

*This appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to the Company's operations and business. These include laws relating to company, taxation, securities, arbitration and foreign exchange control. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix V to this prospectus. It 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 Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of the PRC issuers.*

## **PRC Legal System**

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC Government. Court case verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress and the Standing Committee thereof are empowered by the PRC Constitution to exercise the legislative power of the state. The National People's Congress has the power to amend the PRC Constitution and enact and amend basic laws governing state agencies and civil and criminal matters. The Standing Committee of the National People's Congress is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the National People's Congress.

The State Council is the highest organ of the state administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the National People's Congress. In the event that a conflict arises, the Standing Committee of the National People's Congress has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal People's Congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the National People's Congress or the Standing Committee of the National People's Congress for enactment at the national level.

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

### **PRC Judicial System**

Under the PRC Constitution and the Law of Organisation of the People's Courts, the 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 comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are organised into civil, criminal and administrative divisions. The intermediate people's courts are organised into divisions similar to those of the basic people's courts, and are further organised into other special divisions, such as the intellectual property division. The higher level people's courts supervise the basic and intermediate people's courts. 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 body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts employ a two-tier appellate system. A party may appeal against a judgement or order of a local people's court to the people's court at the next higher level. Second judgements or orders given at the next higher level are final. First judgements or orders 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 judgement which has been given in any people's court at a lower level, or the presiding judge of a people's court finds an error in a judgement which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991, sets forth the criteria 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 judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which

the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action. However, such selection can not violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to request for enforcement of the judgement, order or award. There are time limits imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months. If a person fails to satisfy a judgement made by the court within the stipulated time, the court may, at its own discretion or upon application by the relevant party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgement or order. A foreign judgement or ruling may also be recognised and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgement or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgement or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or social or public interests.

## **1. The Company Law, Special Regulations and Mandatory Provisions**

On 29 December 1993, the Standing Committee of the Eighth National People's Congress adopted the Company Law, which came into effect on 1 July 1994 and was amended on 25 December 1999, 28 August 2004 and 27 October 2005, respectively. The Company Law (as amended on 27 October 2005) allows establishment by a sole individual or legal person of a liability limited company ("sole ownership company") and requires that the sole owner shall assume joint responsibility for any liabilities of the sole ownership company in which he/it is interested in if he/it cannot prove that his/its assets are separate from the assets owned by the sole ownership company.

On 4 July 1994, the Special Regulations were adopted by the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated in respect of overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued by the relevant agencies of the State Council on 27 August 1994, prescribing provisions required to be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Company's Articles of Association. Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions. References to a "company" are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

### **General**

A "joint stock limited company" is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to their respective equity interests in the Company, and the liability of the Company is limited to the assets that it owns.

A company must conduct its business in accordance with the laws and corporate ethics.

A company may invest in other limited liability companies and joint stock companies. A company shall make a resolution regarding to investment in other companies through the board of directors, shareholders' meeting or shareholders' general meeting. If the articles of association prescribe any limit on the total amount of such investment, or on the amount of a single investment, its investment in other companies shall not exceed such limitation. The Company's liabilities with respect to such invested companies are limited to the amount invested unless otherwise provided under applicable law.

### **Incorporation**

A joint stock limited company may be incorporated by at least two but no more than 200 promoters, and at least half of these promoters must reside within the PRC. According to the Special Regulations, state owned enterprises or enterprises with the majority of their assets owned by the state can be restructured in accordance with the relevant regulations to become joint stock limited companies which can issue shares to overseas investors. These companies, if incorporated by promotion, may have fewer than five promoters and can issue new shares once incorporated.

Where a joint stock limited company is established by promotion, its registered capital shall be the total capital stock subscribed by all the promoters as registered in the Company registration authority. Where a joint stock limited company is established by public subscription, its registered capital shall be the total actually paid capital stock as registered in the Company registration authority. The minimum amount of the registered capital of a joint stock limited company is RMB5 million, unless otherwise provided under applicable law or administrative rules and regulations.

To establish a joint stock limited company, an application for establishment registration shall be filed with relevant company registration authority. If any law or administrative regulation provides that the establishment of a joint stock limited company shall be subject to approval, relevant approval procedures shall be completed prior to the registration of the Company.

Promoters of a company are required to convene an inaugural meeting within 30 days after the issued shares have been fully paid, and give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of subscribers holding shares representing more than 50% of the shares of the Company. The inaugural meeting will consider matters such as the adoption of draft articles of association proposed by the promoter(s) and the election of the members of board of directors and supervisory committee. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors is required to apply to the Company registration authority for registration of the establishment of the Company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration of industry and commerce authority and a business license has been issued.

A joint stock limited company's promoters will individually and jointly be liable for (i) the payment of all expenses and liabilities incurred in the incorporation process if the Company fails to be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit for the same term if the Company fails to be incorporated; and (iii) damages suffered by the Company as a result of the default of the promoters during the course of incorporation. According to the Provisional Regulations Concerning the Issuance and Trading of Shares promulgated by the State Council on 22 April 1993 (which is applicable to the issuance and trading of shares and related activities in the PRC), if a company is established by way of public subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

### ***Share capital***

Promoters of a company can make capital contributions in cash, in kind or by way of injection of assets, intellectual property rights or land use rights based on their appraised value. The amount of the capital contributions in cash paid by all shareholders shall not be less than 30% of a company's registered capital.

If a capital contribution is made other than in cash, a valuation and verification of the property to be contributed must be conducted and the appraised value of the property will be used to calculate the contribution amount.

A company may issue registered or bearer Share certificates. However, shares issued to promoters and PRC legal persons must be in the form of registered Share certificates, and may not be registered under a different name or in the name of an agent.

The Special Regulations and the Mandatory Provisions require shares issued to foreign investors and listed overseas be issued in registered form, denominated in Renminbi and subscribed for in foreign currency.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas be known as overseas listed foreign invested shares, and those shares issued to investors within Mainland China be known as domestic invested shares.

The Company may offer its Shares to the overseas public with the approval of the CSRC. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

All of the Company's Share issues are based on the principles of equality and fairness. The same class of shares must carry equal rights. For each Share issue, the terms of allotment for individual shares, including the subscription price, must be identical to other Shares of the same class. The Company may issue Shares at par value or at a premium, but it may not issue Shares below the par value.

### ***Reduction of share capital***

Subject to the minimum registered capital requirements, the Company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- (i) the Company must prepare a balance sheet and asset list;
- (ii) the Company's shareholders must approve the reduction of registered capital in a general meeting;
- (iii) the Company must inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspapers within 30 days after the resolution approving the reduction has been passed;

- (iv) the Company's creditors may, within the statutorily prescribed time limit, require the Company to pay its debts or provide guarantees covering such debts; and
- (v) the Company must register the reduction in registered capital with the competent Administration of Industry and Commerce.

### ***Repurchase of shares***

The Company may only repurchase its Shares (i) to reduce its registered share capital, (ii) to merge with another company holding its Shares, (iii) to award shares to its employees, or (iv) if it is requested by any shareholder to purchase his shares because this shareholder raises any objection to its resolution on merger or split-up made at any session of the shareholders' general meeting. The Mandatory Provisions provide that the Company must act in accordance with its Articles of Association and that the Company must obtain necessary approvals from the relevant supervisory authorities. The Company may repurchase its Shares by making a general offer to its shareholders, by purchasing its Shares on a stock exchange or by purchasing its Shares through an off-exchange agreement.

Where a company needs to repurchase its own shares under the circumstance in (i), (ii) or (iii), it shall be subject to a resolution of the shareholders' general meeting. After the Company repurchases its own shares under the circumstance in (i), it shall cancel the repurchased shares within 10 days; while under either circumstance in (ii) or (iv), it shall transfer or cancel the repurchased shares within six months following the repurchase of such shares. The shares repurchased by the Company under the circumstance in (iii) shall not exceed 5% of the total shares already issued by this company; the fund used for the share repurchase shall be paid from the after-tax profits of the Company; and the shares repurchased by the Company shall be transferred to the employees within one year.

### ***Transfer of shares***

The Company's Shares may be transferred in accordance with the relevant laws and regulations, such as the Company Law, the Securities Law of the PRC and the Special Regulations.

A shareholder may effect a transfer of Shares on a stock exchange established in accordance with law or by any other means as prescribed 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 applicable laws and regulations.

Shares issued to the Company's Promoters may not be transferred within one year after the date of the Company's establishment. The Company's directors, supervisors and other senior executives shall declare to the Company the shares held by them and the changes in holdings. During the term of office, the shares transferred by any of them each year shall not exceed 25% of the total shares of the Company he holds. The shares of the Company held by the aforesaid

persons shall not be transferred within one year from the day when the Company's stocks are listed and traded on a stock exchange. After any of the aforesaid persons is removed from his post, he shall not transfer his shares within six months from the date when he is removed from his post.

Transfers of Shares may not be entered in the register of shareholders within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends, unless otherwise provided under applicable law.

### **Shareholders**

The Company's shareholders' rights and obligations are set out in its Articles of Association. The Company's Articles of Association are binding on each shareholder.

Under the Company Law and the Mandatory Provisions, the Company's shareholders are entitled to the following rights:

- (i) to attend and vote in person or to appoint a proxy to attend and vote on his or her behalf at shareholders' general meetings;
- (ii) to transfer the Company's Shares on the Stock Exchange in accordance with any applicable laws;
- (iii) to inspect the Company's Articles of Association, minutes of shareholders' general meetings, financial and accounting reports and to make proposals or inquiries in respect of the Company's operations;
- (iv) If the procedures for calling a shareholders' general meeting, meeting of the board of directors, or the procedures for voting, is in violation of any law, administrative regulation or the Articles of Association, or if a resolution is in violation of the Company's Articles of Association, the shareholders may, within 60 days from the day when the resolution is made, request the court to revoke the resolution;
- (v) to receive dividends and distributable benefits in other forms in proportion to his or her shareholding;
- (vi) to receive surplus assets of the Company upon its termination in proportion to his or her shareholding; and
- (vii) any other shareholders' rights specified in the Company's Articles of Association.

The obligations of a shareholder include (i) the obligation to abide by the Company's Articles of Association, (ii) to pay the subscription monies in respect of the Shares subscribed for, (iii) to be liable for the Company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the Shares taken up by such shareholder and (iv) any other shareholders' obligations specified in the Company's Articles of Association.

***General meetings***

Under the Company Law, the Company's shareholders may exercise the following powers in a general meeting:

- (i) determine the Company's business policies and investment plans;
- (ii) elect or remove the Company's Directors (not being staff representative) and decide on matters relating to the remuneration of the Company's Directors;
- (iii) elect or remove the Company's Supervisors (not being staff representative) and decide on matters relating to the remuneration of the Company's Supervisors;
- (iv) consider and approve reports of the Company's Board and supervisory committee;
- (v) consider and approve the Company's proposed annual financial budget and final accounts;
- (vi) consider and approve the Company's profit distribution plan and plans for recovery of losses;
- (vii) approve any increase or reduction in the Company's share capital;
- (viii) approve an issue of bonds;
- (ix) approve a merger, division, change of company form, dissolution or liquidation;
- (x) approve amendments to the Company's Articles of Association; and
- (xi) other powers as prescribed by the Company's Articles of Association.

Shareholders' general meetings are required to be held on an annual basis. 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 on the Company's Board is less than the number provided for in the Company Law or less than two-thirds of the number specified in the Company's Articles of Association;
- (ii) the uncompensated losses amount to one-third of the Company's paid-up share capital;
- (iii) shareholders holding 10% or more of the Company's issued and outstanding voting shares request in writing the convening of an extraordinary general meeting;

- (iv) the Board or the supervisory committee considers such extraordinary general meeting necessary; or
- (v) other circumstances as prescribed by the Company's Articles of Association.

Shareholders' general meetings are convened by the Board and presided over by the chairman of the Board. Under the Special Regulations and the Mandatory Provisions, the Company is required to give 45 days' written notice of a shareholders' general meeting and this notice must specify the matters to be considered and the date and place of the meeting. If the Company has bearer Shares in issue, it must make a public announcement of the shareholders' general meeting at least 45 days prior to the meeting being held. Under the Special Regulations and the Mandatory Provisions, shareholders who plan to attend a shareholders' general meeting are required to provide the Company with a written confirmation of their intentions 20 days prior to the meeting. Shareholders holding 3% or more of the Company's voting rights are entitled, under the Company Law, to submit written proposals to be considered at shareholders' general meeting. Any such proposals that can be decided at a shareholders' general meeting must be included in the agenda of that meeting.

The Special Regulations and the Mandatory Provisions provide that a general meeting of the Company's shareholders may be held if shareholders holding 50% or more of the Company's voting Shares have confirmed in writing 20 days prior to the proposed date of the meeting that they intend to attend the meeting. If this 50% minimum is not attained, a shareholders' general meeting may be held if, within five days after the deadline, the Company notify the shareholders again by public announcement of the matters to be considered and the date and place of the meeting.

Each shareholder present at a shareholders' general meeting is entitled to one vote for each Share held. A shareholder may appoint a proxy to attend and vote on his behalf at a shareholders' general meeting. Ordinary resolutions proposed at a shareholders' general meeting must be passed by more than half of the votes cast by shareholders present in person or by proxy. However, special resolutions and the following actions must be approved by at least two thirds of the votes cast by shareholders present in person or by proxy: (i) amendments to the Company's Articles of Association; (ii) a merger, division, dissolution, liquidation or change of the form of the Company; (iii) an increase or reduction of capital or the issue of any class of Shares, warrants or securities alike or corporate bonds; and (iv) other matters which the shareholders' general meeting has resolved by way of ordinary resolution as having a potential material effect on the Company as a company and should be approved by special resolution.

In the event of a variation or abrogation of the rights of a particular class of shareholders, the Mandatory Provisions require the Company to hold a special class meeting. Holders of the Company's Domestic Shares and holders of the Company's H Shares are deemed to be different classes of shareholders.

**Board**

A company will have a board of directors, which will consist of 5 to 19 members. Under the Company Law, each term of office of a director may not exceed three years. A director may serve consecutive terms if he is re elected.

Meetings of the board of directors will be convened at least twice a year. Notice of meeting will be given to all directors and all supervisors 10 days before the meeting. 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.

Under the Company Law, the Company's Board of Directors may exercise the following powers:

- (i) convene shareholders' general meetings and report to the shareholders;
- (ii) implement resolutions passed by shareholders in general meetings;
- (iii) decide on the Company's business plans and investment proposals;
- (iv) formulate proposals for annual financial budgets and final accounts;
- (v) formulate proposals for profit distribution and recovery of losses;
- (vi) formulate proposals for the increase or reduction of the Company's registered capital and the issuance of the corporate bonds;
- (vii) formulate proposals for merger, division or dissolution or change of the form of the Company;
- (viii) decide on the Company's internal management structure;
- (ix) appoint or dismiss the Company's managers and, based on a manager's recommendation, appoint or dismiss deputy managers and financial controllers and to decide on their remuneration;
- (x) formulate the company's basic management control system; and
- (xi) other powers as may be conferred by the Articles of Association.

In addition, the Mandatory Provisions provide that the Company's Board is also responsible for formulating proposals for amending the Company's Articles of Association.

Meetings of the Board of Directors will be held only if more than half of the Directors are present. Resolutions of the Board of Directors require the approval of more than half of all Directors, whereas (vi), (vii) and amendments to the Company's Articles of Association require the approval of at least two thirds of all Directors.

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 authorisation to attend the meeting on his behalf.

If a resolution of the Board of Directors violates any law, administrative regulation or the Company's Articles of Association as a result of which the Company sustain serious losses, the Directors participating in passing the resolution are personally liable to compensate the Company. However, if it can be proven 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 Company Law, the following persons may not serve as one of the Company's Directors:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have been convicted of a criminal offence relating to corruption, bribery, encroachment of property, appropriation of property or destruction of the social economic order, where no more than five years have elapsed since the date of completion of the sentence;
- (iii) persons who have been deprived of their political rights, where no more than five years have elapsed since the date of the completion of such deprivation;
- (iv) persons who are 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 no more than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the Company or enterprise;
- (v) persons who have been legal representatives of a company or enterprise which had its business license revoked and had been ordered to wind up due to unlawful operations and who are personally responsible for such revocation, where no more than three years have elapsed since the date of such revocation; or
- (vi) persons who are liable for relatively large amount of debts which have not been repaid when due.

Other circumstances under which a person is disqualified from acting as a Director are set out in the Mandatory Provisions and the Company's Articles of Association, a summary of which is set out in Appendix VII.

The Board will appoint a chairman, who is elected with approval of more than half of all the Directors. Under the Company Law, the chairman of the Board exercises, among other things, the following powers:

- (i) preside over shareholders' general meetings and convene and preside over meetings of the Board;
- (ii) examine the implementation of the resolutions of the Board; and
- (iii) sign securities issued by the Company.

### ***Supervisors***

The Company is required to establish a supervisory committee comprised of at least 3 members. Each term of office for the Company's Supervisors is three years and he or she may serve consecutive terms if re-elected.

The supervisory committee comprises representatives elected by the Company's shareholders and representatives of employees, with one third of the supervisory committee shall be representatives of the Company's employees. The specific proportion shall be subject to the stipulation of the Company's Articles of Association. The Directors and other senior executives may not act concurrently as Supervisors.

Under the Company Law, the Company's supervisory committee is responsible for the following matters:

- (i) reviewing the Company's financial affairs;
- (ii) supervising the Company's Directors and other senior executives while they carry out their duties and to impeach those who carry out their duties in violation of relevant laws and regulations, the Company's Articles of Association and the resolutions of the shareholders' general meeting;
- (iii) requiring the Company's Directors and other senior executives to rectify any action which adversely affects the Company's interests;
- (iv) proposing the convening of extraordinary shareholders' general meetings and to convene and hold general meetings in the event the board fails to implement the duties of convening and holding the general meeting;
- (v) put forward proposals at shareholders' general meetings;

- (vi) if any director, or other senior executive violates any law, administrative regulation, or the Company's Articles of Association during the term of his office, and if the Company suffers any loss due to such violation, the supervisory committee may initiate lawsuit against such director, or other senior executive; and
- (vii) carrying out other duties as specified in the Company's Articles of Association.

The circumstances under which a person is disqualified from acting as a Director under the Company Law and the Mandatory Provisions also apply to a Supervisor.

### ***Managers and officers***

The Company is required to have a manager who is appointed, and may be removed, by the Board. Under the Company Law, the Company's manager is accountable to the Board and may exercise the following powers:

- (i) management of the Company's production and business and implement resolutions of the Company's Board;
- (ii) organise the implementation of the Company's annual business and investment plans;
- (iii) formulate proposals for the establishment of the Company's internal management structure;
- (iv) formulate proposals for the Company's basic management system;
- (v) formulate the Company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and financial controller and appoint or dismiss other management staff (other than those required to be appointed or dismissed by the Company's Board);
- (vii) attend board meetings; and
- (viii) other powers conferred by the Company's Board or Articles of Association.

The Special Regulations and Mandatory Provisions require the Company to employ other corporate officers, including a secretary of the Board of Directors and other executives specified in the Company's Articles of Association.

The circumstances under which a person is disqualified from acting as a director under the Company Law and the Mandatory Provisions also apply to the company manager and the Company's other senior executives.

The Company's Articles of Association are binding on the Company, the Company's shareholders, Directors, Supervisors and other senior executives. Such persons shall be entitled to exercise their rights, apply for arbitration and initiate legal proceedings according to the Company's Articles of Association. The provisions of the Mandatory Provisions regarding the Company's senior executives have been incorporated in the Company's Articles of Association, a summary of which is set out in Appendix VII.

### ***Duties of directors, supervisors, managers and officers***

The Directors, Supervisors and other senior officers of the Company are required under the Company Law to comply with the relevant laws, regulations and the Company's Articles of Association, to carry out their duties honestly and protect the Company's interests. The Special Regulations and the Mandatory Provisions provide that the Directors, Supervisors and senior executives of the Company owe a fiduciary duty to the Company, and require them to perform their duties faithfully, protect the Company's corporate interests and not abuse their positions for personal gain. The Directors, Supervisors and other senior executives of the Company are also under a duty of confidentiality and are prohibited from divulging certain secret information unless required by applicable laws and regulations or with the approval of the Company's shareholders.

A Director, Supervisor or other senior executives shall be personally liable to the Company for any loss incurred by the Company arising out of his or her violation of any law, regulation or the Company's Articles of Association of the Company in the performance of his or her duties.

### ***Finance and accounting***

The Company is required to establish a financial and accounting system which must comply with relevant laws and regulations as well as rules stipulated by the State Council and the Ministry of Finance.

The Company is required to make its financial statements available for inspection by its shareholders at least 20 days prior to its annual general shareholders' meeting. The Company must also publish its financial statements by way of public announcement.

The Company is required by PRC law to make the following transfers from its after tax profit before it distributes any profits to its shareholders:

- 10% of the Company's after-tax profit must be transferred to its statutory common reserve fund, provided that no transfer is required if the Company's accumulated statutory common reserve fund is at least 50% of its registered capital; and
- subject to the Company's shareholders' approval in a general meeting and after transfer of the requisite amount to the statutory common reserve fund, a discretionary amount from the Company's after-tax profit may be transferred to the discretionary common reserve.

Any balance of the after tax profit, after deduction of the amounts for recovery of previous losses and transfers to the common reserve, may be distributed to the Company's shareholders in proportion to their respective shareholdings.

If the amount in the Company's statutory common reserve fund is insufficient to make up for losses from the previous year, the Company's profits in the current year must be applied to make up for such losses before the Company make allocations to the statutory common reserve fund.

The Company's common reserve comprises the statutory common reserve fund, discretionary common reserve fund and the capital common reserve fund.

The Company's capital common reserve fund is made up of the premium over the nominal value of the Company's Shares and other incomes deemed to be part of the capital common reserve fund by the financial department of the State Council.

The Company's common reserve must be applied for the following purposes:

- (i) to make up for the Company's losses provided that the Company's capital common reserve fund may not be applied to make up for the Company's losses;
- (ii) to expand the Company's business operations; and
- (iii) to increase the capital of the Company, provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion may not be less than 25% of the Company's registered capital prior to the increase.

### ***Appointment and retirement of auditors***

The Special Regulations require the Company to employ an independent PRC qualified accounting firm to audit its annual financial statements and review certain other financial reports.

The auditors are to be appointed for a term commencing from the close of the relevant annual general meeting to the close of the next annual general meeting.

If the Company removes or decides not to renew the appointment of its existing auditors, the Company is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the Company's shareholders in a general meeting. If the Company's auditors resign, they are obligated to make a statement to the shareholders stating whether or not the Company has undertaken any inappropriate transactions. The appointment, removal or non-renewal of appointment of auditors is decided by the shareholders' general meetings and must be recorded with the CSRC.

***Distribution of profits***

The Special Regulations provide that dividends and other distributions payable to holders of the Company's H Shares must be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of dividends and other distributions in foreign currency to these shareholders must be made through a receiving agent appointed by the Company for holders of the Company's H Shares.

***Amendments to Articles of Association***

The Company's Articles of Association may only be amended by an affirmative vote of at least two-thirds of its shareholders at a general meeting. An amendment to the Company's Articles of Association will only take effect after the Company has obtained any necessary approvals from relevant regulatory and administrative agencies. If an amendment to the Company's Articles of Association affects the information in the Company's business registration, the Company must apply to the related government department to change the relevant details in the license.

***Dissolution and liquidation***

A company may apply for a declaration of insolvency by reason of its inability to pay debts as they fall due. After a people's court has made a declaration of a company's insolvency, its shareholders, the relevant authorities and the relevant professionals shall, under the direction of the people's court, form a liquidation committee to conduct the liquidation of the Company.

Under the Company Law and the Mandatory Provisions, the Company will be dissolved and liquidated if any of the following events occur:

- (i) the Company's term of operations set down in the Company's Articles of Association has expired or an event of dissolution specified in the Company's Articles of Association have occurred;
- (ii) the Company's shareholders in general meeting have resolved to the Company's dissolution by special resolution;
- (iii) a merger or division that requires the Company's dissolution;
- (iv) the declaration of the Company's insolvency as a result of the Company's inability to pay its debts when they become due and payable;
- (v) the Company has been ordered to close down or its business license has been revoked as a result of a violation of the law or administrative regulation; or

- (vi) the Company meets any material difficulty in its operations or management so its shareholders will face heavy loss if it continues to exist and it cannot be resolved by any other means, in which case the shareholders who hold 10% or more of the voting rights of all the shareholders may petition the court to dissolve the Company.

If the Company is dissolved in the circumstances referred to in (i), (ii) or (vi) above, in a general meeting the Company's shareholders must, within 15 days of the occurrence of the event, appoint the members of a liquidation committee. If the liquidation committee is not established within the specified time, the Company's creditors may apply to the people's court to appoint the members of the liquidation committee. The people's court will then organise a liquidation committee to conduct the liquidation. If the Company is dissolved in the circumstances described in (iv) or (v) above, the people's court or relevant administrative authorities shall lead the formation of the liquidation committee, which consists of shareholders, the relevant authorities and the relevant professional(s).

The liquidation committee is required to notify the Company's creditors of the Company's dissolution within 10 days after its establishment and issue at least three public announcements in the newspapers within 60 days after its establishment. A creditor is required to lodge his claim with the liquidation committee within 30 days after receiving the notification, or within 45 days after the public announcement if he did not receive any notification.

The liquidation committee exercises the following powers during the liquidation period:

- (i) to sort out 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 dispose of any unfinished businesses of the Company's in relation to the liquidation;
- (iv) to pay all outstanding taxes;
- (v) to settle the Company's claims and liabilities;
- (vi) to deal with the Company's surplus assets after the Company's debts have been paid off; and
- (vii) to represent the Company in civil lawsuits.

In the event of a dissolution, the Company's assets will be applied towards the payment of liquidation expenses, wages owed to the Company's employees, social insurance premiums and legal indemnification premiums, tax overdue and the Company's general indebtedness. Any surplus assets will be distributed to the Company's shareholders in proportion to the number of shares held by them.

If the Company's assets are insufficient to repay or discharge the Company's indebtedness, the liquidation committee will apply to the people's court for a declaration of insolvency, and will with such declaration, transfer the liquidation proceedings to the people's court.

The Company is not allowed to engage in operation activities not related with the liquidation if it is involved in liquidation proceedings.

Upon completion of the liquidation process, the liquidation committee is required to submit a liquidation report to the Company's shareholders in a general meeting and to the relevant authorities for confirmation. The liquidation committee is also required to apply to the competent Administration of Industry and Commerce for the cancellation of the Company's registration and to make a public announcement of the Company's dissolution following such cancellation.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. 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 Company must obtain the approval of the CSRC to list its Shares overseas. An overseas listing of the Company's Shares must comply with the Special Regulations.

According to the Special Regulations and the Mandatory Provisions, the Company's Board must implement the Company's plan to issue the Company's H Shares and Domestic Shares within 15 months after the CSRC has approved the Company's application.

### ***Loss of Share certificates***

If a Share certificate in registered form of the Company's domestic shares is either lost, stolen or destroyed, the respective shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After obtaining the declaration, the shareholder may apply to the Company for a replacement certificate.

### ***Merger and division***

All mergers and divisions shall be approved by the Company's shareholders' general meeting. The Company may also need to seek government approval for a merger or division. In the PRC, a merger may be effected either by way of absorption followed by the dissolution of the Company being absorbed or by the establishment of a new entity followed by the dissolution of the original entities.

If the Company's shareholders' general meeting approve a proposed merger, the Company is required to sign a merger agreement and to prepare its balance sheet and an inventory of assets. The Company must notify its creditors of the merger within 10 days and publicly announce the merger in newspapers within 30 days after the resolution approving the merger has been passed. The Company's creditors are allowed, within a certain time period, to request the Company to repay any outstanding indebtedness or provide guarantees covering such indebtedness.

In the case of a division, the Company likewise required to prepare its balance sheet and an inventory of assets and to notify and make public announcement to its creditors.

## 2. Securities Law and Regulations

The PRC has promulgated a number of regulations that relate to the issue and trading of the Company's Shares and disclosure of information by the Company. In early 1993, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis.

On 22 April 1993, the State Council promulgated the Provisional Regulations Concerning the Issuance and Trading of Shares (the "Securities Provisional Regulations") (股票發行與交易管理暫行條例). These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. According to these regulations, the Company must obtain the approval of the Securities Committee to offer its Shares outside the PRC. In addition, if the Company proposes to issue Renminbi denominated ordinary Shares as well as special Renminbi denominated Shares, it must comply with the Securities Provisional Regulations. Provisions of these regulations in relation to acquisitions of listed companies and disclosure of information expressly apply to listed companies in general without being confined to listed companies on any particular stock exchange.

On 12 June 1993, pursuant to the Securities Provisional Regulations, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information (公開發行股票公司信息披露實施細則(試行)). Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered

shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or one-off writing down of the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or de-merger of a company. These measures also contain disclosure provisions in relation to the acquisition of listed companies which supplement the requirements contained in the Securities Provisional Regulations.

On 2 September 1993, the Securities Committee promulgated the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities (禁止證券欺詐行為暫行辦法). The prohibitions imposed by these measures include the use of insider information in connection with the issuance of, or trading in, securities (insider information being defined as including undisclosed material information known to any insider which may affect the market price of securities); the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of, and trading in, securities which is false or materially misleading, or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 25 December 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Liability Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited liability companies having domestic listed foreign shares.

The PRC Securities Law (the "Securities Law") (中華人民共和國證券法) took effect on 1 July 1999 and was amended on 28 August 2004 and 27 October 2005 separately. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers of listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that the Company must obtain prior approval from the State Council's securities regulatory authorities to list its shares outside the PRC. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

On 29 March 1999, the SETC and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In Depth Reform of Companies Listed Overseas (關於進一步促進境外上市公司規範運作和深化改革的意見) which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the opinion upon listing of the Company's H Shares on the Stock Exchange. The Opinion regulates, among others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

On 14 July 1999, the CSRC promulgated the Notice on Issues Regarding Application for Overseas Listing by Enterprises (中國證券監督管理委員會關於企業申請境外上市有關問題的通知) which sets out the requirements to be satisfied by PRC enterprises seeking overseas main board listing, and matters including the approval procedure and the submission of documents.

### 3. Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (the "Arbitration Law") (中華人民共和國仲裁法) was passed by the Standing Committee of the National People's Congress on 31 August 1994 and became effective on 1 September 1995. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organisations 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 agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

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 contracts with each of the Company's Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the Company's H Shares and the Company; holders of the Company's H Shares and the Company's Directors, Supervisors, manager or other senior officers; or holders of the Company's H Shares and holders of Domestic Shares, in respect of any disputes or claims in relation to the Company's affairs as a result of any rights or obligations arising under the Company's Articles of Association, the Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration. Where a dispute or claim of rights as described in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall comply with the choice of arbitration to resolve the dispute, if such persons are the Company, the Company's shareholders, Directors, Supervisors, Manager or other senior officers. Disputes in respect of the definition of shareholders and disputes in relation to the Company's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for the arbitration to take place in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

Under the Arbitration Law and PRC Civil Procedure 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 or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel 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 recognised 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 (the "New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the National People's Congress passed on 2 December 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 recognised 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 National People's Congress simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered, under PRC laws, to arise from contractual and non-contractual mercantile legal relations. On 18 June 1999, an arrangement was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.

#### 4. Foreign Exchange Controls

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (the "Notice"), effective from 1 January 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On 26 March 1994, the PBOC promulgated the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (the "Provisional Regulations"). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On 29 January 1996, the State Council promulgated new Regulations of the People's Republic of China for the Control of Foreign Exchange (the "Control of Foreign Exchange Regulations") (中華人民共和國外匯管理條例) which became effective on 1 April 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the "Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Settlement Regulations") (結匯、售匯及付匯管理規定) which became effective on 1 July 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign Invested Enterprises" (the "Announcement"). The Announcement permits foreign invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialised accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, the PBOC and the SAFE promulgated the Notice Concerning Closure of the Foreign Exchange Swap Business Activities pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign invested enterprises shall be discontinued, while the trading of foreign exchange by foreign invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On 1 January 1994, the former dual exchange rate system for Renminbi has been abolished and replaced by a managed floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-U.S. dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi U.S. dollar in the inter bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in the PRC (except for some foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange recurrent income to designated foreign exchange banks. Foreign exchange income from loans issued by organisations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by the Company from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Foreign invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange such as the Company, may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

Conversion of foreign exchange in respect of capital account items, such as direct investment and capital contribution, remains subject to restriction, and prior approval from SAFE and the relevant branch must be sought.

Dividends to holders of the Company's H Shares will be fixed in Renminbi but must be paid in HK dollars. The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current

account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or security, requires the approval of the SAFE and other relevant authorities. On 21 July 2005, the Renminbi was no longer pegged to the U.S. dollars but instead to a basket of currencies.

## 5. Hong Kong Laws and Regulations

### Summary of Material Differences between Hong Kong and PRC Company Law

#### (a) Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and supplemented by common law and the rules of equity that apply to Hong Kong.

As a joint stock limited liability company established in the PRC that is seeking a listing of the Company's H Shares on the Stock Exchange, the Company is governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

The following sections, summarise certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited liability company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

#### (i) *Share capital*

Under Hong Kong law, the authorised share capital of a Hong Kong company is the amount of share capital that the Company is authorised to issue. A company is not bound to issue the entire amount of its authorised share capital. The authorised share capital of a Hong Kong company 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. The Company's registered capital is the amount of the Company's issued share capital. Any increase in the Company's registered capital must be approved by the Company's shareholders in a general meeting and the relevant PRC governmental and regulatory authorities.

Under the Company Law, the amount of the capital contributions in cash paid by all the shareholders shall be no less than 30% of a company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) *Restrictions on shareholding and transfer of shares*

Under PRC law, the Company's Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the state, PRC legal persons and natural persons and qualified foreign institutional investors approved by the relevant PRC authorities. The Company's overseas listed H Shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC and qualified domestic institutional investors approved by the relevant PRC authorities.

Under the Company Law, the Company's Promoters are not allowed to transfer the Company's Shares they hold for a period of one year after the date of the Company's establishment. Similarly, during the term of office, the shares transferred by the Company's directors, supervisors and senior managers each year shall not exceed 25% of the total shares of the Company he holds. The shares of the Company held by the aforesaid persons shall not be transferred within one year from the day when the stock of the Company is listed and traded on a stock exchange. There are no such restrictions on shareholdings and transfer of shares under Hong Kong law.

(iii) *Financial assistance for acquisition of shares*

Although the Company Law does not prohibit or restrict the Company or its subsidiaries from providing financial assistance for the purpose of an acquisition of the Company's Shares, the Mandatory Provisions contain restrictions on a company and its subsidiaries providing such financial assistance similar to those under the Hong Kong company law.

(iv) *Variation of class rights*

The Company Law makes no specific provision relating to variation of class rights. However, the 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 Company's Articles of Association, which are summarised in "Appendix VII — Summary of Articles of Association." Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all of the members or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in its 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 Company's Articles of Association as different classes, except where (i) the Company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, not more than 20% of each of the issued overseas listed foreign invested shares and

the issued domestic invested shares existing as at the date of the shareholders' special resolution; and (ii) the plan for the issue of domestic invested shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

(v) *Directors*

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, interested directors being restricted from counting towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested in being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits, such as loans, to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, 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 Company's Articles of Association, a summary of which is set out in "Appendix VII — Summary of Articles of Association."

(vi) *Supervisory committee*

Under the Company Law, the Company's Directors and managers are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong.

The Mandatory Provisions provide that 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 Company's best interests and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(vii) *Derivative action by minority shareholders*

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the Company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. Although the Company Law gives the Company's shareholders the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the Company's shareholders in a general meeting, or by the Board, that violates any law or infringes the lawful rights and interests of the Company's shareholders, there is no form of proceedings equal to a derivative action. The Mandatory Provisions, however, provide the Company with certain remedies against the Directors, Supervisors and officers who breach their duties to the Company. In addition, as a condition to the listing of the Company's H Shares on the Stock Exchange and in

accordance with the Company's Articles of Association, each of the Company's Directors and Supervisors is required to give an undertaking in favour of the Company acting as agent for each of the Company's shareholders. This allows minority shareholders to act against the Company's Directors and Supervisors in default.

(viii) *Protection of minorities*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the Company or make an appropriate order regulating the affairs of the Company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. There is no specific provision in the Company Law to guard against oppression by the majority shareholders of minority shareholders, but the Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the Company's shareholders, may not relieve a Director or Supervisor of his duty to act honestly in the Company's best interests or may not approve the expropriation by a Director or Supervisor of the Company's assets or the individual rights of other shareholders.

(ix) *Notice of shareholders' meetings*

Under the Company Law, notice of a shareholders' general meeting must be given not less than 20 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all the Company's shareholders and shareholders who wish to attend the meeting must reply in writing 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, is 21 days. The notice period for an annual general meeting is also 21 days.

(x) *Quorum for shareholders' meetings*

Under Hong Kong law, the quorum for a general meeting is provided for in the articles of association of a company, but must be at least two members. The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that the Company's general meeting may only be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the Company must within five days notify its shareholders by way of a public announcement and the Company may hold the shareholders' general meeting thereafter.

(xi) *Voting*

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three quarters of votes cast by members present in person or by proxy at a general meeting.

Under the Company Law, the passing of any resolution requires more than one half of the votes held by the Company's shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendments to the Company's Articles of Association, merger, division or dissolution, which require two thirds of the votes held by shareholders present in person or by proxy at a shareholders' general meeting.

(xii) *Financial disclosure*

The Company is required under the Company Law to make available at its office for inspection by shareholders the Company's annual balance sheet, profit and loss account, statement of changes in financial position and other relevant annexes 20 days before the Company's shareholders' annual general meeting. In addition, the Company must publish its financial statements and annual balance sheet must be verified by registered accountants. The Companies Ordinance requires a company incorporated in Hong Kong 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.

The Company is required under PRC law to prepare its financial statements in accordance with PRC accounting standards. The Mandatory Provisions require that the Company must, in addition to preparing its accounts according to PRC standards, has its accounts prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. The Company is required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from 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.

(xiii) *Information on directors and shareholders*

The Company Law gives the Company's shareholders the right to inspect the Company's Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Company's 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.

(xiv) *Receiving agent*

Under the Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law the limitation period is two years. The Mandatory Provisions require the Company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of the Company's H Shares dividends declared and all other monies owed by the Company in respect of the Company's Shares.

(xv) *Corporate reorganisation*

Corporate reorganisations 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 to another company in the course of being wound up voluntarily, pursuant to section 237 of the 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 Companies Ordinance, which requires the sanction of the court. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

(xvi) *Arbitration of disputes*

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either HKIAC or CIETAC, at the claimant's choice.

(xvii) *Mandatory deductions*

Under the Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund, the amount of which shall be 10% of the profits, before they can be distributed to shareholders. The deduction of contributions may cease if the aggregate balance of the statutory common reserve fund has already accounted for over 50% of the Company's registered capital. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

(xviii) *Dividends*

The Company's Articles of Association empowers 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. The Company shall not exercise its powers to forfeit any unclaimed dividend in respect of its H Shares until after the expiry of the applicable limitation period.

(xix) *Fiduciary Duties*

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a faithful and diligent duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

(xx) *Closure of Register of Shareholders*

The Companies Ordinance requires that the register of members of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the Company's Articles of Association provide that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

(b) **Listing Rules**

The Listing Rules provide additional requirements which apply to the Company as an issuer incorporated in the PRC as a joint stock limited company and seeks 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 the Company:

(i) *Sponsor*

The Company are required to appoint a sponsor to assist it with its initial application for listing. The sponsor must be acceptable to the Stock Exchange.

The sponsor must be satisfied that the Company's Directors and Supervisors appreciate the nature of their responsibilities and can be expected to honour their obligations required of them under and their respective undertakings, the Listing Rules and applicable laws and regulations.

(ii) *Compliance adviser*

The Company is required to appoint a compliance adviser for the period from its listing until the publication of its financial results for the first full financial year after listing. The compliance adviser must be acceptable to the Stock Exchange.

The Company must ensure that its compliance adviser has access at all times to its authorised representatives, Directors and other officers and is given such information and assistance as it may request in connection with the performance of its duties. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the Company 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 Company's principal channel of communication with the Stock Exchange if the Company's authorised representatives are expected to be frequently outside Hong Kong.

(iii) *Accountants' report*

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 or international accounting standards.

(iv) *Process agent*

The Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its 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 details.

(v) *Public shareholdings*

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

(vi) *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 the Company's 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.

(vii) *Restrictions on purchase and subscription of its own securities*

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

(viii) *Mandatory Provisions*

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors and class meetings. Such provisions have been incorporated into the Company's Articles of Association, a summary of which is set out in Appendix VII to this prospectus.

(ix) *Redeemable shares*

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

(x) *Pre-emptive rights*

Except in the circumstances mentioned below, Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and 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 authorisation, allotment, issue or grant so as materially to dilute the percentage of the Company's equity interest in such subsidiary.

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

(xi) *Amendment to the Articles of Association*

The Company may not permit or cause any amendment to its Articles of Association which would cause them to cease to comply with the Company Law, the Mandatory Provisions or the Listing Rules.

(xii) *Documents for inspection*

The Company is required to make available at a place in Hong Kong for inspection by the public and its shareholders free of charge, and allow its shareholders to make copies at reasonable charges the following:

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

- special resolutions;
- 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 and H Shares);
- a copy of the latest annual return filed with the State Administration for Industry and Commerce or other competent PRC authority; and
- for shareholders only, copies of minutes of meetings of shareholders.

(xiii) *Receiving agents*

Under Hong Kong law, the Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the Company's H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) *Statements in Share certificates*

The Company is required to ensure that all its listing documents and Share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its 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 Shares bearing statements to the following effect, that the acquirer of Shares:

- agrees with the Company and each shareholder, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- agrees with the Company, each shareholder, Director, Supervisor, manager and other officer and, acting both for the Company and for each Director, Supervisor, manager and other officer, the Company agrees with each shareholder to refer all differences and claims arising from its Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with its Articles of Association. Any reference to arbitration will be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;
- agrees with the Company and each shareholder that Shares are freely transferable by the holder thereof; and

- authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in the Company's Articles of Association.

(xv) *Compliance with the Company Law, the Special Regulations and the Company's Articles of Association*

The Company is required to observe and comply with the Company Law, the Special Regulations and its Articles of Association.

(xvi) *Contract between the Company and its Directors, officers and Supervisors*

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Company's Director or officer to observe and comply with the Company law, the Special Regulations, the Company's Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in its Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Company's Director or officer acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Company's Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Company's Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant law and administrative regulations concerning the relationship between the Company and its Directors or officers and between a holder of the Company's H Shares and its Director or officer, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;

- the agreement to arbitrate is made by the Director or officer with the Company on the Company's own behalf and on behalf of each of the Company's shareholders; and
- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

(xvii) *Subsequent listing*

The Company must not apply for the listing of any of its H Shares on a PRC stock exchange unless the Stock Exchange is satisfied that the rights of the holders of its H Shares are adequately protected.

(xviii) *English translation*

All notices or other documents required under Chapter 13 of the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(xix) *General*

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the Company's H Shares subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the listing of the Company's H Shares on the Stock Exchange.

**(c) Other Legal and Regulatory Provisions**

Upon listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

**(d) Securities Arbitration Rules**

The Company's Articles of Association provide that certain claims arising from the Company's Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.