
APPENDIX V SUMMARY OF RELEVANT PRC AND HONG KONG LAWS AND REGULATIONS AND THE ARTICLES OF ASSOCIATION

This appendix sets out summaries of PRC company and securities regulations, certain material differences between the Company Law and Hong Kong company law, additional regulatory provisions introduced by the Hong Kong Stock Exchange in relation to PRC joint stock limited companies and the Articles of Association. The main objective is to provide investors with an overview of the rights and obligations of shareholders of the Company and the principal legal and regulatory provisions applicable to the Company.

I. PRC LEGAL AND REGULATORY PROVISIONS

(1) Company Law

On 29 December 1993, the Standing Committee of the Eighth NPC adopted the Company Law which came into effect on 1 July 1994 and was amended on 25 December 1999. Companies established under laws, administrative regulations, local laws and the Standard Opinion for Limited Liability Companies, and the Standard Opinion for Joint Stock Limited Companies formulated by the relevant departments of the State Council before the implementation of the Company Law will not be affected by the Company Law and shall continue to be recognised. Those companies which have not wholly complied with the provisions of the Company Law shall comply with the relevant requirements within a specified period of time. The State Council may separately promulgate detailed implementing measures.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions. On 4 July 1994, the Special Regulations were passed at the Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Economic Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarised in this appendix V). References to a “company” are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Copies of the Chinese text of the Company Law, Special Regulations and the Mandatory Provisions together with copies of an unofficial English translations thereof are available for inspection as mentioned in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in appendix VII.

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 the extent of the Shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A State-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulations, for the modification of its operation mechanisms, the systematic handling and evaluation of the company’s assets and liabilities and the establishment of internal management organs.

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A company must conduct its business in accordance with the laws and professional ethics, promote the concept of a socialist market economy and be subject to the supervision of the government and the general public.

A company may invest in other limited liability companies and joint stock companies and the company's liabilities with respect to such invested companies are limited to the amount invested. However, apart from investment companies and holding companies specified by the State Council, the amount of a company's aggregate investment in other companies may not exceed 50% of its net assets.

Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of five promoters, but at least half of the 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 may issue shares to overseas investors. These companies if incorporated by public subscription may have less than five subscribers and can issue new shares once incorporated.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered to the public.

The registered capital of a company is the amount of its total paid up capital as registered with the relevant administration for industry and commerce. The minimum registered capital of a company is RMB10 million. The total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB50 million.

The establishment of a company must be approved by the department authorised by the State Council or by the provincial level people's government.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall 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 shareholders holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration had been given by the relevant administration for industry and commerce and a business licence has been issued. Companies established by the public subscription method shall file a report on the offer of shares with the securities administration department of the State Council for record.

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A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of 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

The promoters may make capital contribution in cash, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of investment made in the form of industrial property rights and non-patented technology may not exceed 20% of the registered capital of the company.

If a capital contribution is made other than in cash, a valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters, state-authorised investment organisations and PRC legal persons shall 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 provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic invested shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the Placing and 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.

The share offering price may be equal to or greater than the par value, but may not be less than par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by a law or by administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

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Shares held by a promoter of a company may not be transferred for three years after the company's establishment. Directors, supervisors and managers of a company shall not transfer the shares they hold in the company during their term of office. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company. However, according to the Provisional Regulations Concerning the Issue and Trading of Shares, a PRC individual shareholder cannot own more than 0.5% of the outstanding domestically issued common shares of a listed company.

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 record date set for the purpose of distribution of dividends.

Increase in capital

Under the Company Law, an increase in capital in a company by means of an issue of new shares must be approved by shareholders in general meeting and meet the following conditions:

- (i) the previous issue of shares has been fully subscribed for and at least one year has elapsed since that issue, but under the Special Regulations, if a company increases its capital for the issue of overseas listed foreign invested shares, the time period elapsed since the last issue of shares may be less than 12 months;
- (ii) the company has been profitable for the last three consecutive years and is able to make dividend payments to its shareholders;
- (iii) there has been no false reporting in the company's financial and accounting documents during the last three years; and
- (iv) the company's expected profit rate is comparable to the bank deposit rate for the same term.

Once the shareholders in general meeting have passed a resolution to issue new shares, the board of directors must apply to the authorised department of the State Council or to the provincial level people's government for approval. Public offers require the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant administration for industry and commerce and issue a public notice accordingly.

Reduction of share capital

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

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;

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- (iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration for industry and commerce for registration of the reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than for the purpose of reducing its capital by cancelling its shares or merging with another company holding its shares or such other purposes permitted by law and administrative regulations. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

Under the Company Law, within 10 days following the purchase of a company's own shares, a company must in accordance with applicable law and administrative regulations cancel that portion of its shares, change its registration and issue a public notice.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. 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 promoters may not be transferred within three years after the establishment of the company. Shares held by directors, supervisors and the manager of a company may not be transferred during their term of office with the company.

There is no restriction under the Company Law as to the percentage shareholding of a single shareholder of a company.

Shareholders

Shareholders have such rights and obligations as set down in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;

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- (ii) to transfer his shares at a legally established stock exchange in accordance with the Company Law and the articles of association of the company;
- (iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulations or infringes the lawful rights and interests of shareholders, to institute an action in the People's Court demanding that the illegal infringing action be stopped;
- (v) to receive dividends in respect of the number of shares held;
- (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 the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

General meetings

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

The shareholders' general meeting exercises the following powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and decide on matters relating to the remuneration of directors;
- (iii) to elect or remove the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;
- (iv) to examine and approve reports of the board of directors;
- (v) to examine and approve reports of the supervisory committee;
- (vi) to examine and approve the company's proposed annual financial budget and final accounts;
- (vii) to examine and approve the company's proposals for profit distribution and for recovery of losses;
- (viii) to decide on any increase or reduction in the company's registered capital;
- (ix) to decide on the issue of bonds by the company;

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- (x) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters; and
- (xi) to amend the articles of association of the company.

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

- (i) the number of directors 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 aggregate losses of the company which are not made up reach one-third of the company's total share capital;
- (iii) a request by shareholders holding 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors; or
- (v) when more than two independent directors propose to convening it.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 30 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold.

Resolutions of the shareholders' general meeting must be adopted by more than half of the votes cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division or dissolution of a company which must be adopted by shareholders with more than two-thirds of the voting rights held by shareholders present (including those represented by proxies) at the meeting. According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved by more than two-thirds of the shareholders present in the general meeting. Amendments to the articles of association of a company must be approved by more than two-thirds of the shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings by a written appointment document stating the scope of exercising the voting rights.

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There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to nineteen members. Under the Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors at least 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 board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolutions of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration; and
- (x) to formulate the company's basic management system.

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In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall 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.

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 the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be 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 of that liability.

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

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

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in this appendix).

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The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors is the legal representative of the company and exercises, amongst others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (ii) to check on the implementation of the resolutions of the board of directors; and
- (iii) to sign the company's share certificates and bonds.

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in this appendix) contains further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. Directors, managers and financial officers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;
- (iii) when the acts of a director or manager are harmful to the company's interests, to require correction of those acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings; and
- (v) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

As mentioned above, the Special Regulations provide that a company's supervisors, among other persons, shall bear fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. A supervisor is also required to attend board meetings as a non-voting attendant.

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Managers and officers

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

- (i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and Mandatory Provisions provide that the other senior management of a company includes the financial controller, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in this appendix).

Duties of directors, supervisors, managers and officers

A director, supervisor, manager and an officer of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and an officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

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A director, supervisor, manager and an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and an officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Finance and accounting

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

A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital) and 5% to 10% of its after-tax profit for the company's statutory public welfare fund.

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund or the statutory common welfare fund.

The company's statutory common welfare fund is used for the collective welfare of the company's staff and workers.

The shareholders in general meeting may resolve to transfer any amount from the after-tax profit of the company to the discretionary common reserve after transferring the requisite amount to the statutory common reserve fund.

After the company has made good its losses and made allocations to its statutory common reserve fund and statutory common welfare fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders.

The common reserve of a company comprises the statutory common reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses;
- (ii) to expand the business operations of the company; and

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- (iii) to pay up the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion shall not be less than 25% of the registered capital of the company.

Appointment and retirement of auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders and shall be registered with the CSRC.

Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorised by the State Council and CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Termination and liquidation

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

Under the Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;

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- (ii) the shareholders in general meeting have resolved to dissolve the company; or
- (iii) the company is dissolved by reason of its merger or demerger.

Where the company is dissolved in the circumstances described in (i) or (ii) above, a liquidation committee must be established within 15 days. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue at least 3 public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 90 days of the first public notice if he did not receive any notification.

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

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall not engage in new business operations during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

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Members of the liquidation committee are required to discharge their duties honestly and in compliance with 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 wilful or material default.

Overseas listing

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

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the CSRC may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from CSRC.

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in this appendix).

Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report;
- (iii) the company has committed a major breach of the law; or
- (iv) the company has incurred losses for each of the preceding three years.

Under the circumstances referred to in (ii) and (iii) above, an investigation has revealed that the consequences are serious, or under the circumstances referred to in (i) and (iv) above, the situation has not been rectified within the time stipulated, the securities administration department of the State Council may decide to terminate the listing of a company's shares.

The securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared bankrupt.

Merger and demerger

The merger or demerger of a company is to be decided by the shareholders in general meeting subject to the approval of departments authorised by the State Council or the approval of the provincial government.

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merger of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers at least 3 times, within 30 days of the resolution to merge. Those creditors who had not received written notice may within 90 days of the first published notice, or within 30 days after receiving written notice, request the company to satisfy any unpaid debt or provide equivalent guarantees in cases of guarantees. Companies unable to repay such debts or provide alternative guarantees will not be allowed to merge. Newly merged entities shall be responsible for the debts and obligations of the companies involved in the merger.

When a company demerges into two companies, their respective assets must be separated and separate financial accounts must be drawn up. When a company's shareholders approve the demerger of the company, the company should notify all its creditors within 10 days of such resolution being passed and advertise the same at least three times in newspapers within 30 days. A creditor may within 30 days after receiving written notice or, a creditor who has not received such notice may within 90 days from the first public advertisement, demand that the company repay any outstanding debts or to provide an appropriate guarantee.

Changes in registerable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

Sino-Foreign Investment Joint Stock Limited Company and Sino-Foreign Joint Venture Law

The Company has not applied and does not intend to apply for the status of a sinoforeign investment joint stock limited company; and the Company is not and does not expect to be subject to the Sino-Foreign Joint Venture Law.

(2) Securities Law and Supervision

Since 1992, the PRC has promulgated a number of regulations in relation to the issue of and trading in securities and disclosure of information.

In early 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission 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 was the regulatory arm of the Securities Commission and was responsible for the drafting of regulatory provisions governing 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-

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related statistics and undertaking research and analysis. In early 1998, the State Council dissolved the Securities Commission, and the former functions of the Securities Commission were assumed by the CSRC.

On 22 April 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. 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, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi-denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with these regulations in respect of its issue of Renminbi-denominated ordinary shares; (ii) if a PRC company proposes to placing shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission (currently the CSRC); and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the GEM, such as the Company.

On 12 June 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public both in the PRC and overseas. 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, without limitation, changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down 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 demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On 2 September 1993, the Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities. The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or the 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 and 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.

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

On 29 December 1998, the Standing Committee of the National People's Congress promulgated the Securities Law of the PRC. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law became effective on 1 July 1999. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the Company Law and other applicable laws and administrative regulations regarding securities will apply.

On 29 March 1999, 國家經濟貿易委員會 (the State Economic and Trade Commission) and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas, 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 H Shares on the GEM. The Opinion regulates, amongst 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.

(3) **The Arbitration Law**

The Arbitration Law of the PRC (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court except when the arbitration agreement is not valid.

The GEM 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 GEM Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed Foreign Shares and the company; (ii) a holder of overseas listed Foreign Shares and a holder of Domestic Shares, unless otherwise specified in the Articles of Association, such parties shall submit that dispute or claim to arbitration before either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organ in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective on 10 May 1998, CIETAC's jurisdiction covers disputes relating to the Hong Kong Special Administrative Region. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

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Under the Arbitration Law, an arbitral award is final and binding on the parties and 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 are certain procedural or membership irregularities 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 a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be 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 New York Convention adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made by 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 NPC simultaneously with the accession of the PRC that (1) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China has been signed in June 1999. The new arrangement is made in accordance with the spirit of the New York Convention. To meet present day's needs, it will allow awards made over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong Legislative Council and will become effective in February 2000.

II. HONG KONG LEGAL AND REGULATORY PROVISIONS

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

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

Derivative action by minority shareholders

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the

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majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure. Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the Companies Ordinance. However, each of the Directors and Supervisors (as required by the GEM Listing Rules) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors or Supervisors.

Remedies of the Company

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

Directors, officers and supervisors

The Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorised benefits, but contains no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders approval. The Company Law, unlike Hong Kong company law, does not contain 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. Neither does the Company Law contain any requirements relating to the declaration of material interests in contracts with the Company as is required under Hong Kong company law, nor restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Minority protection

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 present a petition to the court either to wind up the company or to make an appropriate order regulating the affairs of the company. In addition, at an application of a specified number of members, the Financial Secretary of Hong Kong may appoint investigators 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 and the GEM Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to relieve a director or supervisor of his or her duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. The articles of association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Trustee Ordinance in Hong Kong to receive all dividends payable to H Share holders and all other monies owing by a joint stock limited company in respect of such H Shares on behalf of such shareholders as required by the GEM Listing Rules.

Financial assistance for the acquisition of shares

The Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

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 Articles of Association, which are summarised in this appendix. Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question or by agreement of all the members of the Company or 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 GEM Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas

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listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes. Normally if the Company intends to change the rights of shareholders in different classes, a special resolution has to be passed by the shareholders in general meeting and by a separate shareholders' meeting convened by the affected shareholders in the different classes. However, this procedure is waived 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; or (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.

Corporate reorganisations

Corporate reorganisations involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under section 166 of the Companies Ordinance and require court sanction. Corporate reorganisation involving Hong Kong incorporated companies may also be effected by the transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance. However, in the latter case, the liquidator of the first company may, with the sanction of a special resolution, receive compensation from the transfer for distribution to the members of the transferor company. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

Share capital

For a joint stock limited company formed under the Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders in general meeting if required, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant regulatory authority for industry and commerce.

The minimum registered capital of a company which has applied for the listing of its shares on stock exchange is RMB50 million under the Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law on a Hong Kong company.

Restriction on shareholding and transfer of shares

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

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

Notice of meetings

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

Quorum

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise. The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions as well as the Articles of Association provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, that the company shall within 5 days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

Voting

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

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Dividends

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

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

Financial disclosure

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

Under the Articles of Association (as required by the GEM Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is required to publish its interim and annual accounts within 3 months from the end of the first six months of a financial year and within 90 days from the end of a financial year, respectively. The Company is further required to release quarterly reports within 45 days from the end of the first and third quarters of each financial year.

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.

Information on directors and shareholders

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

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts. It is a requirement of the Mandatory Provisions and the GEM Listing Rule that the Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, managers or other senior administrative officers or a holder of Domestic Shares arising from the Articles of Association, the Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions (such as disputes over who is a shareholder), be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice. Such arbitration is final and conclusive.

Mandatory Deductions

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

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 fiduciary duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of register of shareholders

The Companies Ordinance of Hong Kong requires that the register of shareholders 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, as required by the Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(2) Other legal and regulatory provisions

Upon the listing of the Company on the GEM, the provisions of the Securities Ordinance, the Securities (Disclosure of Interests) Ordinance, the Securities (Insider Dealing) Ordinance of Hong Kong, the Takeovers Code and the Share Repurchases Code and such other relevant ordinances and regulations as may be applicable to companies listed on the GEM will apply to the Company.

(3) Securities Arbitration Rules

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

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The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving disputes concerning the affairs of companies listed by the Hong Kong Stock Exchange and incorporated in the PRC (other than Hong Kong, Macau and Taiwan) 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 conditionally upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where any 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.

(4) GEM Listing Rules

The GEM Listing Rules contain certain provisions specifically relating to the primary listing of equity securities of companies incorporated or otherwise established in the PRC. Set out below is a summary of the major provisions which apply to the Company.

Sponsor

The Company is required to retain, up to 31 December 2005 (or such shorter period as the Hong Kong Stock Exchange may, at its absolute discretion, permit) following its listing, the services of its sponsor or other financial adviser or professional firm which is acceptable to the Hong Kong Stock Exchange, to provide the Company with professional advice on continuous compliance with the GEM Listing Rules and its listing agreement, and to act at all times as the Company's principal channel of communication with the Hong Kong Stock Exchange, in addition to the two authorised representatives of the Company appointed pursuant to the GEM Listing Rules.

The Company must ensure that its sponsor 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 Company should also ensure that there are adequate and efficient means of communication between itself, its authorised representatives, Directors and other officers and the sponsor and should keep the sponsor fully informed of all communications and dealings between it and the Hong Kong Stock Exchange. The Company must not terminate the services of its sponsor until a replacement acceptable to the Hong Kong Stock Exchange is appointed. Where such sponsor's role is terminated by the Company, both the Company and the former sponsor should immediately notify the Hong Kong Stock Exchange of such termination, in each case stating the reason why such appointment was terminated, and the Company and the new sponsor should immediately notify the Hong Kong Stock Exchange of the new sponsor's appointment.

If the Hong Kong Stock Exchange is not satisfied that the sponsor is fulfilling its responsibilities adequately under the GEM Listing Rules, it may require the Company to terminate the sponsor's appointment and appoint a replacement as soon as possible. The Company and the new sponsor should immediately notify the Hong Kong Stock Exchange of the new sponsor's appointment.

The sponsor must be satisfied that the Company is suitable to be listed, that the Directors and the Supervisors appreciate the nature of their responsibilities and can be expected to honor their obligations under their respective undertakings, the

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GEM Listing Rules, the listing agreement and applicable laws and regulations and that the Directors understand what is required of them under the GEM Listing Rules, the listing agreement and applicable laws and regulations.

The sponsor must keep the Company informed on a timely basis of changes in the GEM Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company. The sponsor must provide advice to the Company on the continuing requirements under the GEM Listing Rules, the listing agreement and applicable laws and regulations. It must act as the Company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the Company are expected to be frequently outside Hong Kong.

Accountants reports

An accountants' report will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong which means that it must conform with either Hong Kong or international accounting standards.

Process agent

The Company must appoint and maintain throughout the period its securities are listed on the Hong Kong Stock Exchange the appointment of a person authorised to accept service of process and notices on its behalf in Hong Kong and must notify the Hong Kong Stock Exchange of his or her appointment and any termination of his or her appointment and his or her contact particulars.

Public shareholdings

If at any time there are existing issued securities of the Company other than H Shares which are listed on the Hong Kong Stock Exchange, the GEM Listing Rules require that (i) all H Shares must be held by the public except as otherwise permitted by the Hong Kong Stock Exchange in its discretion; (ii) the H Shares held by the public must constitute not less than 10% of the Company's total existing issued share capital; and (iii) the aggregate amount of H Shares and other securities held by the public must constitute not less than the minimum prescribed percentage of the Company's total existing issued share capital as set out in the GEM Listing Rules (25% of the Company's securities to be in public hands if market capitalisation does not exceed HK\$4,000 million (determined at time of listing) and the higher value of 20% of the Company's securities or the percentage that would result in the market value of the securities to be in public hands equal to HK\$1,000 million to be in public hands if the market capitalisation is over HK\$4,000 million (determined at time of listing)).

If the Company does not have existing issued securities other than H Shares, the H Shares held by the public must constitute not less than 25% of the Company's total existing issued share capital unless the expected market value of the H shares at the time of listing is over HK\$4,000 million in which case, the Hong Kong Stock Exchange will normally accept a prescribed percentage of H Shares (as a portion of total existing issued share capital) to be held by the public of 20% as the number of securities concerned will normally be sufficient to ensure that there is an open market. If the market capitalisation of the total existing issued share capital is over HK\$4,000 million, the percentage of securities to be in public hands equals to the higher of 20% of the Company's securities or the percentage that would result in the market value of the securities to be in public hands equal to HK\$1,000 million.

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Independent non-executive directors and supervisors

The 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 general body of shareholders will be adequately represented. At least one of the independent non-executive Directors must be ordinarily resident in Hong Kong. The Supervisors must have the character, experience and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on purchase and subscription

The Company may purchase its own Shares on the GEM in accordance with the GEM Listing Rules and the Takeovers Code. Shareholders' approvals must first be obtained prior to carrying out a share repurchase, by way of the special resolutions of shareholders in general meetings and of the holders of Domestic Shares and the holders of H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association. When seeking shareholders' approval to make purchases of its securities on the GEM or when reporting such purchases, the Company should provide an explanatory statement to its shareholders on the proposed or actual purchase of any or all of its equity securities, whether or not listed or traded on the GEM. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Hong Kong Code on Takeovers and Mergers and any similar applicable law of which the Directors are aware, if any. Any specific approval or general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares of the Company.

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions including those relating to the change, removal and resignation of auditors, classification of shareholders and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in this appendix.

Redeemable shares

The Company shall not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected. The Company shall inform the Hong Kong Stock Exchange as soon as possible after any purchase, sale, drawing or redemption by the Company, or any of its subsidiaries, of its securities.

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Pre-emptive rights

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

- (i) authorising, allotting, issuing or granting;
 - (a) shares;
 - (b) securities convertible into shares; or
 - (c) options, warrants or similar rights to subscribe for any shares or such convertible securities; or
- (ii) any major subsidiary of the Company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the Company and its shareholders in such subsidiary.

Notwithstanding in the circumstances mentioned below, the Directors shall obtain the approval by special resolution of the Shareholders in general meeting prior to allotting any voting shares if such allotment would effectively alter the control of the Company.

No such approval shall be required in the case of authorising, allotting or issuing shares if, but only to the extent that, the existing shareholders of the Company have by special resolution in general meeting given approval, either unconditionally or subject to such terms and conditions as may be specified in the resolution, for the Company to authorise, allot or issue either separately or concurrently once in every 12 months (commencing on the date on which the Shareholders pass such resolutions), not more than 20% of each of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or such shares are part of the Company's plan at the time of its establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by CSRC or such other competent State Council Securities regulatory authority.

Changes to articles of association

The Company shall not at any time permit or cause any amendment to be made to the Articles of Association which would cause them to cease to apply with the GEM Listing Rules and in particular, the Mandatory Provisions.

The Company shall inform the Hong Kong Stock Exchange of any decision made in regard to any proposed alternation of the Company's Articles of Association and any proposed by the Company to a PRC competent authority to waive or otherwise.

Documents for inspection

The Company must make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

- (a) a complete duplicate register of shareholders;

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- (b) a report showing the state of the issued share capital of the Company;
- (c) the Company's latest audited financial statements and the Directors', auditors' and Supervisors' reports thereon;
- (d) special resolutions of the Company;
- (e) 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);
- (f) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and
- (g) for shareholders only, copies of the minutes of meetings of shareholders.

Appointment of receiving agents

The Company must appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owing by the Company in respect of H Shares listed on the Hong Kong Stock Exchange to be held, pending payment, in trust for holders of the H Shares.

Statements to be made on acquisition of shares

The Company must ensure that all its listing documents and share certificates include the statements stipulated below and must instruct and cause its share registrar not to register the subscription, purchase or transfer of any of its H Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect:

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

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- (d) The acquirer of Shares 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 stipulated in the Articles of Association.

Compliance with the Company Law, the Special Regulations and the Articles of Association

The Company must observe and comply with the Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and every Director and officer

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

- (a) an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Hong Kong Code on Takeovers and Mergers and the Code on Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) an arbitration clause which provides that whenever any disputes or claims arise from the listing agreement, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between (1) the Company and its Directors or officers and (2) a holder of overseas listed foreign invested shares and a Director or officer of the Company, such disputes or claims shall be resolved through arbitration at either CIETAC in accordance with its arbitration rules or HKIAC in accordance with its Securities Arbitration Rules, at the election of the party seeking arbitration. Where a dispute or claim described above is referred to arbitration, the entire dispute or claim shall be resolved through that arbitration; 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, if they are shareholders, Directors, Supervisors, managers or other officers of the Company or the Company, shall submit to arbitration.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

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. Once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

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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 its own behalf and on behalf of each shareholder. Any reference to arbitration is deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

Contract between the Company and every Supervisor

The Company must enter into a contract in writing with every Supervisor containing at least the following provisions:

- (a) an undertaking by the Supervisor to the Company to observe and comply with the Company Law, the Special Regulations and the Articles of Association and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Supervisor to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) the arbitration clause in terms set out in the preceding paragraph in “Contract between the Company and every Director and officer” above subject to necessary modifications.

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less favourable than those of the Model Code for Securities Transactions by Directors of Listed Companies (set out in appendix 10 of the GEM Listing Rules) issued by the Hong Kong Stock Exchange which applies to directors of companies listed on the Hong Kong Stock Exchange.

Subsequent listing

The Company must apply for the listing of any further securities which are of the same class as securities already listed, prior to their issue, and must not issue such securities unless it has applied for the listing of these securities. The Company must not apply for the listing of any of its foreign invested shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

English translation

All documents furnished by the Company, including accounts, which are in a language other than English or Chinese, must be accomplished by a certified English or Chinese translation.

General

If changes in the PRC law or market practices materially alter the validity or accuracy of any of the bases upon which the above requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make

the listing of the equity securities of a PRC issuer, including the Company, subject to such special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of the listing of the shares of the Company.

III. ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of the Articles of Association which have incorporated the Mandatory Provisions as supplemented by the Opinion Regarding the Supplemental Amendments to the Articles of Association of Companies to be listed in Hong Kong jointly promulgated by CSRC and SCRES. The Articles of Association were adopted by a special resolution of the shareholders of the Company dated 18 October 2003 and approved by shareholders in an extraordinary general meeting. Copies of the full Chinese and English texts of the Articles of Association are available for inspection as mentioned in the paragraph headed “Documents Delivered to the Registrars of Companies and Available for Inspection” in appendix VII to this prospectus.

(1) Directors

(a) Power to allot and issue shares

There are no provisions in the Articles of Association empowering the Directors to allot and issue shares. In order to increase the share capital of the Company, the board of Directors shall prepare a proposal for an allotment of shares in the Company, and submit the same to shareholders in general meeting for their approval by way of a special resolution. The board of Directors shall then submit the proposal for the share allotment to the securities regulatory authorities of the State Council for approval, and, subject to such approval being obtained, make separate arrangements to implement the share allotment.

(b) Power to dispose of the Company's or of any of its subsidiaries assets

The Directors shall not, without the prior approval of shareholders in general meeting, dispose or agree to dispose of any fixed assets of the Company if the aggregate of:

- (i) the expected value of the fixed assets proposed to be disposed of; and
- (ii) the total consideration received by the Company for all disposals of fixed assets which took place within the period of four months immediately preceding the proposed disposal,

exceeds 33% of the value of the Company's fixed assets as shown in the last balance sheet placed before the shareholders in general meeting. For the purposes of this provision, a disposal of fixed assets includes an act involving the transfer of an interest in fixed assets but does not include the provision of security in the form of fixed assets under a guarantee. The validity of a transaction entered into by the Company for the disposal of fixed assets by the Company shall not be affected by a breach of this provision.

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(c) Compensation or payments for loss of office

The Company shall enter into a contract in writing with each Director and Supervisor in respect of remuneration for his services, with the prior sanction of the shareholders in general meeting. The aforesaid remuneration shall include: *inter alia*, monies payable to the Director or Supervisor as compensation for the loss of office or upon retirement from office. A contract of remuneration entered into between the Company and its Director or Supervisor shall make provisions for that Director or Supervisor to receive compensation for loss of office or upon retirement in the event of a takeover of the Company, subject to obtaining the informed approval of shareholders at a general meeting. “Takeover of the Company” refers to any one of the following circumstances:

- (i) an offer made by any person to all shareholders of the Company; or
- (ii) an offer made by any person with a view to the offeror becoming a controlling shareholder (as defined in the Articles of Association) of the Company.

If the relevant Director or Supervisor does not comply with the above provision, any monies received by him shall belong to those persons who have sold their shares by reason of their acceptance of the offer made, and the expenses incurred in distributing the monies pro rata amongst those persons shall be borne by that Director or Supervisor and shall not be deducted out of the monies to be distributed.

(d) Loans to Directors

The Company shall not, directly or indirectly, make a loan or provide any guarantee for a loan to its Director, Supervisor, General Manager or other senior officer, or to a Director, Supervisor, General Manager or other senior officer of its holding company, or to a person connected with the aforementioned officers in the manner described in section (f) below. The prohibitions contained in this section shall not apply in the following circumstances:

- (a) the provision of a loan or a guarantee for a loan by the Company to a subsidiary of the Company;
- (b) the provision by the Company to a Director, Supervisor, General Manager or other senior officer pursuant to an employment contract approved by the shareholders’ general meeting of a loan or a guarantee for a loan or other funds to meet expenditure incurred by him in the interest of the Company or for the purpose of enabling him to perform his duties for the Company; and
- (c) where the ordinary course of business of the Company includes money lending or the provision of guarantees, the Company may make a loan to or provide a guarantee for a loan to a Director, Supervisor, General Manager or other senior officer or persons connected with them (as described in section (f) below), provided that the terms of the loan or guarantee for a loan are on ordinary commercial terms.

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A loan made by the Company in breach of the prohibition described above shall be repaid immediately by the recipient of the loan, regardless of the terms of the loan. A guarantee provided by the Company in breach of the prohibition described above shall not be enforceable against the Company, except in the following circumstances:

- (i) the lender was not aware of the relevant circumstances at the time the loan was advanced to the connected person of a Director, Supervisor, General Manager or other senior officer of the Company or its holding company; and
- (ii) the security provided by the Company has been lawfully sold by the lender to a bona fide purchaser.

For the purpose of the foregoing provisions, a guarantee includes giving an undertaking or providing security in the form of assets belonging to the guarantor to guarantee performance of the obligations of the obligor.

- (e) *Giving of financial assistance to purchase the Company's or any of its subsidiaries shares*

The Company and its subsidiaries shall not at any time and in any manner give any form of financial assistance to a person purchasing or who intends to purchase the shares of the Company. For the purpose of this provision, a purchaser of the Company's shares includes a person who directly or indirectly undertakes any form of obligations as a result of a purchase of the Company's shares. The Company and its subsidiaries shall not at any time and in any manner provide any form of financial assistance for the purpose of reducing or discharging such obligations.

For the purpose of the Articles of Association,

- (i) "financial assistance" includes (but is not limited to) financial assistance provided by way of:
 - (1) gift;
 - (2) guarantee (including cases where the guarantor assumes any obligation(s) or provides security in the form of its assets in order to guarantee the performance of obligations by the obligor), indemnity (other than an indemnity given in respect of the Company's own default), release or waiver;
 - (3) a loan or a contract under which the obligations of the Company have to be fulfilled before the obligations of the other side, or a change of the parties to that loan or contract, or the assignment of any rights under the loan or contract; or
 - (4) financial assistance given in any other form under circumstances whereby the Company is unable to pay its debts or has no net assets, or whereby its net assets may be reduced by a material extent; and
- (ii) any reference to an assumption of obligation(s) includes situations where the obligor enters into a contract or makes any arrangement (whether or not such contract or arrangement is enforceable, and whether or not the

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obligations under such a contract or arrangement are to be borne by that one party alone or together with other party or parties) and situations where a party's financial position is changed, without regard to the means by which that change is brought about.

The following acts shall not be deemed prohibited by the Articles of Association:

- (i) where the financial assistance is provided by the Company in good faith and in the interests of the Company, and the main purpose of that assistance is not to facilitate the acquisition of shares in the Company or that financial assistance is an incidental part of some broader purpose of the Company;
 - (ii) where the Company is lawfully distributing its assets by way of dividend;
 - (iii) the distribution of a dividend by way of an allotment of bonus shares;
 - (iv) a reduction of the Company's registered capital, a repurchase of the Company's shares or a reorganisation of the structure of the Company's share capital etc. in accordance with the Articles of Association;
 - (v) where the Company provides a loan which is within its scope of operations and which is in the ordinary course of its business (provided that the Company's net assets are not reduced as a result of such a loan or where the Company's net assets are reduced, to the extent that those assets are reduced, the financial assistance is provided out of distributable profits of the Company); and
 - (vi) contributions of money by the Company to employees' share schemes (provided that the Company's net assets are not reduced as a result of such contributions or where the Company's net assets are reduced, to the extent that those assets are reduced, the financial assistance is provided out of distributable profits of the Company).
- (f) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

Where a Director, Supervisor, General Manager or other senior officer of the Company has, directly or indirectly, a material interest in a contract, transaction or arrangement entered into or proposed to be entered into by the Company (other than his contract of employment), he shall declare the nature and extent of his interest to the board of Directors at the earliest opportunity, whether or not the matters in question are otherwise subject to the approval of the board of Directors. Unless the Director, Supervisor, General Manager or other senior officer with an interest makes a disclosure to the board of Directors in the manner just described in this paragraph and the matter is approved by the board of Directors at a meeting at which he was not counted in the quorum and did not vote, the Company may rescind that contract transaction or arrangement except as against a bona fide party acting in good faith and without notice of the breach of duty by that Director, Supervisor, General Manager or senior officer. For the purposes of this provision, a Director, Supervisor, General Manager or other senior officer is deemed to have an interest in a contract, transaction or arrangement in which a person connected to him (in the manner described below in this section 1(f)) has an interest.

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If, prior to the date on which the Company first considered the question of entering into the relevant contract, transaction or arrangement, the Director, President, Supervisor, General Manager or other senior officer gives the board of Directors a notice in writing stating that by reason of the matters stated in the notice, he has an interest in a contract, transaction or arrangement proposed to be entered into by the Company, then that Director, Supervisor, General Manager or senior officer shall be deemed to have made a disclosure for the purpose of and in accordance with this section to the extent of the matters disclosed in that notice.

A person is connected with a Director, Supervisor, General Manager or other senior officer (“connected person”) if he/she is:

- (i) the spouse or minor child of that Director, Supervisor, General Manager or other senior officer;
- (ii) a person acting as trustee for that Director, Supervisor, General Manager or other senior officer or as a trustee for any person referred to in (i) above;
- (iii) a person who is a partner of that Director, Supervisor, General Manager or other senior officer or a partner of any person referred to in (i) and (ii) above;
- (iv) a company in which that Director, Supervisor, General Manager or other senior officer, alone or together with any persons referred to in (i), (ii) and (iii) above, or together with other Director(s), Supervisor(s), manager(s) or senior officer(s) have de facto control; or
- (v) a director, supervisor, General Manager or other senior officer of a company referred to in (iv) above.

(g) *Remuneration*

The Company shall enter into a contract in writing with each Director and Supervisor in respect of remuneration for his services, with the prior sanction of the shareholders general meeting. Such remuneration shall include:

- (i) remuneration for his services as Director, Supervisor, General Manager or other senior officer of the Company;
- (ii) remuneration for his services as Director, Supervisor, General Manager or other senior officer of a subsidiary of the Company;
- (iii) remuneration in respect of other services provided in connection with the management of the affairs of the Company or its subsidiaries; and
- (iv) monies payable to the Director or Supervisor as compensation for loss of his office or upon his retirement from office.

Except pursuant to a contract as described above, a Director or Supervisor shall not institute any proceedings against the Company for any benefit due to him in respect of the above matters.

(h) Appointment, removal and retirement

All Directors shall be elected by the shareholders' general meeting and shall serve a term of three years from the date of their respective elections. Upon the expiry of his term of office, a Director may be re-elected to serve consecutive terms. Notice of an intention to nominate a person for election as a Director and a notice in writing by that person of his acceptance of such nomination shall be given to the Company at least seven days before the date on which the general meeting is convened. The board of Directors shall consist of eleven Directors, comprising, three executive directors and five non-executive directors and three independent non-executive directors. The chairman and vice-chairmen shall be appointed and removed by a majority of the Directors. The chairman and vice-chairmen shall serve a term of three years from the respective dates of their elections and may be re-elected to serve consecutive terms upon the expiry of the terms of their offices.

Subject to compliance with the relevant laws and administrative regulations, a shareholders' general meeting may by way of a special resolution remove any Director before the expiry of the term of his office (but without prejudice to any claim for compensation pursuant to any contract). A director is not required to hold shares in the Company. There is no stipulation that a Director must retire at a certain age.

(i) Borrowing powers

The board of Directors has the function and powers to formulate proposals for an increase or reduction of the Company's registered capital and the issue of debt securities. In addition, subject to compliance with the requirements of the relevant laws, regulations, the Articles of Association and any applicable rules, the board of Directors may exercise the Company's powers to raise capital and to borrow, to make decisions regarding the mortgaging, letting, sub-contracting or transfer of the Company's major assets, and to delegate the aforementioned powers to the General Manager within certain limits.

(j) Qualification shares

There is no requirement for Directors to hold qualification shares.

(2) Alterations to constitutional documents

The Company may amend any provision contained in the Articles of Association in accordance with the provisions of the relevant laws, administrative regulations and the Articles of Association.

Any amendment to the Articles of Association which involves amending the Mandatory Provisions shall become effective only after the approval of the companies supervisory authorities of the State Council and the approval of the CSRC are obtained; any amendment involving a change in the particulars of the Company as they appear on the register of the companies registration authorities shall be registered with the said authorities in accordance with the law.

(3) Variation of rights of existing shares or classes of shares

If the Company proposes to vary or abrogate the rights of a class of shareholders, the variation or abrogation must be approved by a special resolution of the shareholders' in general meeting and by the affected class of shareholders at a separate meeting convened and conducted in accordance with the Articles of Association before it may proceed.

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The following events shall be deemed to be a variation or abrogation of the rights of a class of shareholders:

- (i) an increase or decrease in the number of shares in that class, or an increase or decrease in the number of shares of a class which have voting rights, distribution rights or other rights which are equal or superior to the shares of that class;
- (ii) an exchange of all or part of the shares of that class for the shares of a different class or the exchange of all or part of the shares of a different class for the shares of that class or the grant of a right or rights to such conversion;
- (iii) a cancellation or reduction of the right to accrued dividends or the right to cumulative dividends attached to that class of shares;
- (iv) a reduction or cancellation of the preferential rights of that class of shares to dividends or a distribution of surplus assets in the event of the winding up or liquidation of the Company;
- (v) an increase, cancellation or reduction of any conversion right, option, voting right, transfer right, pre-emptive right or right to acquire securities of the Company attached to that class of shares;
- (vi) a cancellation or reduction of any right attached to that class of shares to receive payment from the Company in specified currencies;
- (vii) a creation of a new class of shares which have voting rights, distribution rights or other rights equal or superior to that class of shares;
- (viii) a creation or increase of restrictions on the right of transfer or ownership attached to that class of shares;
- (ix) an issue of rights to subscribe for, or convert into, shares of that class or other class(es);
- (x) an increase in the right or privileges of another class or other classes of shares;
- (xi) a restructuring of the Company which will result in (a) class(es) of shareholders bearing (a) disproportionate amount(s) of obligations to other class(es) in the course of such restructuring; and
- (xii) a variation or abrogation of the provisions in the Articles of Association relating to special procedures for voting by holders of different classes of shares.

(4) Ordinary and special resolutions – a majority required

Resolutions of shareholders passed at general meetings shall be divided into ordinary resolutions and special resolutions. An ordinary resolution shall be passed by more than one half of the votes represented by the shareholders (including proxies), having the right to vote and present at the shareholders general meeting, being exercised in favour of the resolution. A special resolution shall be passed by more than two thirds of the votes represented by the shareholders (including proxies), having the right to vote and present at the shareholders general meeting, being exercised in favour of the resolution.

(5) Voting rights (generally, on a poll and right to demand a poll)

An ordinary shareholder of the Company has the right to attend and vote, or to appoint a proxy or proxies to attend and vote on his behalf, at shareholders' general meetings. Shareholders (including proxies) shall exercise such voting rights at shareholders' general meeting as they may have in accordance with the number of shares they hold which carry the right to vote with each share carrying one vote. At any shareholders' meeting, voting shall be by a show of hands unless a poll (before or after a vote by a show of hands) is demanded by the following persons:

- (a) the chairman of the meeting;
- (b) at least two shareholders, present in person or by proxy, who have the right to vote; or
- (c) one or more shareholders or his/their proxy who, alone or together, represent 10% or more of the shareholding represented at the meeting which carry the right to vote at that meeting.

Unless a poll is demanded, a declaration by the chairman based on the result of the show of hands as to whether a resolution has been passed and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the result of that vote without further proof of the number of votes recorded or the percentage of votes in favour of and against such resolution at the meeting. The demand for a poll may be withdrawn by the person(s) who demanded it. A poll demanded on a vote regarding the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken immediately. A poll demanded on any other matters shall be taken at such time as the chairman of the meeting decides, and the meeting may proceed to other matters. The results of a poll shall be deemed to be a resolution of the meeting at which the poll was demanded on a poll taken at a meeting, a shareholder (including his proxy) entitled to two or more votes need not cast all his votes in the same way. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to an additional vote.

(6) Requirements for general meetings

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the board of Directors. Annual general meetings shall be held once every year within six months after the end of each financial year.

(7) Accounts and audit

- (a) *Financial and accounting system*

The Company shall formulate its financial accounting system in accordance with the relevant laws, administrative regulations and the principles relating to PRC accounting standards formulated by the financial supervisory authorities of the State Council. The Company shall prepare a financial report at the end of every financial year and shall have it audited in accordance with law. The board of Directors shall place before the shareholders at every annual general meeting such financial reports as required by the relevant laws, administrative regulations or prescribed documents required by regional governments and supervisory authorities to be prepared by the Company. The financial reports of the Company shall be made available at the Company 20 days prior to the annual general meeting of the Company, for inspection by shareholders. Every shareholder of the Company shall have the right to obtain a copy of the financial reports referred to above. A copy of the above financial reports

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shall, at least 21 days before the date of the annual general meeting, be sent by prepaid post by the Company to every holder of overseas listed foreign shares at his/her address as entered in the register of members.

The financial statements of the Company shall, in addition to complying with the PRC accounting standards, rules and regulations, be prepared in accordance with either international accounting standards or overseas accounting standards of the place at which foreign shares of the Company are listed. If there are material differences between the financial statements prepared in accordance with the aforesaid accounting standards, then the notes to those financial statements shall state and explain such differences. For the purposes of distributing the Company's profits after tax in a financial year, the Company's profits after tax shall be deemed to be the lesser of the amounts stated in the different sets of financial statements. Any interim results or financial information announced or disclosed by the Company shall be prepared in accordance with PRC accounting standards, rules and regulations as well as in accordance with either international accounting standards or overseas accounting standards of the place where the foreign shares of the Company are listed. The Company shall prepare an annual report for each financial year which sets out the information required by the GEM Listing Rules. The information shall be announced not more than 90 days after the date upon which the relevant period ended.

The Company shall prepare financial reports in respect of the first 3 and 9 months periods of each financial year of the Company containing at least the information required by the GEM Listing Rules and publish the same not later than 45 days after the end of such period.

The Company shall also prepare an interim report in respect of the first 6 months period in each financial year of the Company containing at least the information required by the GEM Listing Rules and publish the same not later than 45 days after the end of such period.

(b) Appointment and removal of auditors

The appointment, dismissal or termination of employment of an auditor shall be determined at shareholders' general meetings and reported to the securities regulatory authorities of the State Council. The first auditor of the Company may be appointed at the Company's inaugural meeting and the auditor so appointed shall hold office until the conclusion of the first annual general meeting. The term of appointment of an audit firm appointed by the Company shall commence from the conclusion of the annual general meeting at which the appointment took place until the conclusion of the next annual general meeting of the Company. The board of Directors may appoint an audit firm to fill any casual vacancy in the office of auditors, provided that if another audit firm is acting for the Company during any such vacancy, that audit firm may continue to act. Shareholders in general meeting may by ordinary resolution remove an auditor before his term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditor. Any right of the auditor to claim compensation against the Company for the termination of this office shall not be affected by such termination. Remuneration of the auditor and the manner by which it is determined shall be decided by shareholders in general meeting. Where the auditor is appointed by the board of Directors, his remuneration shall be determined by the board of Directors. In the event of the removal, dismissal or termination of employment of an auditor, the auditor who is to be removed or dismissed or whose employment is to be terminated shall be given notice in advance. Such auditor shall have the right to present his views at the shareholders general meeting in accordance with the procedures set out in the Articles of Association.

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(c) *Rights of auditors*

The auditor(s) appointed by the Company shall have the right to:

- (i) inspect at any time the books, records and certificates of the Company, and to require the Directors, manager or other senior officers to provide any necessary information and explanations;
- (ii) require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanations as are necessary for the auditor(s) to perform his duties; and
- (iii) attend shareholders' general meetings, obtain all notices of, and other information relating to, such meetings which shareholders are entitled to receive, and to present its views at any shareholders' general meetings on matters that are of his concern as auditor of the Company.

For the purpose of the Articles of Association, any reference to "a firm of accountants" has the same meaning as a reference to "auditors".

(8) Notice of meetings and business to be conducted thereat

The shareholders' general meeting is the organ of power of the Company and its functions and powers shall be exercised in accordance with the law. When the Company convenes a shareholder's general meeting, written notice shall be given not less than 45 days before the date of the meeting to all shareholders registered in the register of shareholders. Such notice shall:

- (i) be given in writing;
- (ii) specify the place, the date and the time of the meeting;
- (iii) state the matters to be considered at the meeting;
- (iv) provide such information and explanation as necessary for the shareholders to make an informed decision on the matters proposed to be considered. Without limitation the generality of the foregoing principle, such information and explanation shall include, where the Company proposes to merge with another, to repurchase its shares, to reorganise its share capital, or to restructure in any other way, the details of the terms of, and the contract (if any) for, the proposed transaction, and the reason for and the effect of such proposal must be properly explained;
- (v) disclose the nature and extent of the material interests, if any, of any Director, President, Supervisor, General Manager or other senior officer in a matter to be considered at the general meeting, and the effect of such matter, if any, on the Director, Supervisor, General Manager or other senior officer in his capacity as shareholder in so far as it is different from the effect on other shareholders of the same class;
- (vi) contain the text of any special resolution proposed to be passed at the general meeting;

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- (vii) contain, in conspicuous wording, a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy: so appointed need not, be a shareholder; and
- (viii) specify the time and place for lodging the proxy form(s) for the general meeting.

Notices of shareholders' general meetings shall be served on all shareholders (whether or not they are entitled to vote) by personal delivery or pre-paid post at their addresses registered in the register of shareholders. In respect of holders of Domestic Shares, notices of shareholders general meetings may also be given by way of a public announcement. The aforesaid public announcement shall be published, within 45 to 50 days prior to the convening of the general meeting, in one or more newspapers specified by the securities regulatory authorities authorised by the State Council. Once the public announcement is made, all holders of Domestic Shares shall be deemed to have received notice of the relevant shareholders general meeting. An accidental omission to give notice of a general meeting to any person entitled to receive notice or a failure by such person(s) to receive such notice shall not invalidate that general meeting or any resolution passed at that meeting.

The Company shall give a notice so that those foreign listed shareholders whose registered address is outside Hong Kong have sufficient time to exercise their rights or act in accordance with the terms of the notice.

The shareholders' general meeting shall have the following functions and powers:

- (i) to determine the operational policies and investment plans of the Company;
- (ii) to appoint and replace directors and to decide matters concerning directors' remuneration;
- (iii) to appoint and replace a shareholders representative(s) to sit on the supervisory committee and to decide on matters concerning Supervisors remuneration;
- (iv) to consider and approve reports of the board of Directors;
- (v) to consider and approve reports of the supervisory committee;
- (vi) to consider and approve the annual financial budgets and final accounts of the Company;
- (vii) to consider and approve proposals for the distribution of the Company's profits and plans from making up any losses of the Company;
- (viii) to consider and decide on proposals to increase or reduce the registered capital of the Company;
- (ix) to consider and decide matters concerning the merger, demerger, dissolution and liquidation of the Company;
- (x) to consider and decide on the issue of debt securities by the Company;
- (xi) to consider and decide the appointment, dismissal or renewal of appointment of a firm of accountants;
- (xii) to make amendments to the Articles of Association;

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- (xiii) to consider any resolution(s) proposed by shareholders representing 5% or more of the shares carrying voting rights, and to decide such proposals; and
- (xiv) to consider and decide any other matters required by law, administrative regulations or the Articles of Association to be dealt with in a shareholders' general meeting.

The following matters shall be resolved by way of ordinary resolution of the shareholders' general meeting:

- (i) reports of the board of Directors and the board of Supervisors;
- (ii) profit distribution proposals and proposals for making up losses formulated by the Board;
- (iii) appointment and removal of members of the board of Directors and the board of Supervisors and their remuneration and methods of payment;
- (iv) the Company's financial budgets, audited accounts, balance sheet, profit and loss account and other financial statements; and
- (v) subject to the laws, regulations and provisions of the Articles, any other matters to be adopted by a special resolution.

The Articles of Association provide that the following matters may be approved by way of a special resolution of the shareholders' general meeting:

- (i) an increase or reduction of the Company's capital and the issue of any class of shares, warrants or other similar securities;
- (ii) an issue of debt securities of the Company;
- (iii) the demerger, merger, dissolution and liquidation of the Company;
- (iv) any amendment to the Articles of Association; and
- (v) any other matters which the shareholders' general meeting has resolved (by way of an ordinary resolution) as having a potentially material effect on the Company, which should be approved by way of a special resolution.

(9) Transfer of shares

Unless otherwise prescribed by law and/or administrative regulations, shares of the Company are freely transferable without any liens. All fully paid up overseas listed foreign shares listed in Hong Kong shall be freely transferable in accordance with the Articles of Association, subject to the right of the board of Directors to refuse recognition of any transfer document, without providing any reason for such refusal, unless and until the following conditions are satisfied:

- (i) payment of a fee of HK\$2.5, or such larger amount as may from time to time be approved by the Hong Kong Stock Exchange, to the Company for the registration of any transfer document(s) or other document(s) relating to or affecting the ownership of the shares in question or the change of ownership of those shares;

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- (ii) the transfer document relates only to overseas listed foreign shares listed in Hong Kong;
- (iii) payment in full of any stamp duty due on the transfer document;
- (iv) production of the relevant share certificates and any other evidence reasonably required by the board of Directors to prove the transferor's right to make the transfer;
- (v) if the shares are to be transferred to joint holders, the number of joint holders does not exceed four; and
- (vi) the relevant shares of the Company are free from all liens.

Any alteration or rectification of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

Changes in the shareholders' register due to the transfer of shares should not be made within 30 days prior to the shareholders' general meeting or less than 5 days before the record date for the Company's distribution of dividends.

(10) Power of the Company to purchase its own shares

Subject to the approval of the relevant PRC regulatory authorities and to the provisions of the Articles of Association, the Company may repurchase its issued shares in the following circumstances:

- (i) to cancel its shares for the purpose of reducing its share capital;
- (ii) to merge with another company which holds the shares of the Company; or
- (iii) under any other circumstances permitted by law and administrative regulations.

Upon the approval of the relevant PRC regulatory authorities, the Company may repurchase its own shares by one of the following methods:

- (i) by way of a general offer to all shareholders in proportion to their respective shareholdings;
- (ii) through open trading on a stock exchange; or
- (iii) by entering into an independent agreement for the repurchase of the Company's shares outside a stock exchange ("off-market agreement").

Where the Company repurchases its own shares by an off-market agreement, it must first obtain the prior approval of the shareholders in general meeting in accordance with the Articles of Association. The Company may rescind, vary or waive its rights under any such contract entered into if the prior approval of the shareholders in general meeting is obtained. A contract to repurchase shares includes, but is not limited to, an agreement to assume an obligation to repurchase or an agreement to acquire rights to repurchase shares of the

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Company. The Company shall not assign a contract to repurchase its shares nor any of its rights under such a contract. Unless the Company is in liquidation, it shall repurchase its issued shares in accordance with the following provisions:

- (i) where the Company repurchases its shares at par value, payment shall be made out of the available balance of its distributable profits and/or out of the proceeds from any issue of new shares made for the purpose of repurchasing these shares;
- (ii) where the Company repurchases its shares at a premium, payment up to the par value of those shares may be made out of the available balance of the distributable profits of the Company and/or out of the proceeds from any issue of new shares made for the purpose of repurchasing these shares. Payment of the portion in excess of the par value of those shares shall be made as follows:
 - (1) if the shares being repurchased were issued at their par value, payment shall be made out of the available balance of the distributable profits of the Company;
 - (2) if the shares being repurchased were issued at a premium, payment shall be made out of the available balance of the distributable profits of the Company and/or out of the proceeds from any issue of new shares made for the purpose of repurchasing those shares, provided that the amount paid out of the said proceeds does not exceed the aggregate amount of the premiums received by the Company on the issue of the shares being repurchased nor the current amount of the Company's capital reserve fund account (including the aggregate of premiums received on the new shares issued at the time of the repurchase);
- (iii) any payment made by the Company for the following purposes shall be paid out of the Company's distributable profits:
 - (1) to acquire the right to repurchase its own shares;
 - (2) to vary a contract to repurchase its own shares; or
 - (3) to secure the release of any of its obligations under a contract to repurchase its own shares.

Shares repurchased by the Company shall be cancelled within the time limit prescribed by law and the Company's registered capital shall be reduced by the aggregate par value of those shares. Following the deduction of the aggregate par value of cancelled shares from the registered capital of the Company in accordance with the relevant regulations, the amount of distributable profits used for payment of the par value of such shares shall be charged to the capital reserve fund account of the Company.

(11) Power of any subsidiary of the Company to own shares in its parent

There are no provisions in the Articles of Association relating to ownership of shares in the Company by a subsidiary.

(12) Dividends and other methods of distribution

The Company may distribute dividends in the form of:

- (i) cash; and/or
- (ii) shares.

Cash dividends and other distributions of the Domestic Shares shall be paid in RMB. Cash dividends and other distributions of H Shares shall be declared in RMB and paid in Hong Kong dollars in accordance with the PRC rules and regulations governing the control of foreign exchanges. The Company shall appoint (a) receiving agent(s) on behalf of holders of overseas listed foreign shares. The receiving agents shall collect dividends and other monies payable to holders of overseas listed foreign shares on their behalf in respect of the overseas listed foreign shares held by them. The receiving agent(s) appointed by the Company shall meet the requirements of the laws of the place where the overseas listed foreign shares are listed or other regulations of the relevant securities exchange. A receiving agent appointed by the Company on behalf of the holders of overseas listed foreign shares listed in Hong Kong shall be a trust corporation registered under the Trustee Ordinance of Hong Kong.

(13) Proxies

A shareholder may attend and vote at or appoint a proxy to attend and vote on his behalf at a shareholders' general meeting. If a shareholder is a legal person, its legal representative or any person authorised by its board of Directors or other governing body to act as its representative, may attend the shareholders' general meeting. Any shareholder entitled to attend and vote at a shareholders general meeting shall be entitled to appoint one or more persons (whether or not a shareholder) as his proxy or proxies to attend and vote instead of him. The proxy of a shareholder may exercise the following rights in accordance with the authorisation of that shareholder:

- (i) that shareholder's right to speak at the meeting;
- (ii) the right to demand, whether on his own or with others, a poll; and
- (iii) the right to vote on a show of hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

A shareholder shall appoint a proxy in the form of a written instrument, signed by the appointing shareholder(s) or the agent of the appointing shareholder(s) duly authorised in writing. If the appointing shareholder is a legal person, the legal person's seal or the signature(s) of its director(s) or representative(s) duly authorised in writing is required. The instrument appointing a proxy shall be deposited at the domicile of the Company, or at such other place as prescribed in the notice convening the meeting, either 24 hours before the meeting in question or 24 hours before the time specified for conducting the poll. If the instrument of appointment is signed by a person (other than the appointing shareholder) who is authorised by the appointing shareholder, the power of attorney or other document empowering that person to sign the instrument on behalf of the appointing shareholder must be notarised. The notarised document(s) shall then be deposited, together with the instrument appointing the proxy, at the domicile of the Company or such other place as prescribed in the notice convening the meeting.

The format of any form issued to shareholders by the board of Directors for the purpose of appointing a proxy shall enable a shareholder, according to his free choice, to instruct his proxy to vote in favour of or against each resolution proposed at the meeting.

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Such a form shall contain a statement that in the absence of instructions from the appointing shareholder(s), the proxy may vote as he thinks fit. If the shareholder of overseas listed foreign shares in the Company is a recognised clearing house as defined in the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong), it may authorise any appropriate person(s) as it thinks fit to act as its representative(s) at any shareholders general meeting or any class meeting. If more than one person is so authorised, the instrument of authorisation must clearly state the class(es) and number of shares in respect of which each such person is so authorised. The aforementioned authorised person is entitled to exercise rights on behalf of the recognised clearing house (or its proxy(ies)), as if such person is an individual shareholder of the Company. The vote of a proxy at a general meeting which is in, accordance with the terms of the instrument of his appointment shall be valid notwithstanding the appointing shareholder's death, loss of capacity, revocation of his appointment or the authority under which the instrument of his appointment was executed, or a transfer of the relevant shares, provided that the Company did not receive notice in writing of such event before the commencement of the relevant meeting.

(14) Calls on shares and forfeiture of shares

The Articles of Association do not contain any provisions relating to calls on shares and forfeiture of shares.

(15) Inspection of register of members

The Company shall maintain a register of shareholders as a record of the following matters:

- (i) the name (title), address (residential) and occupation/nature of occupation of each shareholder;
- (ii) the class(es) and number of shares of each class held by each shareholder;
- (iii) the amount(s) paid up or payable on the shares held by each shareholder;
- (iv) the serial numbers of the shares held by each shareholder;
- (v) the date on which each person registers to become a shareholder; and
- (vi) the date on which a person ceases to be a shareholder.

The Company shall keep a complete register of shareholders which shall comprise the following parts:

- (i) register(s) maintained at the Company's domicile which shall be the register of all shareholders other than those registered in accordance with sub-paragraphs (ii) and (iii) below;
- (ii) register(s) of holders of overseas listed foreign shares maintained at the place(s) where the stock exchange(s) on which such shares are listed is/are located; and
- (iii) register(s) of shareholders maintained at such other place(s) as the board of Directors may deem necessary for the purpose of listing the Company's shares.

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Ordinary shareholders of the Company shall enjoy, *inter alia*, the right to receive relevant information in accordance with the Articles of Association including:

- (i) to obtain a copy of the Articles of Association upon payment of the cost thereof;
- (ii) to inspect and obtain a copy of, upon payment of a reasonable fee:
 - (1) all parts of the register of shareholders;
 - (2) the personal particulars of each of the Directors, Supervisors, General Manager and other senior officers, including:
 - (a) his present and former name(s) and alias(es);
 - (b) his principal address (residential);
 - (c) his nationality;
 - (d) his main occupation and all his other occupations and positions; and
 - (e) his identification document and its number;
- (iii) the status of the Company's share capital;
- (iv) a report showing the aggregate par value, the number and the maximum and minimum prices paid by the Company in respect of each class of the shares repurchased by the Company since the previous financial year, and all expenses paid by the Company for this purpose; and
- (v) minutes of shareholders' general meetings.

(16) Quorum for meetings and separate class meetings

Shareholders who intend to attend a shareholders' general meeting shall deposit at the Company written replies confirming their intention to attend at least 20 days prior to the date of the meeting. The Company shall, according to the written replies received 20 days prior to the general meeting, calculate the number of shares carrying rights to vote represented by the shareholders proposing to attend the meeting. If the number of shares carrying rights to vote represented by shareholders proposing to attend the meeting is more than half of the total number of shares in the Company which carry rights to vote, the Company may proceed to hold the shareholders general meeting; if that number is not reached, the Company shall within 5 days notify the shareholders again of the matters proposed to be discussed at the meeting, the date and venue of the meeting by way of public announcement. After such public announcement is made, the Company may proceed to hold the shareholders general meeting. The above procedure applies, *mutatis mutandis*, to shareholders of each class of shares in respect of separate class meetings.

(17) Rights of the minorities in relation to fraud or oppression thereof

Apart from the obligations imposed by law, administrative regulations or the listing rules of the stock exchanges on which shares of the Company are listed, a controlling shareholder when exercising his rights as a shareholder shall not, by virtue of the exercise

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of his voting rights, cause a decision to be made such as to prejudice the interests of the general body of shareholders or a group of shareholders in connection with the following matters:

- (i) to release a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve an expropriation in any form by a Director or Supervisor (for his own benefit or for the benefit of another person) of the Company's assets including, without limitation, opportunities beneficial to the Company; or
- (iii) to approve an expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the personal rights of other shareholders, including without limitation, rights to distributions and voting rights, but not including a restructuring of the Company submitted to and approved by, shareholders in general meeting in accordance with the Articles of Association.

For these purposes, a controlling shareholder means a person who satisfies any one of the following conditions:

- (i) he, when acting alone or together with others, has the power to elect more than half of the directors;
- (ii) he, when acting alone or together with others, has the power to exercise 30%, or more of the voting rights in the Company or to control the exercise of 30% or more of the voting rights in the Company;
- (iii) he, when acting alone or together with others, holds 30% or more of the issued shares of the Company; or
- (iv) he, when acting alone or together with others, has de facto control of the Company.

(18) Procedures on liquidation

The Company shall be dissolved and liquidated in accordance with law under any one of the following circumstances:

- (i) where the shareholders general meeting resolves to dissolve the Company;
- (ii) where dissolution is necessary by reason of the merger or demerger of the Company;
- (iii) where the Company is declared insolvent in accordance with law because it is unable to pay its debts as they fall due; and
- (iv) where, in accordance with law, the Company is ordered to close down by reason of its contravention of law or administrative regulations.

Where the board of Directors decides to liquidate the Company (for reasons other than the insolvency of the Company), the board of Directors shall, in the notice convening a shareholders' general meeting for this purpose, state that, after having made full investigation into the affairs of the Company, it is of the opinion that the Company will be able to pay its debts in full within 12 months from the date of commencement of the Company's liquidation. Upon the passing of a resolution by the shareholders in general meeting to liquidate the

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Company, the functions and powers of the board of Directors shall cease immediately. If the Company is dissolved and liquidated pursuant to an event as set out in paragraphs (i), (iii) or (iv) above of this section 18, a liquidation committee of the Company shall be established in accordance with the Articles of Association. The membership of the liquidation committee and the manner by which it is established varies according to the circumstances which lead to the dissolution and liquidation.

The liquidation committee shall notify creditors within 10 days of its establishment and shall make at least 3 public announcements in newspapers within 60 days of its establishment. The liquidation committee shall carry out registration of creditors rights. After the liquidation committee has administered the assets of the Company and prepared a balance sheet and an inventory of the Company's assets, it shall draw up a proposal for the liquidation and submit the same to the shareholders' general meeting or the relevant supervisory authorities for approval.

The assets of the Company shall be distributed in the following order:

- (1) liquidation fees and expenses;
- (2) wages and labour insurance premiums of employees;
- (3) outstanding taxes due; and
- (4) debts of the Company.

Any surplus assets remaining after the above payments have been made in full shall be distributed to the shareholders according to the class(es) and proportion of shares they hold. Upon completion of the liquidation of the Company, the liquidation committee shall prepare a liquidation report and accounts of its income and expenditure and financial reports for the period of the liquidation. Once these accounts and reports are verified by a registered accountant of the PRC, they shall be submitted to the shareholders general meeting or the relevant supervisory authorities for approval. The liquidation committee shall, within 30 days of the date of approval by the shareholders' general meeting or the relevant supervisory authorities, submit the accounts and reports mentioned above to the companies registration authorities, apply for cancellation of the Company's registration and announce the cessation of the Company.

In the event of a dissolution and liquidation of the Company due to its insolvency, the liquidation committee shall be established by the People's Court in accordance with the law and the Articles of Association. If the Company is being liquidated as a result of its dissolution and, subsequent to the administration of the Company's assets and preparation of the balance sheet and inventory of assets, the liquidation committee discovers that the Company's assets are insufficient to repay its debts in full it shall immediately apply to the People's Court for a declaration of insolvency. Once the People's Court has declared the Company to be insolvent, the liquidation committee shall hand all matters relating to the liquidation over to the People's Court.

(19) Other provisions*(a) General provisions and limited liability*

The Company is a joint stock limited company of perpetual duration and was established by way of private subscription. It is an independent enterprise legal person, governed and protected by laws, regulations and other relevant government provisions of the PRC. The capital of the Company is divided into shares of equal par value. The

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liability of a shareholder to the Company is limited by the shares held by him. The Company shall be liable for its debts up to the extent of all its assets. Upon the approval of the companies supervisory authorities authorised by the State Council, the Company may, in accordance with its operation and management needs, operate as a holding company in accordance with paragraph 2 of Article 12 of the PRC Company Law. The Company may invest in other limited liability companies and joint stock limited companies and accept liability in respect of such companies up to the amount of its investment in such companies. The Company shall not become a partner with unlimited liability of any other economic organisations.

(b) The Articles of Association

The Articles of Association constitute a legally binding document governing the constitution and activities of the Company, the rights and obligations between the Company and its shareholders and the shareholders inter se. The Articles of Association are binding upon the Company and its shareholders, Directors, Supervisors, General Manager and other senior officers. Such persons may bring claims on matters relating to affairs of the Company in accordance with the Articles of Association. Shareholders may bring actions against the Company in accordance with the Articles of Association; the Company may bring actions against shareholders in accordance with the Articles of Association; shareholders may bring actions against other shareholders in accordance with the Articles of Association, and shareholders may bring actions against the Directors, Supervisors, the President, and other senior officers of the Company in accordance with the Articles of Association. For the purpose of this paragraph, actions include proceedings commenced in court and arbitration proceedings commenced in arbitration tribunals.

(c) Shares and registered capital

The Company shall at all times have ordinary shares. The Company may, in accordance with its needs and upon obtaining approval by the companies supervisory authorities authorised by the State Council, create other types of shares. Shares issued by the Company shall have a par value. Each share shall have a par value of RMB0.10. The Company may issue shares to either or both domestic investors and foreign investors upon obtaining approval from the securities regulatory authorities of the State Council. For the purpose of the preceding paragraph, “foreign investors” means investors from outside the PRC and the territories of Hong Kong, Macao and Taiwan who subscribe for shares issued by the Company; “domestic investors” means investors who subscribe for shares issued by the Company from within the PRC other than from the aforesaid territories.

The shares issued by the Company to domestic investors which are subscribed for in RMB are called “Domestic Shares”. The shares issued by the Company to foreign investors which are subscribed for in foreign currencies are called “foreign shares”. Domestic Shares which are listed within the PRC are called “domestic listed shares”. Foreign shares which are listed outside the PRC are called “overseas listed foreign shares”. Pursuant to the approval of the companies supervisory authorities authorised by the State Council, the total number of ordinary shares which may be issued by the Company following its incorporation is 50,000,000 Domestic Shares of RMB1.00 each, of which Professor Xiao holds 18,000,000 Domestic Shares, Xian Jiefang Group holds 10,000,000 Domestic Shares, XITIC holds 7,400,000 Domestic Shares, BJ Holdings holds 6,000,000 Domestic Shares, Shaanxi Silk holds 5,000,000 Domestic Shares, Xian Zhengheng Investment holds 1,500,000 Domestic Shares, Mr. Wu holds 1,000,000 Domestic Shares, Mr. Chen holds 600,000 Domestic Shares and Shaanxi Mant holds 500,000 Domestic Shares, respectively accounting to 36%, 20%,

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14.8%, 12%, 10%, 3%, 2%, 1.2% and 1% of the total share capital. Subject to the approval of the securities regulatory authorities of the State Council, the Company can further issue a minimum of 161,764,706 overseas listed foreign shares and up to a maximum of 186,029,412 overseas listed foreign shares.

Assuming the Over-allocation Option is not exercised, the Company's share capital consists of 647,058,824 Shares, including 485,294,118 Domestic Shares, representing approximately 75.0% of the registered capital of the Company and 161,764,706 overseas listed foreign shares, representing approximately 25.0% of the registered capital of the Company.

Assuming the Over-allocation Option is fully exercised, the Company's share capital shall consist of 669,117,648 Shares, including 483,088,236 Domestic Shares, representing approximately 72% of the registered capital of the Company and 186,029,412 overseas listed foreign shares, representing approximately 28% of the registered capital of the Company.

The board of Directors may make separate arrangements to implement the Company's plan to issue overseas listed foreign shares and Domestic Shares, subject to the prior approval of such plan by the securities regulatory authorities of the State Council. The Company's plan for separate issues of overseas listed foreign shares and Domestic Shares referred to in the Articles of Association may be implemented separately within 15 months of the date of approval by the CSRC. The overseas listed foreign shares and Domestic Shares, referred to in the Company's aforementioned share issue plan, and shall be fully subscribed in one payment. Where there are special circumstances which render it impossible for such shares to be fully subscribed in one payment, separate issues of the shares may be made subject to the approval. Upon completion of the issue of shares as described above, the registered capital of the Company will be RMB64,705,882.40 (or RMB66,911,764.80 assuming the 24,264,706 Over-allocation shares are issued). The Company may in accordance with the provisions of the Articles of Association increase its capital according to its business and development requirements.

The following methods may be used for increasing the capital of the Company:

- (1) by offering new shares to general investors;
- (2) by placing new shares with existing shareholders;
- (3) by a bonus issue of shares to existing shareholders; or
- (4) by any other methods permitted under PRC laws and administrative regulations.

In increasing the capital of the Company through a new issue of shares, the Company shall, after obtaining the necessary approvals in accordance with the Articles of Association, implement such increase in accordance with the procedures prescribed by the relevant PRC laws and administrative regulations.

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(d) The Board of Directors

The board of Directors is accountable to the shareholders' general meeting and shall have the following functions and powers:

- (i) to convene shareholders' general meetings and to report on its work at shareholders' general meetings;
- (ii) to implement resolutions passed at shareholders' general meetings;
- (iii) to decide the Company's operational plans and investment proposals;
- (iv) to determine the Company's annual financial budgets and final accounts;
- (v) to formulate proposals for distributing the profits of the Company and proposals to make up any losses of the Company;
- (vi) to formulate proposals for an increase or reduction of the Company's registered capital and for the issue of debt securities of the Company;
- (vii) to prepare plans for the demerger, merger or dissolution of the Company;
- (viii) to dispose of the Company's assets within certain limits;
- (ix) to decide matters concerning the internal management structure of the Company (including its establishment);
- (x) to appoint or dismiss the manager(s) of the Company and, upon the nomination of the General Manager, to appoint and dismiss Deputy General Manager(s) and financial controller(s) of the Company and to decide matters concerning the remuneration of such officers;
- (xi) to determine the basic management system of the Company;
- (xii) to formulate proposals for amendments to the Articles of Association;
- (xiii) subject to compliance with the requirements of the relevant laws, regulations, the Articles of Association and any relevant rules, to exercise the Company's power to raise capital and to borrow, and to decide on the mortgaging, letting, subcontracting or transfer of the Company's major assets and to delegate such powers to the General Manager for his exercise within certain limits;
- (xiv) apart from those matters required to be determined by the shareholders' general meeting in accordance with the Company Law and the Articles of Association, to determine other material matters and executive affairs of the Company as well as to execute other important agreements;
- (xv) any other functions and powers conferred by shareholders' general meetings and the Articles of Association.

Resolutions passed by the board of Directors in respect of items (vi), (vii), and (xii) above shall be passed by two thirds or more of the board of Directors voting in favour thereof. In respect of other matters, resolutions shall be passed by more than one half of the board of Directors voting in favour thereof. A meeting of the board of

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Directors shall only be held if more than one half of the Directors are present. Each Director shall have one vote. In the case of an equality of votes, the chairman shall have an additional vote. Board meetings shall be held at least twice every year and shall be convened by the chairman in accordance with the procedures set out in the Articles of Association. In the event of an emergency, extraordinary board meetings may be convened upon a request by one-third or more Directors or the General Manager in accordance with the procedures set out in the Articles of Association.

(e) Company secretary

The Company shall appoint a company secretary who shall be a senior officer of the Company. The Directors shall appoint a natural person who has the requisite professional knowledge and experience. The main responsibilities of a company secretary are:

- (i) to ensure that the constitutional documentation and records of the Company are complete;
- (ii) to ensure that the Company prepares and submits all reports and documents required to the relevant authorities in accordance with the law; and
- (iii) to ensure that the Company's register of shareholders is properly maintained and that persons entitled to records and documents of the Company are promptly furnished with the relevant records and documents.

(f) Board of Supervisors

The Company shall have the board of Supervisors which is responsible for the supervision of the board of Directors, the Directors and other senior officers of the Company to prevent them from abusing their positions and powers and infringing the interests of the shareholders, the Company and the employees. The board of Supervisors shall consist of one representative of the shareholders, two representatives of the employees and two independent supervisors, one of whom shall be appointed the chairman of the board of Supervisors. The representative of employees shall be elected and removed by the employees of the Company democratically and the representatives of the shareholders shall be elected and removed by the shareholders' in general meeting. Supervisors shall be appointed for a term of three years from the date(s) of their elections and may be re-elected to serve consecutive terms. The chairman of the board of Supervisors shall be appointed and removed by two-thirds or more of the Supervisors. The board of Supervisors shall be accountable to the shareholders' general meeting and shall exercise the following functions and powers in accordance with law:

- (i) to examine the Company's financial affairs;
- (ii) to carry out supervision to ensure that the Directors, and other senior officers do not act in contravention of any laws, administrative regulations and for the Articles of Association in the performance of their duties;
- (iii) if the conduct of a Director, or other senior officer is detrimental to the interests of the Company, to require him to rectify such conduct;

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- (iv) to review the Company's financial reports, business reports and profit distribution plans which the board of Directors proposes to be submitted to the shareholders' general meeting, and in appropriate cases, to appoint on behalf of the Company registered accountants or practicing auditors to assist in the review;
 - (v) to propose the convening of extraordinary general meetings of shareholders;
 - (vi) to represent the Company in negotiations with Directors or to institute proceedings against Directors; and
 - (vii) other functions and powers provided by the Articles of Association. Supervisors shall attend board meetings.
- (g) *Obligations of Directors, Supervisors, General Managers and Senior officers of the Company*

Each Director, Supervisor, General managers and other senior officer has the duty, in the exercise of his powers and the discharge of his obligations, to exercise such care, diligence and skill that a reasonable and prudent person would exercise in similar circumstances. In addition to the obligations imposed by laws, administrative regulations or the rules of the stock exchanges on which shares of the Company are listed, each Director, Supervisor, General managers and other senior officer, when exercising the functions and powers conferred upon him by the Company, owes the following obligations to every shareholder:

- (i) not to cause the Company to operate outside the scope of operations stipulated in its business licence;
- (ii) to act in good faith in the best interests of the Company;
- (iii) not to expropriate in any manner the Company's assets, including (but not limited to) opportunities beneficial to the Company; and
- (iv) not to expropriate personal rights of shareholders, including (but not limited to) distribution rights and voting rights, but not including a restructuring of the Company submitted to and approved by the shareholders' general meeting in accordance with the Articles of Association.

Each Director, Supervisor, General manager and other senior officer has, in the performance of his duties, the duty to observe the principles of good faith and the duty not to place himself in a position where his duties and his interests may conflict. This includes (but is not limited to) the duty:

- (i) to act honestly in the best interests of the Company;
- (ii) to exercise his powers within the scope of his authority and not act in excess of his powers;
- (iii) to personally exercise the discretion vested in him and not to allow himself to act under the direction of another person and, except where permitted by law or administrative regulations, or with the informed consent of shareholders in general meeting, not to delegate the exercise of such discretion to another person;

- (iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (v) not to enter into any contract, transaction or arrangement with the Company, except in accordance with the Articles of Association or with the informed consent of shareholders in general meeting;
- (vi) not to use the Company's assets for his own benefit in any manner without the informed consent of shareholders in general meeting;
- (vii) not to abuse his position by accepting bribes or other unlawful income, and not to expropriation in any manner the Company's assets including (without limitation) opportunities beneficial to the Company;
- (viii) not to accept any commission in connection with any transaction in which the Company is involved without the informed consent of shareholders in general meeting;
- (ix) to comply with the Articles of Association, to perform honestly his duties, to protect the interests of the Company and to refrain from using his position and powers as an officer of the Company to make personal gains;
- (x) not to compete with the Company in any manner without the informed consent of shareholders in general meeting;
- (xi) not to misappropriate the Company's funds or to advance the Company's funds to any other person, not to open any bank account in his own name or any other person's name to deposit any of the Company's assets; not to use the Company's assets to provide guarantee(s) for the debt(s) of any shareholder of the Company or any other individuals; and
- (xii) without the informed consent of shareholders in general meetings; not to disclose any confidential information of the Company acquired by him while in office; not to use such information other than in the interests of the Company; save that he may disclose such information to a court or other governmental authorities in the following circumstances:
 - (a) where such disclosure is required by law;
 - (b) where such disclosure is required in the interests of the public; or
 - (c) where such disclosure is required in the personal interests of the Director, Supervisor, General Manager or other senior officer. A Director, Supervisor, General Manager or other senior officer shall not direct persons connected with them (as described in section 1(f) above) to do what the Director, Supervisor, or other senior officer himself is prohibited from doing.

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(h) Shareholders' obligations

A shareholder of the Company is a person who lawfully holds shares of the Company and whose name is entered in the register of shareholders. A shareholder shall enjoy the rights and shall bear the obligations attached to the class(es) and the proportion of shares held by him; shareholders holding the same class of shares shall be entitled to the same rights and shall bear the same obligations. In addition to their right to obtain relevant information in accordance with the Articles of Association as mentioned in section 15 above, an ordinary shareholder of the Company shall enjoy the following rights:

- (i) to receive dividends and other distributions in proportion to the number of shares held by him;
- (ii) to attend and vote or appoint proxies to attend and vote on his behalf at shareholders' general meetings;
- (iii) to supervise the business operations of the Company, to make suggestions or to raise queries;
- (iv) to transfer his shares in accordance with the applicable laws, administrative regulations and the Articles of Association;
- (v) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company according to the proportion of shares held by him at that time; and
- (vi) other rights conferred by relevant laws and administrative regulations, and the Articles of Association.

A holder of ordinary shares in the Company shall have the following obligations:

- (i) to abide by the Articles of Association;
- (ii) to pay subscription monies in accordance with the shares subscribed by him and to the method of subscription; and
- (iii) other obligations imposed by relevant laws, administrative regulations and the Articles of Association.

Save in respect of terms agreed by the subscriber at the time of subscription, a shareholder shall not be liable to subscribe for any further share capital.

(i) Resolution of disputes

In the event of a dispute or claim involving any rights or obligations provided in the Articles of Association, the PRC Company Law and other relevant laws and administrative regulations, concerning the affairs of the Company, between the following parties:

- (i) a holder of overseas listed foreign shares and the Company;
- (ii) a holder of overseas listed foreign shares and the Directors, Supervisors, General managers, or other senior officers of the Company; and
- (iii) a holder of overseas listed foreign shares and a holder of Domestic Shares,

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the parties concerned shall submit that dispute or claim to arbitration before either (1) the China International Economic and Trade Arbitration Commission in accordance with its rules or (2) the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules.

In the event of a dispute or claim referred to above, the claim or dispute must be referred to arbitration in its entirety. All persons (if they are the Company, or shareholders, Directors, Supervisors, General managers, or other senior officers of the Company) 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 that dispute or claim shall submit themselves for arbitration. Once an applicant refers a dispute or claim to arbitration, the other party or parties must submit to the arbitral body elected by the applicant. If the party applying for arbitration chooses to refer the matter to the Hong Kong International Arbitration Centre, then any party concerned shall be entitled to request, in accordance with the requirements of the securities arbitration rules of the Hong Kong International Arbitration Centre, for that arbitration to be conducted in Shenzhen. If arbitration is sought to resolve a dispute or claim as described above in the first paragraph of this section, the applicable law shall be the laws of the PRC, unless otherwise provided by law and administration regulations. A decision reached as a result of such arbitration shall be final and conclusive and shall be binding on all parties to the dispute or claim. Disputes over the identities of shareholders or the register of shareholders need not be resolved by a referral to arbitration.

IV. PRC LEGAL MATTERS

Jingtian & Gongcheng, the Company's legal adviser on PRC law has sent to the Company a legal opinion dated 24 October 2003 confirming that it has reviewed the summaries of PRC company and securities regulations and the summaries of certain material differences between Hong Kong company law and the Company Law in so far as they relate to PRC law as contained in this appendix and that, in its opinion, such summaries are correct summaries of relevant PRC laws and regulations. This legal opinion is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in appendix VII.