

This appendix sets out summaries of the relevant aspects of PRC laws and regulations, which are relevant to the Company's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix VII of this Prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional summary of provisions required by the Hong Kong Stock Exchange for inclusion in the Articles of Association of the PRC issuers.

1. PRC LAWS AND REGULATIONS

A. The PRC Legal System

The PRC legal system is based on the Constitution of the People's Republic of China (《中華人民共和國憲法》) (the "PRC Constitution") and is made up of written laws, administrative regulations, local regulations, autonomy regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC government is a signatory. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congresses of the PRC (the "NPC") and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil and criminal matters and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of State administration and has the power to formulate administrative regulations based on the constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, subject to the constitution, laws and administrative regulations. The people's congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities and enact the same after submitting to the standing committee of the people's congresses of provinces or autonomous regions for approval. The standing committee of the people's congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the People's Government of the province or autonomous region concerned are identified in the examination of local regulations of larger cities by the standing committee of the people's congresses of provinces or autonomous regions, a decision should be made to resolve the issue. "Larger cities" refer to cities where the people's governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

People's congresses of national autonomous areas have the power to enact autonomy regulations and separate regulations in the light of the political, economic and cultural characteristics of the nationality or nationalities in the areas concerned. The autonomy regulations and separate regulations of autonomous regions shall be submitted to the standing committees of the national people's congresses of provinces, autonomous regions or municipalities for approval before taking effect. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate regulations of autonomous prefectures and counties so long as they do not contravene the basic principles of the laws or

administrative regulations, provided that no adaptations shall be made to specific provisions on national autonomous areas contained in the constitution, autonomy law of national areas and other relevant laws and administrative regulations.

The ministries, commissions, People's Bank of China, National Audit Office of the State Council and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations should relate to the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and larger cities may formulate administrative rules based on the laws, administrative regulations and local regulations of such provinces and autonomous regions and municipalities.

According to the PRC Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

B. The PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國人民法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division). These two levels of people's courts are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's court shall apply the system whereby the second instance is final, i.e., the judgment or ruling of the second instance at a people's court is final. A party to the case concerned may appeal to the people's court at the next higher level against the judgment or ruling of the first instance. The people's procuratorate may appeal to the people's court at the next higher level in accordance with procedures stipulated by the laws. In the absence of any appeal by any parties to the case and any appeal by the people's procuratorate within the stipulated period, the judgment or ruling of the people's court shall be the final judgment or rulings. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the president of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the adjudication supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 2007 prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The competent court may also be selected by express agreement amongst the parties to a

contract provided that the court selected is located at the plaintiff's or the defendant's place of domicile, the place of performing the contract or the place of executing the contract or the object of the action, provided that the provisions of this Law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a juridical system of a foreign country limit the litigation rights of PRC citizens and enterprises, subject to the principle of reciprocity, the PRC courts shall apply the same limitations to the citizens and enterprises (in China) of that foreign country. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within a stipulated period. Should anyone be not able to execute the judgment of the people's court within a stipulated period, as a result of any party's application, the people's court shall enforce such a judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Similarly, if the PRC has entered into a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by a PRC court based on the equity principle unless the people's court considers that the recognition or enforcement of a judgment or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or social and public interest.

C. The PRC Company Law, Special Regulations and Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Meeting on December 29, 1993 and came into effect on July 1, 1994. It was amended thrice on December 25, 1999 and on August 28, 2004 and revised on October 27, 2005. The latest revised Company PRC Law came into effect on January 1, 2006.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations are formulated in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions promulgated by Securities Commission and the State Restructuring Commission on August 27, 1994 prescribe provisions which must be incorporated in the Articles of Association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a "company" made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

General

A "company" is a corporate legal person incorporated under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the full amount of its assets and the liability of its shareholders is limited to the extent of the shares held by them. Companies can be divided into two different categories: limited liability companies and joint stock limited companies.

Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than two hundred promoters. And at least half of the promoters must reside within the PRC.

Joint stock limited companies incorporated by promotion are companies with the entire registered capital of which is subscribed for by the promoters. The initial capital contribution by all promoters of the joint stock limited company shall not be less than 20% of the registered capital. The remainder shall be paid up within

two years from the date of incorporation of the joint stock limited company by the promoters. For investment joint stock limited companies, the remainder may be paid up within five years. Share in the company shall not be offered to other persons unless the registered capital has been paid up. For joint stock limited companies incorporated by public subscription, the registered capital is the amount of its total paid up capital as registered with the registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher.

For joint stock limited companies incorporated by way of promotion, the promoters shall subscribe in full in writing for shares required to be subscribed by them by the Articles of Association. The full amount of capital contribution shall be paid up if payments are made in one lump sum and the first installment shall be paid forthwith if payments are made in installments. Procedures relating to the transfer of titles for nonmonetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provision shall assume liabilities for breach of contract in accordance with the covenants laid down in the promoters' agreement. After the promoters have completed the initial capital contribution, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of incorporation by filing the Articles of Association with the company registration authorities, together with capital verification certificate issued by a capital verification institution established by law and other documents required by the law or administrative regulations.

Where joint stock limited companies are incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder can be subscribed for by the public or particular persons, unless otherwise provided for by the law or administrative regulations. A promoter who offers shares to the public must publish a shareholder Prospectus and draft a share subscription form to be signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and their addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities houses established by law, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also sign an agreement with a bank in relation to the receipt of subscription amounts. The receiving bank shall receive and keep in custody the subscription amounts, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to relevant authorities. After the subscription amounts for the share issuance have been paid in full, a capital verification institution established by law must be engaged to conduct capital verification and furnish a report thereon. The promoters shall convene an inaugural meeting within thirty days and notify each subscriber of or publicly announce the date of the inaugural meeting no less than fifteen days in advance of the meeting. The inauguration meeting shall be formed by the subscribers. Where shares issued remain undersubscribed by the cut-off date stipulated in the share offering Prospectus, or where the promoter fails to convene an inauguration meeting within thirty days after subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter to return the subscription amounts so paid up together with interests at bank rates for a deposit for the same term. Within thirty days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A joint stock limited company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A joint stock limited company's promoter shall individually and collectively be liable for:

- (i) the payment of all expenses and liabilities incurred in the incorporation process if the joint stock limited company cannot be incorporated;
- (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the joint stock limited company cannot be incorporated; and
- (iii) damages suffered by the joint stock limited company as a result of the default of the promoters in the course of incorporation of the joint stock limited company.

Share Capital

The promoter of a joint stock limited company may make capital contribution in currencies, or in kind or by way of injection of assets, intellectual property rights or land use rights based on their appraised value, and may also convert lawfully transferred non-monetary assets into capital contribution with a monetary value, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made other than in cash, a valuation and verification of the asset contributed must be carried out without any over-valuation or under-valuation, subject to any provisions of the law or administrative regulations on valuation. Only the amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

A joint stock limited company may issue registered or bearer share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and China Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of H shares proposed to be issued after accounting for the number of underwritten shares. The share offering price may be equal to or greater than the par value, but may not be less than the par value.

Increase in Share Capital

According to the PRC Company Law, the issuance of shares shall be conducted in a fair and equitable manner. Shares in the same class shall rank *pari passu* with one another. Shares of the same class in the same offer shall be issued on the same terms and at the same price. The same price per share shall be paid by any units or individuals subscribing for shares.

Where a joint stock limited company is issuing new shares, resolutions shall be passed by the shareholders' general meeting, the issue price of the new shares, the commencement and end of the new share issue and the class and amount of new shares to be issued to existing shareholders. When a joint stock limited company launches a public issue of new shares with the approval of the securities regulatory authorities under the State Council, a new share offering Prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issue of the Company has been paid up, the change must be registered with the company registration authorities and an announcement must be made. Where a joint stock limited company is issuing new shares to increase its registered capital, the subscription of new shares by shareholders shall be conducted in accordance with provisions on the payment of subscription amounts in relation to the incorporation of the company.

Besides the PRC Company Law's provision that the issue of new shares shall be approved by shareholders in a shareholders' general meeting, the Securities Law additionally stipulated that any company that makes an initial public offer (IPO) of its stock shall: (i) have a sound corporate governance structure and be well-operated; (ii) have a profitable outlook and be of sound financial status; (iii) have no record of having filed any misleading financial statement in the previous three years or any other major legal irregularity; and (iv) meet any other State Council-approved requirement prescribed by the securities regulatory authority under the State Council.

Reduction of Share Capital

Subject to the minimum registered capital requirements, a joint stock limited company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the joint stock limited company shall prepare a balance sheet and financial statement;
- (ii) the reduction of registered capital must be approved by shareholders in a shareholders' general meeting;

- (iii) the joint stock limited company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within thirty days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of Shares

A Company may not purchase its own shares other than for one of the following purposes:

- (i) to reduce its registered share capital;
- (ii) to merge with another company that holds its shares;
- (iii) to grant shares to its employees as incentives;
- (iv) to purchase its own shares from its shareholders who vote against the resolution regarding the merger and demerger with other company in a shareholders' general meeting; and
- (v) such other purposes permitted by law and administrative regulations.

The company's acquisition of its own shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution of the shareholders' general meeting. Following the company's acquisition of its shares in accordance with the foregoing, such shares shall be canceled within ten days from the date of acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

Shares acquired by the company in accordance with (iii) under paragraph one shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the employees of the company within one year.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other way as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name of the transferee and its address into the share register. The transfer of bearer's share certificate shall become effective upon the delivery of such share certificate to the transferee by the shareholder. Subject to the PRC Company Law, no changes of registration in the share register provided in the foregoing shall be effected during a period of twenty days prior to the convening of the shareholders' general meeting or five days prior to the record day for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. Subject to the Mandatory Provisions, the shareholders' register may not be modified within the thirty days preceding the shareholder's general meeting or within the five days preceding any ex-dividend date fixed by the company.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue of shares shall not be transferred within one year from the date of the company's listing on a stock exchange.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue of shares shall not be transferred within one year from the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company his shareholdings in the company and any changes of such shareholdings. During their term of office, they shall transfer no more than 25% of the shares they hold in the company. They shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they have resigned from their positions with the

company. The Articles of Association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the Directors, supervisors and the senior management of the company. During their respective terms of office, any shares transferred by any of the company's directors, supervisors and senior managers in any year shall not exceed 25% of the relevant individual's total stake in the company. Company shares held by any director, supervisor or senior manager shall not be transferred within one year of the date on which the shares are first listed and traded on a stock exchange.

Shareholders

The shareholder's rights and duties are all stipulated in the company's Articles of Association, which is binding on all the shareholders.

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend a shareholders' general meeting and exercise the voting rights on the basis of the number of the shares held by such shareholder personally or appoint an agent to attend the meeting and exercise the rights referred to hereinabove;
- (ii) to transfer the shares held by such shareholder subject to the applicable laws, regulations and the company's article;
- (iii) to bring an action in the people's court to stop the illegal violation when any law or administrative regulation or any legal right or interest of any shareholder is violated by a resolution passed by the shareholders' general meeting or the board of directors;
- (iv) to inspect the Articles of Association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory committee and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (vii) any other shareholders' rights provided for in the Articles of Association.

The obligations of a shareholder include the obligation to abide by the company's Articles of Association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's Articles of Association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principle powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors (not being staff representative) and to decide on matters relating to the remuneration of directors and supervisors;
- (iii) to examine and approve reports of the board of directors;
- (iv) to examine and approve reports of the supervisory committee or supervisor;

- (v) to examine and approve the company's proposed annual financial budget and final accounts;
- (vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to amend the company's Articles of Association; and
- (xi) other authorities as provided for in the Articles of Association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the Articles of Association;
- (ii) the aggregate losses of the company which are not made up reach one third of the company's total paid in share capital;
- (iii) when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- (iv) whenever the board of directors deems necessary;
- (v) when the supervisory committee so requests; or
- (vi) other circumstances as provided for in the Articles of Associations.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for ninety days consecutively may unilaterally convene and preside over such meeting.

Subject to the PRC Company Law, notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders twenty days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders fifteen days prior to the meeting. Notice of the issuance of bearer's share shall be announced thirty days before the meeting. Subject to the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the shareholders forty-five days in advance, and the matters to be considered at the meeting shall be specified. Subject to the Special Regulations and the Mandatory Provisions, the confirmation letter of the shareholders planning to attend the meeting shall be delivered to the company twenty days in advance of the meeting. Moreover, subject to the Special Regulations, the shareholders holding more than 5% of the company's shares may put forward a new proposal in writing for the meeting to discuss on the shareholder's annual meeting, and if the proposal falls within the purview of the meeting, it shall be placed in the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division, dissolution of a company or amendments to the Articles of Association, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the Articles of Association provide that the transfer or acquisition of significant assets or the provision of external guarantees by a company must be

approved by way of resolution of the shareholders' general meeting, the directors shall convene a shareholders' general meeting promptly to vote on the above matters. The accumulative voting system may be adopted pursuant to the provisions of the Articles of Association or a resolution of the shareholders' general meeting for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected meeting for the election of directors and supervisors at the shareholders' general meeting, and shareholders may consolidate their voting rights when casting a vote.

Minutes shall be prepared in respect of matters considered at the shareholders' general meeting and the president of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of shares of any class, warrants or other similar securities, and bonds or debentures, the liquidation of the company and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received twenty days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holder of H shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to 19 members. Members of the board of directors may include staff representatives of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the Articles of Association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and Articles of Association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed in general meetings;
- (iii) to decide on the company's business plans and investment proposals;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's profit distribution proposals and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;

- (ix) to appoint or dismiss the company's general manager and based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other power under the Articles of Association.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors ten days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the directors or the supervisory committee. The chairman shall convene and preside over such meeting within ten days after receiving such proposal. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's Articles of Association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debts due and outstanding.

The election, appointment or engagement of directors elected or appointed by the company in violation of the aforesaid provisions shall be null and void. Directors committing the above during his term of office shall be released of his duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall perform his duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be stipulated in the Articles of Association, provided that the proportion of representatives of the company's staff shall not be less than one third. Directors and members of the officers may not act concurrently as supervisors. Representatives of the company's staff and workers at the supervisory committee shall be democratically elected at the staff representative assembly, general staff meeting or otherwise. The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by the majority of supervisors shall convene and preside over supervisory committee meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if reelected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and Articles of Association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and officers in their performance of their duties and to propose the removal of directors and officers who have violated laws, regulations, the Articles of Association or shareholders' resolution;
- (iii) when the acts of a directors and managers are in a harm to the company's interests, to require correction of these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under this law;
- (v) to propose resolution in a general meeting;
- (vi) to initiate proceedings against directors and officers;
- (vii) other powers specified in the Articles of Association.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in his work at the company's expense.

Managers and Officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager shall be responsible to the board of directors and may exercise the following powers:

- (i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;

- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller;
- (vii) appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- (viii) other powers conferred by the board of directors or the Articles of Association.

Other provisions of the Articles of Association on the general manager's powers shall also be complied with. The general manager shall be in attendance at board meetings.

According to the PRC Company Law, officers shall mean the general manager, deputy general manager(s), financial controller, board secretaries (in case of a listed company) of a company and other personnel as stipulated in the Articles of Association.

Duties of the Directors, Supervisors, General Managers and Other Officers

Directors, supervisors, managers and officers of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the Articles of Association, carry out their duties honestly and diligently. Directors, supervisors, managers and officers are prohibited from making of their powers to accept bribes or other unlawful income and from appropriating the company's properties. Directors and officers are prohibited from:

- (i) Misappropriation of company funds;
- (ii) Deposit of company funds into accounts under his own name or the name of other individuals;
- (iii) Loaning company funds to others or providing guarantees in favor of others on the back of the company properties in violation of the Articles of Association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (iv) Entering into contracts or deals with the company in violation of the Articles of Association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (v) using one's position and powers to procure business opportunities for oneself or others that should have otherwise been available to the company or operating for one's own benefit or managing on behalf of other businesses similar to that of the company without prior approval of the shareholders' meeting or the shareholders' general meeting;
- (vi) Accepting for one's own benefit commission from a third party dealing with the company;
- (vii) Unauthorized divulgence of confidential business information of company; or
- (viii) Other acts in violation of the fiduciary duty to the company.

Income generated by directors or officers in violation of the foregoing provisions shall be reverted to the company.

A director, supervisor or officer who contravenes any law, regulation or the company's Articles of Association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where the attendance of a director, supervisor or officer is requested by the shareholders' general meeting, such director, supervisor or officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and officers should furnish with all truthfulness facts and information to the supervisory committee or the supervisor (for companies with limited liability that do not have supervisory committees) without obstructing the discharge of duties by the supervisory board or the supervisors.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other officers shall have fiduciary duties towards the company. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions contains detailed stipulations on these duties.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited by an accountant as provided by law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of financial department of the State Council.

The financial report of a liability limited company shall be delivered to all the shareholders within the time limit stipulated in the company's article. A joint stock limited company shall deposit its financial statements at the company for the inspection by the shareholders at least twenty days before the convening of an annual general meeting of shareholders. A joint stock limited company issuing its shares in public must publish its financial statements. When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus common reserve fund (except where the fund has reached 50% of the company's registered capital). When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, or in other manners. Profit distributed to shareholders by the shareholders' meeting or shareholders' general meeting or the board of directors before losses have been made good and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. The own shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital reserve shall be accounted for as capital reserve. The common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital, however, the capital reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and Retirement of Auditors

Pursuant to the PRC Company Law, the appointment or dismissal of accountants responsible for the company's auditing shall be determined by the shareholders' meeting, the shareholders' general meeting or the board of directors in accordance with the Articles of Association. The accountant should be allowed to make representations when the shareholders' meeting, the shareholders' general meeting or board of directors is going to conduct a vote on the dismissal of the accountant. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant it hires without any refusal, withholding and false information.

The Special Regulations require a company to employ an independent qualified firm of accountants to audit the company's annual report and review and check other financial reports. The accountant's term of office shall commence from the end of the annual general meeting of the company's shareholders and it shall expire on the end of the next annual general meeting of the company's shareholders.

Distribution of Profits

According to the PRC Company Law, the company shall not distribute profits before losses are covered and the statutory common reserve is drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of H shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of Articles of Association

Any amendments to the Articles of Association must be made in accordance with the procedures set forth in applicable laws, regulations and the Articles of Association. Any amendment of provisions incorporated in the Articles of Association in accordance with the Mandatory Provisions will only be effective after approval by the company's approval department authorized by the CSRC and the State Council and filed with the State Administration of Industry and Commerce or any of its local bureaus for registration. If the amendment to the Articles of Association falls to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

Dissolution and Liquidation

According to the PRC Company Law, a company shall be dissolved by reason of the following:

- (i) the term of its operations set down in the company's Articles of Association has expired or other events of dissolution specified in the company's Articles of Association have occurred;
- (ii) the shareholders in a shareholders' general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the business license is invalidated; the operation is suspended, or the company is dissolved by order of the court;
- (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation of the company experiences serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses for shareholders.

In the event of (i) above, the company may carry on its existence by amending its Articles of Association. The amendment of the Articles of Association in accordance with provisions set out in the previous paragraph shall require approval of shareholders holding more than two thirds of voting rights in the case of companies with limited liability and more than two thirds of voting rights of shareholders attending a shareholders' general meeting in the case of a joint stock limited company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee shall be established and liquidation within fifteen days after the occurrence of an event of dissolve. Members of the liquidation committee of a joint stock limited company shall be appointed by the directors or the shareholders in a general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation committee. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;

- (iii) to deal with and settle any outstanding businesses of the company;
- (iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue public notices in the newspapers within sixteen days. A creditor shall lodge his claim with the liquidation committee within thirty days after receiving notification, or within forty-five days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' meeting, shareholders' general meeting or people's court for endorsement.

The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debt shall be distributed to shareholders according to their proportion of capital contribution in the case of companies with limited liability and according to shareholding proportion in the case of joint stock limited companies. The company shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayment are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy.

Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' meeting, shareholders' general meeting or the court for verification. Thereafter, the report shall be submitted to the company's registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation committee shall be prohibited from making of their powers to accept bribes or other unlawful income and from appropriating the company's properties. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue H shares and domestic invested shares which has been approved by CSRC may be implemented respectively by the board of directors of the company by way of separate issues, within fifteen months after approval is obtained from the CSRC.

Loss of Share Certificates

A shareholder may apply, in accordance with the announcement and notice procedures set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen, lost or destroyed, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

Suspension and Termination of the Listing

The PRC Company Law's provisions about suspension and termination of the listing have been cancelled, and the following amendments have been made by the Securities Law:

In any of the following circumstances, the stock exchange shall suspend the listing of the relevant stock in it:

- (i) where the market capitalization or share ownership structure of the company changes, thus causing the company to breach listing requirements;
- (ii) where the company fails to make a public disclosure on its financial status in accordance with the relevant provisions, or includes any false information in its financial statements that may mislead investors;
- (iii) where the company is responsible for any major legal irregularity;
- (iv) where the company has been operating at a loss for the last three consecutive years; or
- (v) under any other circumstances prescribed in the listing rules of the stock exchange.

According to the Securities Law, the relevant stock exchange shall terminate the listing of the relevant stock where the company subsequently fails to meet listing requirements within the period of time prescribed by the stock exchange under the circumstance referred in (i) above or refuses to take any remedial steps under the circumstance referred in (ii) above or fails to make a profit in the following year under the circumstance referred in (iv) above.

Merger and Demerger

When companies merge, the creditor rights and debts of the merging parties shall be assumed by the surviving company or the new company. When a company demerges, its assets must be divided accordingly and a balance sheet and inventory of assets must be drawn up. Unless otherwise agreed with a creditor, obligations in respect of the liabilities before the demerger of the company shall be jointly and severally borne by the demerged companies.

Changes in registrable particulars of the companies caused by merger or demerger must be registered with company's registration authorities. Cancellation of a company should be registered in accordance with the law when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated.

D. Securities Law and Regulations and Regulatory Regimes

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of the securities, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis. In 1998, the State Council decided to cancel the Securities Commission of the State Council and the functions of the Securities Commission was assumed by the CSRC.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited companies having domestic listed foreign shares.

On December 29, 1998, the Standing Committee of the NPC promulgated the Securities Law of the PRC which came into effect on July 1, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On August 28, 2004 and October 27, 2005, the Securities Law was respectively revised twice. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law, and provisions of the issuance and transaction of securities, acquisitions of listed companies, stock exchanges, security companies and the duties and responsibilities of securities regulatory authority under the State Council, etc. Where the Securities Law does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations will apply.

E. Arbitration Laws

The Arbitration Law of the People's Republic of China (the "Arbitration Law") was passed by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to, among other matters, contract disputes or other property disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court, unless the arbitration agreement has lapsed.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association of a company listed in Hong Kong and, in the case of the Listing Rules, also in a contract between the company and each director or supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of H shares and the company; (ii) a holder of H shares and a holder of domestic shares; or (iii) a holder of H shares and the directors, supervisors or other officers of the company; such parties shall submit that dispute or claim for arbitration before either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.

CIETAC is an economic and trade arbitration organ in the PRC. In accordance with CIETAC Arbitration Rules as amended on January 11, 2005 (which amendment became effective on May 1, 2005), the jurisdiction of CIETAC covers disputes involving Hong Kong. CIETAC is located in Beijing with South China branch office in Shenzhen as well as the other branch office in Shanghai. Under the Arbitration Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee or the giving of an award beyond the scope of the arbitration agreement or the jurisdiction of the arbitration commission).

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the

public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity; and (2) the PRC will only apply the New York Convention to disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China was signed on June 18, 1999. This new arrangement has been approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforceable in Hong Kong in accordance with law and awards by Hong Kong arbitral authorities to be enforceable in the PRC.

F. Foreign Exchange Control

Foreign exchange control is implemented in China. The PRC Foreign Exchange Control Regulations promulgated by the State Council on January 29, 1996 and came into effect on April 1, 1996 (as amended on January 14, 1997 and August 7, 2008) stipulates the principles and the punishment of the country's control of foreign exchange revenue and spending. The PBOC stipulates the basic regulation of the foreign exchange control and the SAFE and its lower organs take the responsibility of the execution of the detail regulations and the foreign exchange control. Besides the PRC Foreign Exchange Control Regulations, the Regulations on the Foreign Exchange Settlement, Sale and Payments which were promulgated on June 20, 1996 by PBOC and took effect on July 1, 1996 and which contain detailed provisions regulating the holding, sale and purchase of foreign exchange by enterprises, individuals, economic organizations and social institutions in the PRC. The Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime issued by the PBOC on July 21, 2005 stipulated that starting from July 21, 2005, China will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The People's Bank of China will announce the closing price of a foreign currency such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day.

Control of revenue and spending of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by relevant documents. Furthermore, foreign investment enterprises that require foreign exchange for dividend payments, such as profit distribution to foreign investors, may draw funds in their foreign exchange bank accounts kept with designated banks after paying due dividend taxes. Should such foreign exchange be insufficient, foreign investment enterprises may purchase foreign exchange from designated banks. While foreign exchange control on current account transactions has been relaxed, the direct investment by foreign investors, the drawdown of foreign currency loans by onshore companies, the provision of foreign exchange guarantees, overseas investments and any other types of capital account transactions that involve the purchase of foreign exchange remain subject to the approval of the State Administration of Foreign Exchange Control or the registration in accordance with the laws. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the POBC and subject to certain limits, freely determine the applicable exchange rate.

G. Regulations of Overseas Investment

According to the Measures for the Administration of Overseas Investment promulgated by Ministry of Commerce on March 16, 2009 and came into effect on May 1, 2009, the enterprises' overseas investment stipulation in such measures shall require the ratification of the departments in charge of commerce. If there is any change to be made to the application items of the original overseas investment after ratification, the enterprise concerned shall apply to the original ratifying organ for going through the procedure of alteration ratification.

According to the Procedures for the Administration of the Foreign Exchange Involved in Investment Abroad approved by the State Council and stipulated by the State Administration of Foreign Exchange and

came into effect on August 1, 2009, Chinese enterprises that have been permitted to make investment abroad shall handle with the department for control of foreign exchange the procedures of registration about the foreign exchange for investment abroad.

According to the Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects promulgated by the National Development and Reform Commission, the direct or indirect overseas investment projects of resource development and the overseas investment projects using large amount of foreign exchange shall be subject to the examination and approval of the National Development and Reform Commission or the State Council. The investors should apply to the National Development and Reform Commission for alteration in case the alteration of the investors or their stock rights occurs to the approved projects.

2. HONG KONG LAWS AND REGULATIONS

(a) Hong Kong company law and its comparison with the PRC company law applicable to a joint stock limited company incorporated under the PRC Company Law

Hong Kong company law is primarily set out in the Hong Kong Companies Ordinance and supplemented by common law. There are material differences between Hong Kong company law and the PRC Company Law applicable to a joint stock limited company incorporated under the PRC Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain of the material differences between the PRC Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the PRC Company Law.

(i) *Derivative action by minority shareholders*

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure.

Although the PRC Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the PRC Company Law.

However, each of the Directors and Supervisors (as required by the Listing Rules) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This may allow minority shareholders to commence actions directly against defaulting Directors.

(ii) *Remedies of the Company*

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the Articles of Association of a company, resulting in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Listing Rules and the Mandatory Provisions, the Articles of Association set out remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer).

(iii) *Directors, officers and supervisors*

The PRC Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorized benefits, but contain no provision restricting the authority of the directors to make major

dispositions or prohibiting payment to them for loss of office without shareholders' approval. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the Articles of Association of the company, by its directors and managers. Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(iv) Minority protection

There is no specific provision in the PRC Company Law to guard against oppression by the majority shareholders of minority shareholders but the Company, as required by the Mandatory Provisions and the Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to achieve certain objectives.

(v) Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. In accordance with the requirements of the Mandatory Provisions and the Listing Rules, the Articles of Association provide for the appointment of an agent in Hong Kong, which is a trust corporation registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) in Hong Kong to receive all dividends and all other monies payable to H Share holders on behalf of such shareholders as required by the Listing Rules. The Articles of Association also contain provisions which provide that unclaimed dividends may only be forfeited by the Company after six years from declaration.

(vi) Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this Appendix. Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question.

The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where the Company issues and allots, in any 12-month period pursuant to a shareholders' mandate (obtained by way of a special resolution in general meeting), not more than 20% of each of the issued overseas listed foreign invested shares and the domestic invested shares existing as of the date of the shareholders' mandate. For the purpose of the above, holders of overseas non-listed foreign invested shares are treated as the same class of holders of domestic invested shares.

(vii) Share capital

For a joint stock limited company formed under the PRC Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of

the shareholders if required, cause the company to issue new shares. In the case of a PRC company, any increase in the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant SAIC.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB50 million under the PRC Company Law. Hong Kong law does not effectively prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company's registered capital if the concerned joint stock limited company is not one of those hi-tech companies specified by the State Council. There is no such restriction under Hong Kong law on a Hong Kong company.

(viii) Restriction on shareholding and transfer of shares

The PRC Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to below. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters, directors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

(ix) Notice of meetings

Under the PRC Company Law, shareholders of a joint stock limited company must be given 30 days' notice of a general meeting or, in the case of bearer shares, such notice should be published 45 days before the meeting. Under the Special Regulations and the Mandatory Provisions (which apply to the Company) written notice of 45 days must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions 21 days. The notice period for an annual general meeting is also 21 days.

(x) Quorum

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the Articles of Association provide otherwise. The PRC Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent 50% of the voting rights in the Company at least 20 days before the proposed date, or if that 50% level is not achieved, that the Company shall within five days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

(xi) Voting

Under Hong Kong company law, ordinary resolutions are passed by more than one half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three quarters of such votes. Under the PRC Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the Articles of Association, merger, division or dissolution of a company where the approval of a two-thirds majority is required.

(xii) Dividends

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws the relevant limitation period is two years.

(xiii) Financial disclosure

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial situation and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Hong Kong Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under the Articles of Association (as required by the Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is further required to publish its interim and annual accounts within two months after the end of the first six months of a financial year and within three months after the end of a financial year respectively. The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

The PRC Company Law gives shareholders the right to inspect the Company's Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) Corporate reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Hong Kong Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Hong Kong Companies Ordinance which requires the sanction of the court. Under the PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting and the relevant governmental authorities.

(xvi) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts. The Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, supervisors, managers or other senior officers or a holder of Domestic Shares, arising from the Articles of Association, the PRC Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions, be referred to arbitration at either the Hong Kong International Arbitration Centre or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

(xvii) Mandatory deductions

Under the PRC Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory common welfare fund of the company before they can be distributed to shareholders. There are prescribed limits under the PRC Company Law for such deductions. There are no corresponding provisions under the Hong Kong Companies Ordinance.

(b) LISTING RULES

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited liability company and seeking a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

(i) Compliance adviser

The Company is required to retain, for at least one year following its listing or such shorter period as the Stock Exchange may permit, the services of a compliance adviser that is acceptable to the Stock Exchange, to provide us with professional advice on continuous compliance with Listing Rules, and to act at all times, in addition to our two authorized representatives, as our principal channel of communication with the Stock Exchange.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require us to terminate the compliance adviser's appointment and appoint a replacement as soon as possible.

The compliance adviser must keep the Company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company. It must act as the principal channel of communication between the Company and the Stock Exchange if the Company's authorized representatives are expected to be frequently outside Hong Kong.

(ii) Accountants' reports

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong accounting standards or International Financial Reporting Standards.

(iii) Process agent

We are required to appoint and a person authorized to accept service of process and notices on our behalf in Hong Kong throughout the period during which our securities are listed on the Stock Exchange and must notify the Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

(iv) Public shareholding

If at any time we issue securities other than the H Shares that are listed on the Stock Exchange, the Listing Rules require that all of our H Shares must be held by the public, the H Shares must represent not less than 10% of our issued share capital and the aggregate number of our H Shares and other securities held by the public must constitute not less than 25% of our issued share capital.

(v) Independent non-executive directors and supervisors

Independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of our general body of shareholders will be adequately represented. Supervisors must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as Supervisors.

(vi) Restrictions on purchase and subscription

Subject to governmental approval and the Articles of Association, we may purchase our own H Shares on the Stock Exchange in accordance with the provisions of Listing Rules. Approvals by way of a special resolution of holders of Domestic Shares and unlisted Foreign Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, we are required to provide information on any proposed or actual purchases of any or all of its equity securities, whether or not listed or traded on the Stock Exchange. We must also state the consequences of any purchases which will arise under either or both of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and any similar PRC law of which the Directors are aware, if any. Any special approval or general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

(vii) Redeemable shares

We must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of H Shares are adequately protected.

(viii) Pre-emptive rights

Except in the circumstances mentioned below, Directors must obtain the approval by special resolution of shareholders of the Company in general meeting and the approvals by special resolutions of holders of Domestic Shares, B Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association prior to:

- (i) authorising, allotting, issuing or granting Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares or such convertible securities; or
- (ii) any major subsidiary making any such authorization, allotment, issue or grant so as materially to dilute the percentage of our equity interest in such subsidiary.

No such approval will be required, except to the extent that our existing shareholders have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued Domestic Shares, B Shares and H Shares as of the date of the passing of the relevant special resolution or, such Shares are part of our plan at the time of our establishment, to issue Domestic Shares, B Shares and H Shares as long as such plan is implemented within 15 months from the date of approval by the State Council Securities Policy Committee.

(ix) Amendment to Articles of Association

We may not permit or cause any amendment to our Article of Association which would cause them to cease to comply with the PRC Company Law, the Mandatory Provisions or the Listing Rules.

(x) Documents for inspection

We are required to make available at a place in Hong Kong for inspection by the public and our shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

- (i) a complete duplicate register of shareholders;
- (ii) a report showing the state of the issued share capital of the Company;
- (iii) our latest audited financial statements and the Directors', auditors' and (if any) Supervisors' reports thereon;
- (iv) special resolutions;

- (v) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares, B Shares and H Shares);
- (vi) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and
- (vii) for shareholders only, copies of the minutes of meetings of shareholders.

(xi) Statements in share certificates

We are required to ensure that all our listing documents and H Share certificates include the statement stipulated below and to instruct and cause our H Share Registrar not to register the subscription, purchase or transfer of any of our H Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those H Shares bearing statements to the following effect, that the holder of H Shares:

- agrees with us and each of our Shareholders, and we agree with each of our Shareholders, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- agrees with us, each of our Shareholders, Directors, Supervisors, managers and other officers, and we acting both for ourselves and for each of our Directors, Supervisors, managers and other officers, agree with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Share; and
- authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.