security Funds (社會保險費徵繳暫行條例) promulgated by the State Council, which became effective on January 22, 1999, Interim Measures concerning the Maternity Insurance (企業職工生育保險試行辦法) promulgated by the Ministry of Labor on December 14, 1994, which became effective on January 1, 1995, the Regulations on Occupational Injury Insurance (工傷保險條例) promulgated by the State Council on April 27, 2003, which became effective on January 1, 2004 and was amended on December 20, 2010, and the Regulations on the Administration of Housing Accumulation Funds (住房公積金管理條例) promulgated by the State Council, which became effective on April 3, 1999 and was 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 the housing accumulation funds. These payments must be made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time.