

This Appendix sets out summaries of (1) certain aspects of the PRC legal and judicial system, arbitration system and company and securities regulations; (2) certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company laws, certain requirements of the Main Board Listing Rules; and (3) principal provisions of the Articles of Association which include additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers. As it is in form of a summary, it does not contain all information that may be important for all potential investors.

1. PRC LAWS AND REGULATIONS

(a) Legal system

The PRC legal system is based on the PRC constitution and is made up of written laws, regulations, directives and local laws and regulations. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance. The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC. The State Council is the highest organ of State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue regulations within the jurisdiction of their respective departments. All administrative rules and regulations, promulgated by the State Council and its ministries and commissions must not conflict with the PRC Constitution and the national laws enacted by the NPC. In the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules and regulations. The People's Congress of provinces, autonomous regions, municipalities and larger cities and their respective standing committees may enact local, autonomous and specific statutes and the People's Governments may promulgate administrative rules applicable to their own administrative areas. These local rules and regulations cannot be in conflict with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council. Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level. The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to 全國人民代表大會常務委員會關於加強法律解釋工作的決議 (the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the statutes and administrative regulations which they have promulgated. At the regional level, the power to give interpretations of the regional laws is vested in the regional legislative and administration organs which promulgate such laws and regulations.

(b) Judicial system

The people's courts are the judicial organs of the PRC. Under 中華人民共和國憲法 (the PRC Constitution Law) and 中華人民共和國法院組織法 (the Law of Organisation of the People's Courts of the PRC), the people's courts are made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division) in accordance with needs.

The judicial work of people's courts at lower levels is subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and the lower level. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels. The people's courts adopt a two-tier final appeal system. A party may, before the taking effect of a judgement or order, appeal against the judgement or order of the first instance of a people's court to the people's court at the next higher level. Judgements or orders of the second instance of the same level and at the next higher level are final and binding. Judgements or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgement which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgement which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by 中華人民共和國民事訴訟法 (the Civil Procedure Law of the PRC) (the "Civil Procedure Law") adopted on 9 April 1991 which prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, the judicial procedures, and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement amongst the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action but it must not violate the regulations in respect of hierarchy and jurisdiction of the courts as stated in the Civil Procedure Law. A foreign national or foreign enterprise is given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a court of a foreign country limit the litigation rights of PRC citizens and enterprises, the PRC courts shall apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award made by an arbitration organ in the PRC, the aggrieved party may apply to the people's court to enforce the judgement, order or award. Specific time limits are imposed on the right to apply for such enforcement. If at least one of the parties to the dispute or arbitration is an individual, the time limit is one year. If both parties to the dispute or arbitration are legal persons or other entities, the time limit is six months. If a person fails to satisfy a judgement which the court has granted approval to enforce within the stipulated time, the court will, upon application of either party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or order. If the PRC has entered into an international treaty with the relevant foreign country or which is acceded to by the PRC which provides for such recognition or enforcement, a foreign judgement or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's court in accordance with the judicial procedures of the PRC unless the people's court considers that the recognition or enforcement of a judgement or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or for reasons of social and public interest.

(c) Arbitration and enforcement of arbitral awards

中華人民共和國仲裁法 (the Arbitration Law of the People's Republic of China) (the "Arbitration Law") was passed 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, economic disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court.

The Main Board 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 Main Board Listing Rules, also in a contract between the company and each director or supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the articles of association, the Company Law or 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 the directors, supervisors, manager or other officers of the company; or (iii) a holder of overseas listed foreign shares and a holder of domestic shares, such parties shall submit that dispute or claim for arbitration before either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is a foreign affairs arbitration organ in the PRC located in Beijing with branch offices in Shenzhen and Shanghai.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties as from the date of award. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by laws 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 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (“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 in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the 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. However, 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 arbitral awards in the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China was signed on 21 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 by over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitral awards will also be enforceable in China. This new arrangement has been approved by the Hong Kong Legislative Council and the Supreme People’s Court of the PRC and became effective on 1 February 2000.

(d) Taxation

(a) Taxes applicable to joint stock limited companies

(i) Corporate income tax

From 1 January 1994, income taxes applicable to joint stock limited companies are governed by 中華人民共和國企業所得稅暫行條例 (the Interim Regulations of the Enterprise Income Tax of the PRC) (the “Tax Regulations”) promulgated by the State Council. The Tax Regulations provide that State-owned enterprises, collective enterprises, private enterprises, joint ventures and joint stock limited enterprises engaged in production or operation and other income producing enterprises are liable to pay income tax at the rate of 33% on their taxable incomes except that where, in relation to particular categories of enterprises, existing laws, administration rules and regulations provide for tax privilege and tax reduction policy.

中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC) (the “New Income Tax Law”) was promulgated on 16 March 2007 and will become effective on 1 January 2008. According to the New Income Tax Law, the enterprise income tax is to be fixed at a rate of 25%. For enterprises established before promulgation of the New Income Tax Law and enjoyed preferential tax rates under the then existing tax laws and administrative regulations, the tax rates applicable

to them will gradually changed to the new tax rate within five years from the implementation of the New Income Tax Law. For enterprises enjoyed fixed-term preferential tax treatment, according to the regulations of the State Council, they will continue to enjoy the preferential tax treatment until expiry of the relevant fixed term. For enterprises not yet enjoyed preferential tax treatment as profits have not yet been realised, the relevant term for enjoying preferential tax treatment shall be calculated commencing from the year in which the New Income Tax Law is implemented.

(ii) Value-added tax

Pursuant to 中華人民共和國增值稅暫行條例 (the Interim Regulations of the PRC on Value-added tax) effective from 1 January 1994 and the Implementing Rules of the Interim Regulations of the PRC on Value-added tax effective from 1 January 1994, value-added tax is imposed on goods sold in or imported into the PRC or on processing, repair and replacement services provided within the PRC.

(iii) Business tax

Pursuant to 中華人民共和國營業稅暫行條例及其實施細則 (Provisional Regulations of the PRC on Business Tax and Detailed Rules for the Implementation of the Interim Regulations of the PRC on Business Tax), which became effective on 1 January 1994, business tax is imposed on provision of specific services, transfer of intangible assets or sale of immovable property within the territory of the PRC.

(b) *Taxation of shareholders*

(i) Tax on dividends

Pursuant to the prevailing 中華人民共和國個人所得稅法 (Individual Income Tax Law of the PRC), which was amended on 31 October 1993 and amended on 30 August 1999, and further amended on 27 October 2005, dividends paid by PRC companies to individuals are normally subject to a withholding tax of 20%. On 21 July 1993, the State Tax Bureau by 關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知 (the Notice Relating to Taxes Applicable to Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares) (the "Tax Notice") confirmed that dividends received by foreign investors from PRC listed domestic special shares ("B shares"), and overseas listed shares such as H shares were exempt from withholding tax, which would otherwise have been applicable. Since 1 January 2000, on the basis of 國務院關於外國企業來源於我國境內的利息等所得減徵所得稅問題的通知 (the State Council Notice Regarding Income Tax reduction to Interest and Other Income that Foreign Enterprise Derive from the PRC), the rate applicable to interest, rental, licence fees and other income by foreign enterprises without agents or establishment in the PRC has been reduced to 10% from 20%. However, if the reduction as aforescribed does not apply or is not renewed, a foreign enterprise shareholder may be subject to a 20% withholding tax on capital gains, unless reduced by the applicable double taxation treaty.

關於修改《中華人民共和國個人所得稅法》的決定 (the latest Amendments to the Income Tax Law Applicable to Individuals of the PRC) (the “Amendments”) were promulgated and took effect on 27 October 2005. The Amendments stipulate that all previously promulgated tax laws and regulations which contradict the Amendments shall become invalidated. Under the Amendments, any foreign national who is not a resident in the PRC will be subject to a withholding tax at a rate of 20% on dividends received from H shares. On 26 July 1994, the State Tax Bureau issued a letter titled 國家稅務總局關於外籍個人持有中國境內上市公司股份所得的股息有關稅務問題的函件 (the State Tax Bureau Letter on Relevant Tax Problems Regarding Foreign Individuals’ Dividends Obtained from Holding Shares of Listed Companies Within China) (“the Letter”) the State Tax Bureau reiterated the temporary tax exemption stated in the Tax Notice on dividends received from a PRC company listed overseas. To date, the relevant tax authority has not been collecting any withholding tax on dividend payments with respect to foreign shares.

Accordingly, under current PRC laws and regulations, withholding tax is not payable in respect of dividends or other distributions on H shares held by any foreign enterprise or foreign national. If, however, the Tax Notice is withdrawn, a 20% withholdings tax may be applicable on such dividends or distributions, subject to any tax reductions pursuant to any applicable avoidance of double taxation treaty.

(ii) Tax on transfer of shares

Although 中華人民共和國個人所得稅法實施條例 (the Implementing Rules of Individual Income Tax Law of the PRC) (the “Implementing Rules”), issued on 28 January 1994, stipulate that gains realised on the sale of equity securities by an individual and amended on 19 December 2005 having taken effect from 1 January 2006 would be subject to income tax at the rate of 20%, the Tax Notice exempt holders of H shares from income tax on gains arising from the transfer of H shares. On 1 February 1994, the Ministry of Finance and the State Tax Bureau jointly issued 關於股票轉讓所得暫不徵收個人所得稅的通知 (the Notice on the Temporary Non-Levy of Individual Income Tax on Gains from Share Transfers), which exempt individuals from the payment of individual income tax on gains from the transfer of shares for the years 1994 and 1995. On 30 March 1998, the Ministry of Finance and the State Tax Bureau jointly issued 關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知 (the Notice on Continuing the Temporary Non-levy of Individual Income Tax On Gains from Share Transfers), which exempt individuals from the payment of individual income tax on gains from the transfer of shares since 1997. If, however, the Tax Notice is withdrawn, a 20% income tax may be applicable on gains from transfer of H shares, subject to any tax reductions pursuant to any applicable avoidance of double taxation treaty.

(iii) Tax treaties

In the event that withholding tax is payable as referred to in (i) or (ii) above, foreign enterprises without an establishment or office in the PRC and non-PRC individual investors residing in countries which have entered into double taxation treaties with the PRC may be entitled to a reduction of withholding tax imposed on the payment of dividends to such investors. The PRC is currently a party to the avoidance of double taxation treaties with a number of countries which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

(iv) Stamp duty

By virtue of 中華人民共和國印花稅暫行條例 (the Interim Regulations of the PRC Concerning Stamp Duty) which was promulgated on 6 August 1988 and became effective on 1 October 1988, PRC stamp duty is imposed on the transfer of PRC listed domestic shares. However, transfer of H shares outside the PRC are exempt from payment of PRC stamp duty.

(v) Estate or inheritance tax

The PRC does not currently have estate or inheritance tax.

(e) Foreign exchange control

Major reforms have been introduced to the foreign exchange control system of the PRC since 1993.

On 28 December 1993, the PBOC, with the authorisation of the State Council, issued 中華人民共和國關於進一步改革外匯管理體制的公告 (the Notice on Further Reform of the Foreign Exchange Control System) which came into effect on 1 January 1994. Other new regulations and implementation measures include 結匯、售匯及付匯管理規定 (the Regulations on the Foreign Exchange Settlement, Sale and Payments) which were promulgated on 20 June 1996 and took effect on 1 July 1996 and which contain detailed provisions regulating the holding, sale and purchase of foreign exchange by enterprises, individuals, foreign organisations and visitors in the PRC. Under these new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating and managed exchange rate system based largely on supply and demand was introduced. The PBOC publishes the Renminbi exchange rate against the U.S. dollar daily. Such rate is to be set by reference to the Renminbi/U.S. dollar trading price on the previous day on the inter-bank foreign exchange market. Further reforms were implemented by the PBOC by a notice issued on 21 July 2005 that with effect from the date of the notice, a more flexible managed float exchange rate system against a basket of currencies is introduced and the Renminbi exchange rate is no longer solely pegged to US dollars.

The foreign exchange earnings of all PRC enterprises, other than those either derived by foreign investment enterprises or specifically exempted under the relevant regulations, are to be sold to designated banks. Foreign exchange earnings obtained from borrowings from foreign institutions or issues of shares or bonds denominated in foreign currency need not

be sold to designated banks, but may need to be kept in foreign exchange bank accounts of designated banks. At present, control of purchase of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by relevant documents. Furthermore, foreign investment enterprises may distribute profit to their foreign investors with funds in their foreign exchange bank accounts kept with designated banks. Should such foreign exchange be insufficient, foreign investment enterprises may apply to the relevant governmental department for permission to purchase foreign exchange from designated banks. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the POBC and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre (“CFETC”) was formally established and came into operation on 1 January 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can conduct foreign exchange transactions and settle their foreign exchange liabilities.

關於境外上市企業外匯管理有關問題的通知 (The Notice Concerning Some Issues Relating to Exchange Control of Overseas Listed Enterprises) was jointly issued by CSRC and SAFE on 13 January 1994. The Notice provides that:

- upon the approval of SAFE, an overseas listed enterprise may open a foreign currency account at a bank within the PRC to retain foreign currency proceeds received from overseas share offers;
- within 10 days after receiving the foreign currency proceeds of the share offer, the enterprise should transfer such proceeds into the PRC and deposit into any authorised foreign currency account with a bank account;
- upon approval of SAFE, the enterprise may remit abroad the foreign exchange from its foreign currency bank account to foreign investors outside the PRC for the purpose of payment of dividends or other profit distributions; and
- if 25% or more of the share capital of the enterprise is held by foreign investors, such enterprise may apply to MOC for Sino-foreign joint venture enterprises status, and upon approval of MOC, the foreign exchange matters of such enterprises shall be handled in accordance with foreign exchange regulations governing foreign investment enterprises.

On 5 August 2002, SAFE and CSRC jointly announced 關於進一步完善境外上市外匯管理有關問題的通知 (the Notice Concerning Issues Relating to Further Enhancement of Foreign Exchange Management on Overseas Listing) (the “Notice”) which became effective on 1 September 2002). The notice stipulates that:

- Entities holding domestic equity interests of overseas listed foreign share company and overseas listed PRC holding companies shall, upon receiving CSRC approval in respect of foreign share issue and listing, submit relevant materials to SAFE for registration of foreign exchange of overseas listed shares.

- Foreign currency funds raised by share issue of overseas listed foreign share company shall be repatriated to the PRC and are not allowed to remain offshore without SAFE approval. Foreign currency funds so repatriated can be retained by opening a number of accounts with SAFE approval, or settled.
- Foreign currency funds obtained by entities holding domestic equity interests of overseas listed foreign share company and overseas listed PRC holding companies through reduction in holding of shares in or disposal of assets (or equity) of the listed company shall, within 30 days of receipt, be repatriated to the PRC and settled with SAFE approval.
- Prior to foreign currency funds raised by share issue as mentioned above being repatriated to the PRC, overseas specific foreign currency accounts may be opened for temporary deposits of the said funds subject to SAFE approval for a maximum period of three months from the date of accounts opening.
- Any overseas listed foreign share company intending to repurchase its own circulated overseas listed shares shall, upon receiving CSRC approval, submit to SAFE for changes in foreign exchange registration of overseas listed shares and related approval for opening offshore account and remittances of funds.

On 9 September 2003, pursuant to the Notice on 5 August 2002, SAFE announced 關於完善境外上市外匯管理有關問題的通知 (Notice on Relevant Issues in Perfecting Foreign Exchange Control of Overseas Listing) which confirmed the related issues in the Notice dated 5 August 2002. On 1 February 2005, SAFE announced 關於境外上市外匯管理有關問題的通知 (Notice on Relevant Issues of Foreign Exchange Control of Overseas Listing) which amended and supplemented the aforesaid notices.

- The time limit for the repatriation of funds by entities holding domestic equity interests in overseas listed foreign share companies and overseas listed companies controlled by PRC entity has been extended to “within six months of receipt of funds raised” and the time limit for overseas specific foreign currency accounts has been extended to “within two years of accounts opening”.

(f) 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 28 August 2004. On 27 October 2005, the Eighteenth Standing Committee Meeting of the Tenth NPC further amended the Company Law. The revised Company Law came into effect on 1 January 2006.

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 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 Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions

have been incorporated in the Articles of Association. References to a “company” are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Set out below is a summary of the major provisions of the Company Law as amended on 27 October 2005, the Special Regulations and the Mandatory Provisions.

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 company must conduct its business in accordance with the laws and commercial ethics. A company may invest in other enterprises. However, it shall not become the contribution party which accepts joint and several liabilities of the obligations of the invested enterprise.

Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of 2 promoters within maximum of 200 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 PRC Government 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 2 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.

For the company incorporated by promotion, its registered capital shall be the total capital subscribed by all promoters where the first paid up amount shall be no less than 20% of its registered capital, the outstanding amount shall be paid up within 2 years upon establishment of the company while that of investment company shall be paid up within 5 years upon establishment of the company, however, the company shall raise no more share subscription before the paid up. For the company incorporated by public subscription, the registered capital of a company is the amount of its total paid up capital as registered with the relevant administration bureau for industry and commerce. The minimum registered capital of a company is RMB5 million.

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 subscribers 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 has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoter shall individually and collectively be liable for (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the 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 promoter may make capital contribution in currencies, 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 currency contribution shall not less than 30% 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 and 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 a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued under the name(s) of such promoter(s) or legal person(s) 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 in Hong Kong are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. In accordance with PRC regulations and rules, qualified foreign institutional investors approved by the CSRC may hold listed domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Special measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

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

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange or through other means of transfer as permitted by the State Council. 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.

Shares held by a promoter of a company may not be transferred within 1 year after the company's establishment. Shares which were issued prior to the public offer of shares of the company may not be transferred within 1 year from the listing of the shares of the company on a stock exchange. Directors, supervisors and the manager of the company shall not, each year, transfer more than 25% of the shares they hold in the company during their term of office and such shares of the company shall not be transferred within 1 year from the date of the company's listing. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or with 5 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 a public issue of new shares must be approved by shareholders in general meeting and meet the following conditions stipulated under the Securities Law:

- (i) the company has a sound and good organisation;
- (ii) the company has sustainable profitability and stable financial condition;

- (iii) there has been no false reporting in the company's financial and accounting documents during the last 3 years and no other material breach of law;

Public offers require the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, the 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 a list of assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (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 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 bureau for industry and commerce for registration of the reduction in registered capital.

Repurchase of shares

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

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

The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of a general offer to the shareholders of the company or purchase on the stock exchange or an off-market agreement.

Under the Company Law, within a stipulated period following the purchase of the company's own shares, a company must in accordance with applicable law and administrative regulations cancel or transfer the repurchased 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 or by other way as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares held by a promoter may not be transferred within 1 year after the company's establishment. Shares which were issued prior to the public offer of shares of the company may not be transferred within 1 year from the listing of the shares of the company on a stock exchange. Directors, supervisors and the manager of the company shall not, each year, transfer more than 25% of the shares they hold in the company during their term of office and such shares of the company shall not be transferred within 1 year from the date of the company's listing. 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 forth 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;
- (ii) to transfer his shares at a legally established stock exchange or through other means of transfer as permitted by the State Council 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 regulation or infringes the lawful rights and interests of shareholders, to institute an action in 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 moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

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 supervisors who are not representatives of the company's employees, and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to examine and approve reports of the board of directors;
- (iv) to examine and approve reports of the supervisory committee;
- (v) to examine and approve the company's proposed annual financial budget and final accounts;
- (vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, change to the form of the company dissolution and liquidation of the company and other matters;

- (x) to amend the company's articles of association; and
- (xi) other terms of reference provided in the Articles of Association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within 2 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) when shareholders individually and collectively holding 10% or more of the company's issued and outstanding shares carrying voting rights request the convening of an extraordinary general meeting;
- (iv) whenever the board of directors deems necessary; or
- (v) the supervisory committee so requests.
- (vi) other circumstances as required by the articles of associations.

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

Notice of the meeting shall be given to all shareholders 20 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 Company Law, shareholders, individually or collectively, holding 3% or more of the company's shares are entitled to propose new resolutions and give to the board of directors written notice 10 days prior to the meeting, and the new resolutions, which if within the powers of shareholder's general meeting, are required to be added to the agenda of that 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 power of a shareholder's general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have 1 vote for each share they hold. No voting right is attached to the shares held by the company.

Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution of a company, increase or reduction in registered capital, change to the form of the company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by shareholders present in person (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 through special resolutions by more than two-thirds of the voting rights held by shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings, the representatives shall submit a written appointment document to the company and exercise the voting right in the scope of authority.

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 5 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 holder 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 5 to 19 members. Under the Company Law, each term of office of a director shall not exceed 3 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 and supervisors 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

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

- (i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed by the shareholders in general meetings;

- (iii) to decide on the company's business plans and investment proposals;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's profit distribution proposals and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;
- (vii) to prepare plans for the merger, division, change to the form of the company or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to decide to appoint or dismiss the company's general manager and based on the general manager's recommendation, to decide to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) other terms of reference provided in the Articles of Association.

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

Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association or resolution of shareholders' general meetings 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 from 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 offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than 5 years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than 5 years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than 3 years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or had been ordered with closure due to violation of the law and who are personally liable, where less than 3 years have elapsed since the date of the revocation of the business license; or
- (v) persons who have a relatively large amount of debts due and outstanding.

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.

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 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) contain further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than 3 members. Each term of office of a supervisor is 3 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 and the percentage of the number of representatives of the company's staff and workers shall not be less than one third. 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 senior management personnel in their performance of their duties and to propose for removal of those directors or senior management personnel who have violated laws, regulations or the articles of association or shareholders' resolution;
- (iii) when the acts of a directors and senior management personnel are in a harm to the company's interests, to require correction of these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meeting, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meeting;
- (v) to propose resolution in a general meeting;
- (vi) to initiate proceedings against directors and officers;
- (vii) 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.

The Special Regulations provide that a company's directors and supervisors shall have 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.

Managers and officers

A company shall have a manager who shall be decided to 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 decide to 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 delegate; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Company Law provide that the senior management of a company includes the manager, deputy managers, the financial controller, secretary of the board of directors of a listing company 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, senior management personnels 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

Directors, supervisors, managers and officers 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. Directors, supervisors, managers and officers of a company are also under a duty of confidentiality to the company and are prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

The controlling shareholders, actual controller, directors, supervisors, senior management personnels who cause harm to the company by mal using their related duty shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that directors, supervisors, managers and officers 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 an annual general meeting of shareholders. A company issuing shares publicly 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).

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.

After the company has made good its losses and made allocations to its statutory common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, except that such distribution is not required to be made in proportion in accordance with the Articles of Association.

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 (the capital common reserve could not be used to make up the company's losses);
- (ii) to expand the business operations of the company; and
- (iii) to increase the company's capital provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve before such conversion shall not be less than 25% of the registered capital of the company.

Appointment and retirement of international 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 in general meeting 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.

Amendment of 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 authorized by the State Council and the 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;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the business licence is invalidated; or the company is closed by a closure order or is deregistered;
- (v) in the event that the company encounters substantial difficulties in operation and management and its continuous subsistence shall cause significant damage to the interest of shareholders, if such condition cannot be resolved through other means, shareholders who hold more than 10% of the total voting rights may present a petition to the People's Court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee must be established within 15 days from the date of occurrence of the dissolution causes. Members of the liquidation committee shall be composed of directors or persons approved by the shareholders in a general meeting.

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

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue 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 45 days of the public notice if he did not receive any notification.

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

- (i) to liquidate the company's assets and to prepare a balance sheet and a list of the assets;

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

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 social insurance expenses and statutory compensation, 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 exist but not engage in business operations irrelevant to the liquidation 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 the declaration of bankruptcy by the People's Court, 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 People's Court 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.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas listing

The 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 Securities Commission may be implemented by the board of directors of the company by way of separate issues, within 15 months after approval is obtained from the 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, lost or destroyed, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

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 stock exchange under one of the following circumstances:

- (i) the registered capital or share holding 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, which may result into possibility of misleading the investors new security law 55;
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for the past three consecutive years; or
- (v) other circumstances as required by the listing rules of stock exchange. (New Security Law 55)

A listed company may have its listing determined by the stock exchange if any of the following events shall occur:

- (i) the total share capital and the distribution of share ownership have been altered to make the company no longer satisfy the requirements necessary for listing and it cannot meet the requirements for listing within the period required by the stock exchange;
- (ii) the company has failed to make public its financial situation in compliance with the legal provisions or has falsified its financial accounting statements and refused to rectify;
- (iii) the company has incurred losses for the past three consecutive years and failed to become profitable in the following year; or
- (iv) the company dissolve or is declared be bankrupted;

- (v) any other events prescribed in the listing rules of the stock exchange. (New Security Law 56)

Merger and demerger

The merger or demerger of a company is to be decided by the shareholders in general meetings.

Companies may merge through merger by absorption or through the merger of new shares. In the case of merger by absorption, the company which is absorbed shall be dissolved. In the case of merger by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merging of companies and the relevant companies shall prepare 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, within 30 days of the resolution to merge. Those creditors who had not received written notice may within 45 days of the notice, or within 30 days after receiving written notice, request the company to satisfy any unpaid debts or provide equivalent guarantees in cases of guarantees.

When a company demerges into 2 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 in newspapers within 30 days. Unless otherwise agreed with a creditor, obligations in respect of the liabilities before the demerger of the company shall be jointly and severally borne by the demerged companies.

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

(g) Securities law and regulations

At present, the PRC has promulgated a number of Law and regulations in relation to the issue and trading of shares and disclosure of information.

In October 1992, the Securities Commission and the CSRC were established. The Securities Commission is the supervisory authority of the State that is responsible for conducting a uniform and macro administration of the securities markets. The CSRC is the regulatory arm of the Securities Commission and is responsible for regulating the securities market in accordance with laws and regulations.

In April 1998, pursuant to the reform proposal of authorities under the State Council, the Securities Commission and the CSRC were merged to form the CSRC that is the supervisory authority of the PRC securities and futures markets.

On 22 April 1993, the State Council promulgated 股票發行與交易管理暫行條例 (the Provisional Regulations Concerning the Issue and Trading of Shares) (the “Securities Provisional Regulations”). The Securities Provisional Regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, disclosure of information, investigation and penalties and dispute settlement with respect to a listed company. The Securities Provisional Regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC require the approval of the Securities Commission and also provide that separate measures 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 intends to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with the Securities Provisional Regulations; and (ii) provisions of the Securities Provisional Regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to companies listed on a stock exchange in general without being confined to companies listed on any particular stock exchange. Such provisions may, therefore, 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 Stock Exchange.

On 12 June 1993, the CSRC promulgated 公開發行股票公司信息披露實施細則(試行)(the Implementation Measures (Provisional) on Disclosure of Information by Companies issuing Public Offerings of Shares) pursuant to the Securities Provisional Regulations. Under these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company’s articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or 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 Securities Provisional Regulations.

On 2 September 1993, the Securities Commission promulgated 禁止證券欺詐行為暫行辦法 (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 through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 4 July 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of foreign capital stock listed aboard and the disclosure of information of articles of association of joint stock limited companies having foreign capital stock listed aboard.

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

On 29 December 1998, the Standing Committee of the NPC promulgated 中華人民共和國證券法 (the Securities Law of the PRC) which came into effect on 1 July 1999. 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 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 will apply.

On 29 March 1999, the State Economic and Trade Commission and the CSRC promulgated 關於進一步促進境外上市公司規範運作和深化改革的意見 (the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas) (the “Opinion”), 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 Stock Exchange. 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 in the supervisory committee.

On 27 October 2005, the Standing Committee of NPC has approved the revision of the Securities Law of the PRC, which will come into effect on 1 January 2006.

2. HONG KONG LEGAL AND REGULATORY PROVISIONS

(A) 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 (Chapter 32 of the Laws of Hong Kong) (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

Under the Companies Ordinance, a shareholder may, with the leave of court, bring proceedings on behalf of the company, or intervene in any proceedings before the court to which the company is a party, in respect of misfeasance committed against the company, or in respect of any matter where the company fails to bring proceedings in respect of such matter by reason of misfeasance committed against the company. “Misfeasance” means fraud, negligence, default in compliance with any enactment or rule of law, or breach of duty. Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have been guilty of a breach of their fiduciary duties to the company, if they control a majority of votes at a general meeting thereby effectively preventing a company from using the directors in breach of their duties in its own name. The PRC Civil Procedure Law does not provide for such a procedure. The Company Law provides that any shareholder who solely or jointly holds more than 1% of the shares of a joint stock company for more than 180 days consecutively shall be entitled to request the supervisory committee in writing to sue any director or senior manager who has violated any laws, administrative regulations or the articles of association of the company during the performance of his/her duties and has caused losses to the company; and shall be entitled to request the board of directors in writing to sue any supervisor who has violated any laws, administrative regulations or the articles of association of the company during the performance of his/her duties and has caused losses to the company. Where the supervisory committee or the board of directors refuses to file a lawsuit after receiving the said shareholder’s written request, or fails to file a lawsuit within 30 days from the date of the request, or under emergency circumstances where no prompt lawsuit will incur irreparable damage to the company’s interests, the said shareholder shall, for the purpose of the company’s interests, be entitled to file a lawsuit in his/her name directly with the People’s Court. Where a third party has infringed upon the legitimate rights and interests of the company and caused losses to the company, the said shareholder may file a lawsuit with the People’s Court in accordance with the aforesaid provision. The Company Law also provides that where any director or senior manager has violated any laws, administrative regulations or the articles of association of the company and has impaired the interests of the shareholders, a shareholder may file a lawsuit with the People’s Court. In addition, each of the Directors and Supervisors (as required) 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 and Supervisors.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties violates any law or administrative regulation or the articles of association of a company, resulting in damage to the company, that director, supervisor or manager shall be responsible to the company for such damages. The Company Law also provides that controlling shareholder, de facto controller, director, supervisor or senior manager of the company who, by way of his/her associated relationship deprive interests of the company, shall be liable for the losses being suffered by the company. In addition, in compliance with the Main Board Listing Rules and the Mandatory Provisions, 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 senior management members) have been set out in the Articles of Association.

Directors, senior management members and supervisors

The Company Law provides that without the approval of shareholders in a general meeting, directors, supervisors and managers shall not enter into any business contracts or transactions with the company, or accept any benefits. The Company Law, unlike Hong Kong company law, does not contain restrictions on directors' authority in making major dispositions (but a listed company which purchases or disposes substantial assets or provide a guarantee amount of which exceeds 30% of the total assets of the company shall be subject to the approval of a general meeting and be approved by more than two-thirds of the voting rights held by the shareholders present in the general meeting.) 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 and other related regulations contain certain restrictions on major dispositions and specify the circumstances under which a director is required to disclose his interest in contracts or 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 a supervisory committee whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he 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. Such provisions have been incorporated in the Articles of Association.

Minority protection

In addition to the remedies set out in the section headed "Derivative action by minority shareholders" above, under Hong Kong laws, a shareholder who complains that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may present a petition to the court 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 may appoint investigators who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong

Kong. The Company Law provides that controlling shareholder or de facto controller of the company shall not, by way of their associated relationship, deprive interests of the company. The relevant controlling shareholder or de facto controller of the company in violation of such provision shall be liable for the losses being suffered by the company. The Company, as required by the Mandatory Provisions and the Main Board 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 of 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 Main Board Listing Rules.

Financial assistance for the acquisition of shares

The Company Law, unlike Hong Kong 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. Following the requirements of the Mandatory Provisions, the Articles of Association 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 classes 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 (1) with the approval of a special resolution of the holders of the relevant class at a separate meeting; or (2) with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question; or (3) by agreement of all the members of the Company; or (4) 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 Main Board 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. The Mandatory Provisions contain detailed provisions (which are reflected in the Articles of Association) relating to circumstances which are deemed to constitute a variation of class rights. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes of shareholders, except (i) where a joint stock limited company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, overseas listed foreign invested shares and domestic invested shares; and the number of overseas listed foreign invested shares and domestic invested shares proposed to issue are not more than 20% of respective class of listed shares existing as at the date of the shareholders' special resolution; or (ii) the completion by a joint stock limited company of its plan for the issue of domestic invested shares and listed foreign invested shares upon its establishment within 15 months following the date of approval by the CSRC, and, accordingly, in the circumstances referred to in (i) and (ii) aforesaid, the Company's ability to issue Domestic Shares and H Shares is not subject to a separate voting procedure by holders of H Shares.

Conversion of shares

Under the Articles of Association (as required by the Mandatory Provisions), any proposal by to vary or abrogate the rights conferred on any class of shares shall be approved by a special resolution of shareholders at a general meeting and by shareholders of that class at a meeting of shareholders of that class convened in accordance with the Articles of Association, save and except for such Shares held by domestic Shareholders which have been transferred by them to overseas investors and which are being listed and publicly traded. Circumstances considered a variation or abrogation of class rights of shareholders are discussed in the paragraph headed "Variation of class rights" in this section. Upon obtaining an approval from the regulatory body on securities under the State Council, domestic Shareholders of the Company may transfer the Company's Shares held by them to overseas investors and have the Shares listed and traded publicly. Shares transferred and listed on an overseas stock exchange shall be subject to regulations of the overseas exchange, and Shares so transferred and listed and traded on an overseas stock exchange do not need approval by voting in any extraordinary general meeting of class Shareholders.

Corporate reorganisation

Corporate reorganisation 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. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

Share capital

Under the Company Law for company incorporated by promotion, its registered capital shall be the total capital being subscribed by all promoters where the first paid up amount shall not be less than 20% of its registered capital, the outstanding amount shall be paid up within 2 years upon establishment of the company but within 5 years for investment company; for joint stock company incorporated by public subscription, the registered capital of the company is the amount of its total paid up capital as registered with company registration authorities. 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 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 PRC company has to register the increase in share capital with the relevant administration for industry and commerce.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB30 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 amount of currency contribution shall not less than 30% 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's H Shares are denominated in Renminbi and subscribed for in currency other than Renminbi, and may only be subscribed and traded by investors from Hong Kong, Macau or Taiwan or from outside the PRC (unless specific approval is obtained from the relevant PRC authorities), whereas the Company's Domestic Shares, denominated in Renminbi, can only be subscribed for in Renminbi, and may only be subscribed and traded by investors from the PRC (which, for the avoidance of doubt, as stated in this prospectus, excludes Hong Kong, Macau or Taiwan). 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, unless specific approval is obtained from the relevant PRC authorities, shares in a joint stock limited company held by its promoters, directors, supervisors or other senior management officers may not be transferred within certain periods of time. For example, promoter shares of a joint stock company may not be transferred within one year after the company's establishment; and shares of a joint stock company in issue before its public offer may not be transferred within one year from the date of commencement of trading of the shares on the relevant stock exchange. There is no such restriction under Hong Kong law.

Notice of shareholders' meetings

Under the Company Law, shareholders of a joint stock limited company must be given 20 days' notice of a general meeting, and in case of an extraordinary shareholders' general meeting, such notice should be given 15 days before the meeting, or, in the case of bearer shares, such notice should be published 30 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 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 for shareholders' meeting

Under Hong Kong law, one shareholder present in person or by proxy will constitute a quorum for a general meeting if the company has only one shareholder. If the company has more than one shareholder, two shareholders present in person or by proxy 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 provide that a company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, that the company shall within five days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

Voting

Under Hong Kong's 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, for example, proposed amendment to the articles of association, increase or reduction in registered capital, merger, division, dissolution of a company, or change to the form of the Company where the approval of a special resolution (being a resolution with a two-third majority) is required. A listed company which purchases or disposes substantial assets or provide a guarantee amount of which exceeds 30% of the total assets of the company shall be subject to the approval of a general meeting and be approved by more than two thirds of the voting rights held by the shareholders present in the general meeting. In addition, any proposal by to vary or abrogate the rights conferred on any class of shares shall be approved by a special resolution of shareholders at a general meeting and by shareholders of that class at a meeting of shareholders of that class convened in accordance with the Articles of Association.

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 law, the relevant limitation period is two years.

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, statement of income, statement of changes in financial situation and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, according to the Company Law, a company established by the public subscription method must publish its financial statements. The annual balance sheet has to be audited by registered accountants. The Companies Ordinance requires a Hong Kong incorporated company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report (which are to be laid in its annual general meeting) not less than 21 days before its annual general meeting.

Under the Articles of Association (as required by the Main Board Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is further required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The Company Law gives shareholders of a company the right to inspect its articles of association, minutes of shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (after payment of reasonable charges) certain information on shareholders and on Directors, Supervisors and managers similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Arbitration of disputes

In Hong Kong, disputes between shareholders and their company or its directors, managers and other senior officers may be resolved through the courts. The Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, managers or other senior management officers or a holder of Domestic Shares arising from the Articles of Association, the Company Law or other relevant laws or administrative regulations which concern the affairs of the Company must be submitted to arbitration at either the Hong Kong International Arbitration Centre (“HKIAC”) or the China International Economic and Trade Arbitration Commission (“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 deduction of contributions to the statutory common reserve 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 duties of directors. Under the Company Law and the Special Regulations, directors, supervisors, managers and other senior managements officers 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 may not 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 Articles of Association provide, as required by the Company Law, that share transfers may not be registered within 20 days before the date of a general meeting or within five days before the record date set for the purpose of distribution of dividends.

(B) Other legal and regulatory provisions

Upon the listing of the Company on Main Board, the provisions of the Securities and Futures Ordinance of Hong Kong, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on Main Board will apply to the Company.

(C) 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.

The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen, the PRC for cases involving disputes concerning the affairs of companies listed on the 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, the Special Administrative Region of Macau and Taiwan.

(D) Main Board Listing Rules

The Main Board Listing Rules contain certain provisions specifically relating to the 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.

Compliance Adviser

The Company is required to retain, for the period commencing on the date of initial listing of the Company and ending on the date on which the Company complies with Rule 13.46 of the Main Board Listing Rules in respect of its financial results for the first full financial year commencing after the date of its listing on Main Board, the services of a compliance adviser (being a corporation or authorised financial institution acceptable to the Stock Exchange, licensed or registered under applicable laws to advise on corporate finance matters) to provide the Company with professional advice on, inter alia, continuous compliance with the Main Board Listing Rules.

Accountants' reports

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

Process agent

The Company must appoint and retain throughout the period its securities are listed on Main Board a person authorised to accept service of process and notices on its behalf in Hong Kong and must notify the 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, listed on the Main Board, the Main Board Listing Rules require that the aggregate amount of the H Shares and other securities held by the public (on all regulated market(s) including the Stock Exchange) must constitute not less than 25% of the Company's total existing issued share capital.

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. 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 Stock Exchange in accordance with the Main Board Listing Rules. Shareholders' approval must first be obtained prior to carrying out a share repurchase, by way of special resolution of shareholders in general meeting and of the holders of Domestic Shares and the holders of the 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 Stock Exchange or when reporting such purchases, the Company should provide information 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 Stock Exchange. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and any similar applicable law of which the Directors are aware, if any. Any general mandate given to the Directors to repurchase the H Shares must not exceed 10% of the total amount of the existing issued H shares of the Company.

Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the Articles of Association of a PRC company which is listed on the 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 has been set out in this Appendix.

Additional requirements

The Main Board Listing Rules require the Company to comply with certain additional requirements which are summarized as follows:

(1) Pre-emptive rights

Except in the circumstances mentioned below, the Directors must obtain the approval by a special resolution of the 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:

- (a) authorizing, allotting, issuing or granting:
 - (i) shares;
 - (ii) securities convertible into shares; or
 - (iii) options, warrants or similar rights to subscribe for any shares or such convertible securities; or
- (b) a major subsidiary of the Company making any such authorization, allotment, issue or grant resulting in material dilutions to the percentage of shareholding of the Company and our shareholders in such subsidiary.

No such approval shall be required in the case of authorizing, allotting or issuing shares if, but only to the extent that, our existing shareholders have by special resolution in a general meeting given a general mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or of such shares that are part of our plan at the time of the formation of the Company to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

(2) Supervisors

The Supervisors are required to comply with Appendix 10 of the Main Board Listing Rules relating to securities transactions by directors.

To enter into a service contract for three years or more with a Supervisor or proposed Supervisor, or a service contract which expressly requires the Company to give a period of notice of more than one year or pay compensation or make other payments equivalent to more than one year's emoluments in order

for the Company to terminate the service contract with a Supervisor or proposed Supervisor, the Company must obtain the prior approval of the Shareholders in a general meeting.

(3) Changes to Articles of Association

The Company may not at any time permit or cause any amendment to be made to the Articles of Association which would cause them to cease to comply with the Mandatory Provisions or the Main Board Listing Rules relating to the Articles of Association.

(4) Documents for inspection

The Company is required to 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;
- (b) a report showing the state of its issued share capital;
- (c) its latest audited financial statements and the reports of the Directors, auditors and (if any) Supervisors;
- (d) special resolutions;
- (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 the repurchase of such securities and the maximum and minimum price 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 SAIC or other competent PRC authorities; and
- (g) for Shareholders only, copies of the minutes of meetings of Shareholders.

(5) Appointment of receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong to receive on behalf of the Shareholders dividends declared and other monies owing by the Company in respect of H Shares listed on the Stock Exchange to be held, pending payments, in trust for holders of the H Shares.

(6) Statements to be made on acquisition of Shares

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

- (a) agrees with the Company and each other Shareholders, and the Company agrees with each Shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
 - (b) agrees with the Company, each Shareholder, Director, Supervisor, manager and other officer, and the Company, acting for itself and for each Director, Supervisor, manager and other officer agree with each Shareholder to refer all disputes 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 our affairs to arbitration in accordance with the Articles of Association. Any reference to arbitration will be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;
 - (c) agrees with the Company and each other Shareholders that H Shares are freely transferable by the registered holder(s) thereof; and
 - (d) authorizes 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 the Shareholders stipulated in the Articles of Association.
- (7) Compliance with the Company Law, the Special Regulations and the Articles of Association

The Company is required to 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 is required to 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 Takeovers Codes 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 Director or officer to us acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in our Articles of Association; and
- (c) an arbitration clause which provides that:
 - (i) Whenever any disputes or claims arise from the contract, the Articles of Association or any rights or obligations conferred or imposed by the laws and administrative regulations concerning affairs between (1) the Company and its Directors or officers or (2) a holder of H Shares and a Director or officer, such disputes or claims will be referred to arbitration;
 - (ii) 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, shall submit to the arbitration.
 - (iii) Disputes over who is a Shareholder and over the Share register do not have to be resolved through arbitration.
 - (iv) Once the party seeking the arbitration submits a dispute or claim to the arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration. The party seeking arbitration may elect to have the dispute or claim arbitrated either by the CIETAC in accordance with its arbitration rules or by the HKIAC in accordance with its securities arbitration rules.
 - (v) If the party seeking the arbitration elects to arbitrate the dispute or claim at the HKIAC, either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.
 - (vi) PRC laws shall govern the arbitration of disputes or claims referred to in clause (a) above, unless otherwise provided by law or administrative regulations.
 - (vii) The award of the arbitral body is final and shall be binding on the parties thereto.
 - (viii) The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each Shareholder; and
 - (ix) Any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct the hearing in open session and to publish its award.

Contract between the Company and every Supervisor

The Company is also required to 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 sub-paragraph (c) of the preceding paragraph in relation to a contract between the Company and every Director or officer subject to necessary modifications.

(E) Taxation in Hong Kong

The following summary of certain taxation provisions relevant to investing in H Shares is based on current law and practice, it is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in H Shares. Accordingly, each prospective investor should consult its own tax adviser regarding the tax consequences of an investment in H Shares. The discussion is based on the laws and the relevant interpretations thereof in effect as at the date of this document, all of which are subject to changes.

(i) Taxation of dividends

Under current practice of the Hong Kong Inland Revenue Department, no profits tax is payable in Hong Kong in respect of dividends paid by a company which is not subject to Hong Kong profits tax. Where a company is not chargeable to Hong Kong profits tax, any dividends paid by it to persons who carry on a business in Hong Kong are liable to profits tax to the extent that such dividends form part of the profits of such persons arising from their Hong Kong business.

(ii) Taxation of gains

No profits tax is imposed in Hong Kong in respect of capital gains from the sale of property, such as shares. Trading gains from the sale of property by persons who carry on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business are liable to profits tax, which is currently imposed at the rate of 17.5% for corporations and at a maximum rate of 16% for individuals. Gains from the sale of H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

(iii) Stamp duty

The sale and purchase of H Shares will be subject to stamp duty payable by both the seller and the buyer at the current rate of 0.1% of the consideration or, if higher, the fair value of the H Shares transferred (i.e. a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). A fixed rate of duty of HK\$5 is also payable in respect of every instrument of transfer of H Shares.

(iv) Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolishes estate duty in respect of deaths occurring on or after 11 February 2006. In addition, estate duty in respect of deaths occurring on or after 15 July 2005, but before 11 February 2006, has been reduced to a nominal duty of HK\$100 in respect of estates which assessed value exceeds HK\$7.5 million. No estate duty is payable where the assessed value of the dutiable estate does not exceed HK\$7.5 million.

3. ARTICLES OF ASSOCIATION

This section contains summary of the principal provisions of the Articles of Association (and the relevant articles therein shall be referred to as the “Articles”) adopted, with certain amendments thereto being approved, at the extraordinary general meeting of the Company held on 18 February 2005, and a related commentary. The full Chinese text of the Articles of Association is available for inspection as mentioned in the section headed “Documents delivered to the registrar of companies and available for inspection” in Appendix VI to this document.

(a) Directors*(i) Power to allot and issue shares*

There are no provisions in the Articles empowering the Directors to allot and issue shares.

In order to increase the share capital of the Company and issue new shares, the Board must prepare a detailed plan and draft of amendments to the Articles to permit the increase for approval by Shareholders in general meeting by way of special resolution, subject to the relevant procedures and the approval of the relevant regulatory authorities of the PRC.

(ii) Power to dispose of assets of the Company or its subsidiaries

The Board shall not, without the prior approval of Shareholders in general meeting, dispose of or agree to dispose of any fixed assets of the Company where the aggregate of:

- (A) the amount or value of the consideration for the fixed assets proposed to be disposed, and

- (B) where any fixed assets of the Company have been disposed of in the period of four months immediately preceding the proposed disposition, the amount or value of the consideration for any such disposition,

exceeds 33% of the value of the Company's fixed assets as shown in the latest balance sheet placed before the Shareholders in general meeting. The validity of a disposition by the Company shall not be affected by the breach of the relevant Article. For the purpose of such Article, disposition includes an act involving the transfer of some interest in property other than by way of security.

(iii) Remuneration and payments for loss of office

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a Director or a Supervisor wherein his emoluments are stipulated, including:

- (A) emoluments in respect of his service as director, supervisor or senior management officer of the Company;
- (B) emoluments in respect of his service as director, supervisor or senior management officer of any subsidiary of the Company;
- (C) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries; and
- (D) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the above matters.

The contract concerning the emoluments between the Company and its Directors or Supervisors should provide that in the event of a takeover of the Company, the Directors and Supervisors shall, subject to the prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of the Company" referred to in this paragraph means any of the following:

- (A) an offer made by any person to the general body of shareholders; or
- (B) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles.

If the relevant Director or Supervisor does not comply with the above provisions, any sum so received by him shall belong to those persons who have sold their Shares as a result of the said offer made. The expenses incurred in distributing that sum pro rata amongst the aforesaid persons shall be borne by the relevant Director or Supervisor and not paid out of the sum so distributed.

(iv) Loans to Directors, Supervisors and other senior management officers

The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director, supervisor, general manager, or other senior management officer of the Company or of the Company's holding company or a person connected with any of them. However, the following transactions are not subject to such prohibition:

- (A) the provision by the Company of a loan or a guarantee in connection with the making of a loan to a subsidiary;
- (B) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its Directors, Supervisors, general manager, and other senior management officers to meet the expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; or
- (C) the Company may make a loan to or provide a guarantee in connection with a loan to any of its Directors, Supervisors, general manager and other senior management officers or their connected persons in the ordinary course of its business and on normal commercial terms, where the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

A loan made by the Company in breach of the prohibition described above shall be forthwith repayable 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 be unenforceable against the Company, unless:

- (A) the guarantee was provided in connection with a loan to a person connected with a director, supervisor, general manager or other senior management officer of the Company or its holding company and at the time the loan was advanced the lender was not aware of the relevant circumstances; or
- (B) the security provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the purpose of this paragraph:

- (A) a guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor; and
 - (B) the definition of a connected person in sub-paragraph (xi) below shall, *mutatis mutandis*, apply.
- (v) *Financial assistance to purchase shares in the Company or any of its subsidiaries*

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company or its subsidiaries to any person acquiring or intending to acquire the shares of the Company. The person(s) acquiring the shares of the Company aforesaid shall include the person(s) who undertake(s), directly or indirectly, obligations as a result of an acquisition of shares of the Company.

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company or its subsidiaries to reduce or release the obligations of the said person(s) undertaking such obligations.

The following transactions are not prohibited:

- (A) the provision of financial assistance where the financial assistance is given in good faith in the interests of the Company and the principal purpose in giving that assistance is not for the acquisition of shares in the Company, or the assistance is but an incidental part of some larger purpose of the Company;
- (B) a distribution of the Company's assets by way of dividend in accordance with law;
- (C) the allotment of bonus shares as dividends;
- (D) a reduction of share capital, a repurchase of shares of the Company, a reorganisation of the capital structure of the Company effected in accordance with the Articles;
- (E) the lending of money by the Company in the ordinary course of its business where the lending of money is part of its scope of business, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company;
- (F) the provision of money by the Company for contributions to employees' shares schemes, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company.

For the purposes of the foregoing provisions:

(A) “financial assistance” includes without limitation:

- (1) assistance given by way of gift;
- (2) assistance given by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor), or indemnity (other than an indemnity in respect of the Company’s default), or by way of release or waiver;
- (3) assistance given by way of a loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party to the agreement, or by way of the novation of, or the assignment of rights arising under, a loan or such other agreement; or
- (4) any other assistance given by the Company when the Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced by a material extent, and

(B) “undertaking” includes the changing of one’s financial position by making an agreement or arrangement (whether enforceable or not, and whether made on his own account or with any other person) or by any other means.

(vi) *Disclosure of interests in contracts with the Company or its subsidiaries*

Where a Director, Supervisor, general manager or other senior management officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, other than his contract of service, he shall disclose the nature and extent of his interests to the Board at the earliest opportunity, whether or not the related matters are under normal circumstances subject to the approval of the Board. Unless the interested Director, Supervisor, general manager or other senior management officer has disclosed his interest in accordance with the Articles and the contract, transaction or arrangement has been approved by the Board at a meeting in which such interested Director is not counted in the quorum and has abstained from voting, that contract, transaction or arrangement is voidable at the instance of the Company except as against a bona fide party acting without notice of the breach of duty by the Director, Supervisor, general manager or other senior management officer concerned. For the purposes of the foregoing, a Director, Supervisor, general manager or senior management officer is deemed to be interested in a contract, transaction or arrangement in which a person connected with him is interested.

Where a Director, Supervisor, general manager or senior management officer gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be made by the Company, that notice shall be deemed for the purposes of the Articles to be a sufficient disclosure of his interests, so far as attributable

to those facts, in relation to any contract, transaction or arrangement of that description which may subsequently be made by the Company, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

(vii) Remuneration

The emoluments of a Director shall be approved by Shareholders in general meeting as referred to under the paragraph headed “Remuneration and payments for loss of office”.

(viii) Retirement, appointment and removal

The term of office of the Chairman and other Directors shall be three years commencing from the date of appointment or re-election, renewable upon re-election.

The Board shall consist of nine members, and shall have one Chairman and three independent non-executive Directors. The Chairman shall be elected and removed by half of the members of the Board.

Directors shall be elected by Shareholders in general meeting for a term of three years. Upon the expiry of the term, a Director shall be eligible for re-election. More than half of the members of the Board shall be external Directors (Directors who are not working in the Company).

External Directors shall have sufficient time and the necessary knowledge and ability in performing their duties. In performing his duties as an external Director, the Company shall provide all the necessary information.

A Director is not required to hold any shares in the Company.

A Director may be removed prior to the expiration of his term of office with the sanction of an ordinary resolution of a general meeting. There is no stipulation that a Director must retire at a certain age.

(ix) Borrowing powers

The Board has powers to formulate proposals for the issue of bonds of the Company.

There are no provisions in the Articles stipulating the manner of varying the borrowing powers exercisable by the Board. However, such powers, as with other provisions in the Articles, may be altered by way of special resolution of Shareholders in general meeting.

(x) Notice and minutes of board meetings

Meetings of the Board shall be held at least four times every year and be convened by the chairman of the Board. Notice of such Board meetings shall be given to all the Directors and Supervisors 14 days before the date of the meeting. An extraordinary meeting of the Board may be held upon request of the entitled shareholder(s) representing one-tenth or more of voting rights, the supervisory committee, the general manager of the Company or a one-third or more of the Directors. The chairman of the Board shall convene and preside over the extraordinary meeting of the Board within ten days from receiving the request.

The chairman of the Board may propose to convene extraordinary Board meetings as he deems necessary.

Notice of Board meetings (excluding extraordinary Board meetings) shall be given in a manner and within a time frame as follows:

- (i) Notice shall not be required for the convening of regular meetings of the Board where the time and place has been fixed by the Board in advance. If the time and place of the Board meeting has not been fixed by the Board in advance, the chairman of the Board shall instruct the secretary of the Board to, either by telex, telegram, facsimile, express special delivery, registered post or by hand, give the notice of the time and place of that Board meeting to all the Directors at least 14 days before the convention of the meeting. However, such notice requirement shall not apply to extraordinary Board meetings.
- (ii) Regular or extraordinary Board meetings may be conducted by telephone or other means of communications, provided that all the participating Directors can hear and speak to each other, and in such cases, all participating Directors shall be deemed to have attended the meeting in person, save and except certain matters set out in the Articles of Association.

Board meetings shall be held only if more than one-half of the Directors are present.

Each Director shall have one vote. Resolutions of the Board require the approval of more than half of all the Directors.

Where the numbers of votes voting for and against a resolution are equal, the chairman of the Board shall have a casting vote.

(xi) Duties

Each Director, Supervisor, general manager or other senior management officer owes a duty, in the exercise of his powers and the discharge of his duties, to exercise the care, diligence and skill that a reasonable prudent person would exercise in comparable circumstances.

In addition to the obligations imposed by laws, administrative regulations or required by the stock exchanges on which shares of the Company are listed, each Director, Supervisor, general manager and other senior management officer owes a duty to each shareholder, in the exercise of the powers of the Company entrusted to him:

- (A) not to cause the Company to exceed the scope of business stipulated in its business licence;
- (B) to act honestly in what he considers to be in the best interests of the Company;
- (C) not to expropriate in any way the Company's property, including without limitation, opportunities beneficial to the Company; and
- (D) not to expropriate the individual rights of shareholders, including, without limitation, rights to distribution and voting rights, save and except pursuant to a reorganisation of the Company submitted to shareholders for approval in accordance with the Articles.

Each Director, Supervisor, general manager or other senior management officer owes a duty, in the exercise of powers of the Company entrusted to him, to observe his fiduciary obligations and not to place himself in a position where his duties and his interests may conflict. This principle applies to, without limitation, the following obligations:

- (A) to act honestly in what he considers to be in the best interests of the Company;
- (B) to exercise the powers within his authority without abuse;
- (C) to personally exercise the discretion vested in him and not allow himself to act under the direction of another and, unless and to the extent permitted by law or administrative regulations or with the informed consent of shareholders in general meeting, not to delegate the exercise of his discretion;
- (D) to treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;
- (E) except in accordance with the Articles or otherwise permitted by informed Shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (F) unless otherwise permitted by informed Shareholders in general meeting, not to use the Company's property for his own benefit;
- (G) not to obtain bribe or other illegal income by using his authority or to expropriate in any manner the Company's property, including, without limitation, not to usurp any opportunities beneficial to the Company;

- (H) unless otherwise permitted by informed Shareholders in general meeting, not to accept commissions paid by a third party in connection with the Company's transactions;
- (I) to abide by the Articles, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance private interests of his own or others in related, such as figuring for business opportunities which essentially belong to the Company, not to conduct the same kind of business affairs as those of the Company for himself or as an agent of others;
- (J) unless otherwise permitted by informed shareholders in general meeting, not to compete in any form with the Company;
- (K) not to embezzle the Company's funds, and not to deposit the Company's funds in accounts opened in his own name or in the name of other persons, and not to lend the Company's funds to others in breach of the Articles without a permission of Shareholders' meeting or the Board meeting, and not to use the Company's assets to provide security for others; and
- (L) unless otherwise permitted by informed Shareholders in general meeting, not to disclose confidential information of the Company acquired by him in the course of and during his tenure and not to use such information other than in furtherance of the interests of the Company, save and except that disclosure of such information to the court or other governmental authorities is permitted if (i) the disclosure is required by law; (ii) it is in the public interest; or (iii) such disclosure is necessary to protect the interests of that Director, Supervisor, general manager or senior management officer.

In accordance with his fiduciary obligations, a Director, Supervisor, general manager or other senior management officer shall not cause a person connected with him to do what he is prohibited from doing. A person is connected with a Director, Supervisor, general manager or other senior management officer if he is:

- (A) the spouse or minor child of that Director, Supervisor, general manager or other senior management officer;
- (B) a person acting in the capacity of trustee of a Director, Supervisor, general manager, other senior management officer or any person referred to in (A) above;
- (C) a person who is a partner of a Director, Supervisor, general manager, other senior management officer or any person referred to in (A) or (B) above;
- (D) a company in which a Director, Supervisor, general manager or other senior management officer, alone or jointly with one or more persons referred to in (A), (B) and (C) above or other Director, Supervisor, general manager or other senior management officer, has de facto control; or

- (E) a director, supervisor, general manager or other senior management officer of a company referred to in (D) above.

The fiduciary duties of a Director, Supervisor, general manager or other senior management officer under the Articles do not necessarily cease with the termination of his term of office.

Their duty of confidence in relation to trade secrets of the Company survives the termination of their term of office. Other duties may continue for such period as fairness may require depending on the time lapse between such termination and the act concerned and the circumstances and the terms under which the relationship with the Company was terminated.

Subject to the provisions with regard to the duties of controlling shareholders defined in paragraph (r) below towards other Shareholders as set out in the Articles, a Director, Supervisor, general manager or other senior management officer may be relieved of liability for specific breaches of his duty by the informed consent of Shareholders in general meeting.

(b) Alterations to constitutional documents

The Company may amend the Articles in accordance with the following procedures:

- (i) the Board needs to prepared the draft of amendment to the Articles in accordance with the Articles;
- (ii) Shareholders shall be informed of the draft of amendments and a meeting of Shareholders shall be convened to vote on the amendments;
- (iii) the amendments shall require the sanction by a special resolution of Shareholders in general meeting; and
- (iv) any amendments to the Articles involving the contents of the Mandatory Provisions shall be effective only after being approved by the relevant departments of the State Council and CSRC. With respect to matters involving registration, any change of registration shall be effected according to law.

(c) Variation of rights of existing Shares or classes of Shares

Rights conferred on any class of Shareholders in the capacity of Shareholders (“class rights”) may not be varied or abrogated unless approved by way of special resolution of Shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles. The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) the increase or decrease in the number of Shares of such class, or an increase or decrease in the number of Shares of a class having voting or distribution rights or other privileges equal or superior to the Shares of such class;

- (ii) the exchange of all or part of the Shares of such class or the exchange or the grant of a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (iii) the removal or reduction of rights to accrued dividends or rights to cumulative dividends attached such class;
- (iv) the reduction or removal of any preference to dividends or any preference to a distribution of assets upon the Company's liquidation;
- (v) the addition, removal or reduction of the right of such class in relation to conversion into shares, option, voting power, transfer or pre-emptive rights to acquire securities of the Company;
- (vi) the removal or reduction of rights of such class to receive payment in particular currencies from the Company;
- (vii) the creation of a new class of Shares having voting or distribution rights or other privileges equal or superior to the Shares of such class;
- (viii) the imposition of restrictions on the transfer or ownership of the Shares of such class or the addition of such restrictions;
- (ix) the allotment and issue of rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) the increase of the rights or privileges of another class;
- (xi) the reorganisation of the Company which will result in different classes of shareholders bearing disproportionate burdens in such proposed reorganisation; and
- (xii) the variation or abrogation of provision in this part of the Articles.

(d) Ordinary and special resolutions – majority required

Resolutions of general meetings of Shareholders shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution shall be passed by more than one half of the voting rights carried by the Shareholders (including proxies) present at the meeting 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) present at the general meeting exercised in favour of the resolution.

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

Holders of Domestic Shares and H Shares present at a general meeting have one vote of voting rights for each Share they hold.

At any meeting of Shareholders a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least two Shareholders having the right to vote either present in person or by proxy; or
- (iii) by one or more Shareholders present in person or by proxy and representing one-tenth or more of all Shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman as to the passing of the resolution based on the results of a show of hands and an entry to that effect in the minutes of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who made the demand. A poll demanded on the election of the chairman of the meeting, or on adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the 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 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 at which whether the show of hands takes place or at which the poll is demanded shall be entitled to one extra vote.

(f) 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. Annual general meetings are held once every year within six months after the last financial year end.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of the following events:

- (i) when the number of Directors falls below the number required by the Company Law or two thirds of the number required by the Articles of Association;

- (ii) when the losses of the Company which have not been made good amount to one third of the total paid up share capital of the Company;
- (iii) upon written requisition of the Shareholder(s) holding individually or collectively 10% or more of the Company's issued and outstanding shares carrying voting rights for the convening of an extraordinary general meeting;
- (iv) when the Board deems necessary or the supervisory committee of the Company proposes to convene the same; or
- (v) when two (or more) independent non-executive Directors propose to convene the same.

(g) Accounts and audit

The Company shall formulate its own financial and accounting system in accordance with the relevant requirements of PRC laws, administrative regulations and the PRC accounting standards formulated by the department in charge of finance under the State Council.

The Board of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent local government and the authority-in-charge to be prepared by the Company.

The financial reports of the Company shall be deposited at the Company for inspection by its Shareholders not later than 20 days before the annual general meeting.

Each shareholder of the Company shall be entitled to receive a copy of the financial statements referred to in the Articles. The Company shall send by prepaid mail 21 days before the annual general meeting the above reports to each holder of overseas listed foreign shares. The service address shall be the address in the register of shareholders of the Company.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or those of the place where the Company's H Shares are listed. If there is any material difference between the financial statements prepared in accordance with the respective sets of accounting standards, such difference shall be stated in the notes to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with international accounting standards or those of the place where the Company's H Shares are listed, and with the PRC accounting standards and regulations.

The Company shall publish its financial reports twice every financial year; interim reports shall be published within 60 days after the end of the first six months of each financial year and annual reports shall be published within 120 days after the end of the financial year.

The appointment, dismissal or termination of the office of the auditors shall be determined at Shareholders' general meetings and reported to the relevant State Council securities regulatory authorities for record.

Shareholders in general meeting may by ordinary resolution remove the Company's auditors before their term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditors. Any right of the auditors to claim against the Company in connection with their removal shall not be affected by such removal.

In the event of the dismissal or termination of the services of the auditors, such auditors who are to be dismissed or whose services are to be terminated shall be given notice in advance. Such auditors shall have the right to present their views at the following Shareholders' general meetings:

- (i) the Shareholders' general meeting at which their term of office would otherwise have expired;
- (ii) any Shareholders' general meeting at which it is proposed to fill the casual vacancy caused by their removal; or
- (iii) any Shareholders' general meeting convened on their resignation.

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

The Shareholders' general meeting is the organ of authority of the Company and shall exercise its functions according to law.

Notice of meetings of Shareholders shall be given 45 days before the meeting. A notice of meeting of Shareholders shall:

- (i) be in writing;
- (ii) specify the place, the date and the time of the meeting;
- (iii) state the general nature of the business to be transacted at the meeting;
- (iv) provide such information and explanation as are necessary for the Shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;

- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, general manager or other senior management officer in the transaction to be discussed and the effect of the transaction to be discussed on such Director, Supervisor, general manager or other senior management officer in his capacity as shareholder in so far as it is different from the effect on the interests of other shareholders of the same class;
- (vi) contain the full text of any special resolution proposed to be moved at the meeting;
- (vii) contain conspicuously 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 need not also be a Shareholder; and
- (viii) specify the time and place for lodging proxy forms for the relevant meeting. In respect of holders of H Shares, notice of general meetings of Shareholders shall be served on each Shareholder, whether or not entitled to vote thereat, by hand or prepaid mail to the address of any such Shareholder as appearing on the register of holders of H Shares.

In respect of holders of Domestic Shares, notice of general meetings of shareholders can be published on any one day within the period of 45 to 50 days prior to the meeting in one or more publications specified by the State Council securities regulatory authority. Once published, all holders of Domestic Shares shall be deemed to have received the notice of the relevant general meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that meeting or any resolutions passed thereat.

The following matters shall be resolved by an ordinary resolution at a Shareholders' general meeting:

- (i) work reports of the Board and the supervisory committee;
- (ii) plans formulated by the Board for the distribution of profits and for making up losses;
- (iii) appointment and removal of the members of the Board and Supervisors of the supervisory committee who are not the representatives of staff, their remuneration and method of payment;
- (iv) annual preliminary and final budgets, balance sheets and income statements and other financial statements of the Company; and
- (v) matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a Shareholders' general meeting:

- (i) the increase or decrease of share capital of the Company and the Company's issue of Shares of any class, warrants and other similar securities;
- (ii) the issue of debentures of the Company;
- (iii) the division, merger, dissolution and or alteration to the form of the Company;
- (iv) amendments to the Articles of Association;
- (v) where any material assets of the Company have been disposed of, or a guarantee has been provided in the period of a year, the amount purchased or of which, exceeds 30% of the value of the Company's total assets as shown in the latest audited balance sheet; and
- (vi) any other matters considered by the Shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

(i) Transfer of shares

All fully paid H Shares listed in Hong Kong are freely transferable pursuant to the Articles.

The Board may refuse to recognise any instrument of transfer without giving any reason unless such transfer is carried out in compliance with the following conditions:

- (i) payment of HK\$2.50 or maximum fee (whichever is lower) as agreed by the Stock Exchange has been made to the Company for the purpose of registering the instrument of transfer and other documents relating to or which may affect the title to the Shares;
- (ii) the instrument of transfer only involves the H Shares listed in Hong Kong;
- (iii) the stamp duty payable on the instrument of transfer has been paid;
- (iv) relevant share certificate and evidence that the transferor has the right to transfer such Shares as reasonably required by the Board have been provided;
- (v) if the Shares are to be transferred to joint holders, the number of joint holders shall not exceed 4; and
- (vi) the Company has no lien over the relevant Shares.

The overseas listed foreign shares of the Company shall be transferred by way of such standard transfer forms as prescribed by the Stock Exchange from time to time.

(j) Register of shareholders

The Company shall keep a register of Shareholders and enter therein the following particulars:

- (i) the name, address, occupation (or description of nature) of Shareholders, the class and the number of each class of Shares held, the amount paid or payable on the Shares and, the serial number of the share certificates held by each Shareholder;
- (ii) the date on which each person acquired the Shares;
- (iii) the date on which each person was entered in the register as a Shareholder; and
- (iv) the date on which any person ceased to be a Shareholder.

The Company shall have a complete register of Shareholders which shall be comprised of the following parts:

- (i) a part maintained at the Company's legal address in relation to Shares not required to be registered in the parts of the register referred to in (ii) and (iii) below;
- (ii) a part maintained in the place where the stock exchange on which the Company's overseas listed securities are listed is located; and
- (iii) any part in such other places as the Board may deem necessary for listing purposes.

The Company may appoint overseas agents to manage the register of Shareholders outside the PRC. A duplicate of parts of the register of Shareholders maintained pursuant to (ii) and (iii) above shall be maintained at the Company's legal address. The appointed overseas agents shall ensure that the original of any overseas part of the register of Shareholders is consistent with the duplicate thereof. In the event of discrepancy, the information recorded in the original part shall prevail. Different parts of the register of Shareholders shall not overlap. No transfer of any Shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register of Shareholders. The alteration and rectification of each part of the register of Shareholders shall be made in accordance with the laws of its situs. The register of Shareholders shall be conclusive evidence, in the absence of evidence to the contrary, of a shareholding in the Company.

(k) Power of the Company to purchase its own shares and reduce its share capital

Subject to governmental approvals, the Company may, subject to the provisions set out in the Articles, repurchase its own shares. A share repurchase may only be made (under one of the following situations):

- (i) under an offer to all Shareholders in proportion to their respective holdings;
- (ii) on a stock exchange by way of public transaction; or

- (iii) by an off-market contract.

The Company may, with the prior sanction of Shareholders obtained in accordance with the Articles, repurchase its shares by an off-market contract, but the Company may release or modify its rights under a contract so entered into by the Company with the prior approval of Shareholders obtained in the same manner. A contract to repurchase shares includes but is not limited to an agreement to become obliged to repurchase or to acquire rights to repurchase shares of the Company. The Company shall not assign its rights under a contract to repurchase its own shares.

Unless the Company has commenced liquidation:

- (i) where the Company repurchases its own shares at nominal value, payment may be made out of the book balance of the distributable profits of the Company and/or out of the proceeds of a fresh issue of shares made for that purpose;
- (ii) where the Company repurchases its own shares at a premium, payment of the portion equivalent to the nominal value may be made out of the book balance of the distributable profits of the Company and/or out of the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the nominal value shall be effected as follows:
 - (A) if the Shares being repurchased were issued at nominal value, payment shall be made out of the book balance of the distributable profits of the Company;
 - (B) if the Shares being repurchased were issued at a premium, payment shall be made out of the book balance of the distributable profits of the Company and/or out of proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue may not exceed (1) the aggregate of premiums received by the Company on the issue of the Shares repurchased, or (2) the amount of the Company's Share premium account (or capital reserve fund account) at the time of such repurchase including the premiums on the fresh issue of Shares;

Payment by the Company in consideration for the following purposes shall be made out of the Company's distributable profits:

- (A) the acquisition of the right to repurchase shares of the Company;
- (B) the variation of any contract to repurchase shares of the Company; or
- (C) the release of any of the Company's obligations under any contract to repurchase shares of the Company.

Shares repurchased by the Company shall be cancelled or transferred and the amount of the Company's registered capital shall be reduced by the par value of those shares accordingly. The amount which has been deducted from the distributable profits and which has been used for repurchasing the nominal value of the Shares shall be credited to the share premium account (or capital reserve fund account).

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice in a newspaper within 30 days thereof.

Creditors who receive this notice shall have the right within 30 days from the date of receiving the notice, and the creditors who have not received the notice shall have the right within 45 days from the date of the notice was first published in the newspaper, to require the Company to settle the debt or to provide the corresponding guarantee in respect of the debt.

The registered capital shall not be less than the minimum statutory requirement after the reduction of capital.

(l) Power for any subsidiary of the Company to own shares in the Company

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

(m) Dividends and other methods of distribution

Unless otherwise resolved at a Shareholders' general meeting, the Board as authorised by Shareholders in general meeting has the authority to distribute interim or special dividend.

The Company may distribute dividends by way of cash dividends and/or bonus shares. Cash dividends and other distributions payable on Domestic Shares shall be paid in Renminbi. Cash dividends and other distributions payable in respect of H Shares shall be declared in Renminbi and payable in Hong Kong dollars in accordance with relevant provisions of foreign exchange control of the PRC.

When distributing dividends, the Company shall make such withholdings for income tax from dividends payable to Shareholders as may be required in accordance with PRC tax law.

The Company shall appoint a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owing by the Company in respect of H Shares. Such receiving agent shall be registered as a trust company under the Trustee Ordinance of Hong Kong.

(n) Proxies

Any Shareholder entitled to attend and vote at a shareholders' meeting of the Company shall be entitled to appoint one or more persons (whether a Shareholder or not) as his proxies to attend and vote instead of him, and a proxy so appointed shall:

- (i) have the same rights as the Shareholder to speak at the meeting;
- (ii) have authority to demand or join in demanding a poll; and
- (iii) have 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.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a company either under seal or under the hand of a director or attorney duly authorised, or if the appointor is a recognized clearing house, the instrument shall be under its legal person seal or under the hand of its directors or other staff internally granted the relevant authority or under the hand of a person or attorney duly authorized. The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, shall be deposited at the legal address of the Company or at such other place specified in the notice convening the meeting, not less than 24 hours before the time for holding the relevant meeting on 24 hours before conducting the designated voting at which the proxy proposes to vote or the time appointed for the taking of the poll.

Any form issued to a Shareholder by the Board for use by him for appointing a proxy to attend and vote at a meeting of the Company shall be such as to enable the Shareholder, according to his intention, to instruct the proxy to vote in favour of or against respectively each resolution to be voted on and dealing with the business to be transacted at the meeting. Such a form shall contain a statement that, in the absence of such instructions, the proxy may vote as he thinks fit. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the relevant meeting at which the proxy is used.

(o) Calls on Shares and forfeiture of Shares

There are no provisions in the Articles relating to making of call on or forfeiture of Shares.

(p) Inspection of register of Shareholders and Shareholders' other rights

The ordinary shareholders of the Company shall enjoy the following rights:

- (I) to receive dividends and other distributions in proportion to the number of Shares held;
- (II) to attend or appoint a proxy to attend on his behalf Shareholders' general meetings and to exercise voting right thereat;
- (III) to supervise the business operations and activities of the Company and to give advice or raise questions;
- (IV) to transfer his Shares according to laws, administrative regulations and the provisions of the Articles;

- (V) to obtain the following information in accordance with the Articles:
- (i) the right to obtain a copy of the Articles after payment of a fee representing the Company's costs;
 - (ii) the right to inspect and obtain copy after payment of reasonable charges:
 - (A) all parts of the register of Shareholders;
 - (B) particulars of each of the Directors, Supervisors, general manager and other senior management officers as follows:
 - (1) his present name and any former name or alias;
 - (2) his principal residential address;
 - (3) his nationality;
 - (4) his primary and all other business occupations; and
 - (5) his identification document and its number;
 - (C) the status of the Company's share capital;
 - (D) reports showing the aggregate number and par value of each class of the Shares repurchased by the Company since the end of the last financial year, total face value, the aggregate amount paid by the Company in connection with such repurchase and the maximum and minimum prices paid; and
 - (E) (1) minutes of shareholders' meetings and (2) special resolution(s) of shareholders' meeting;
 - (F) resolutions of meeting of the Board;
 - (G) resolutions of the supervisory committee;
 - (H) reports on finance and accounting (including the related directors' report, auditors' report and the supervisory committees' report);
 - (I) counterfoil of the company bonds;
 - (J) copy of the latest annual return filed with the administration for industry and commerce or other authorities of the People's Republic of China.
- (VI) to participate, in the event of the termination or liquidation of the Company, in the distribution of surplus assets of the Company in proportion to the number of Shares held;
- (VII) other rights conferred by the Articles and the relevant laws and regulations.

(q) Quorum for Shareholders' meetings and class meetings

A shareholder proposing to attend a Shareholder's general meeting shall deposit a written reply confirming his attendance 20 days prior to the holding of the meeting. The Company shall, according to the written replies received 20 days prior to the holding of a Shareholders' general meeting, calculate the number of Shares carrying the right to vote represented by the Shareholders proposing to attend the meeting. If the number of Shares carrying the right to vote represented by the Shareholders proposing to attend the meeting reaches more than half of the total number of shares of the Company carrying the right to vote, then the Company may hold the Shareholders' general meeting; if that number is not reached, the Company shall within five days notify the Shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the Shareholder's general meeting.

The above procedure applies mutatis mutandis to Shareholders of the relevant class of Shares in respect of class meetings.

(r) Rights of minority Shareholders in relation to fraud or oppression

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange(s) on which the Shares are listed, a controlling shareholder (defined below) shall not exercise his voting rights in a manner prejudicial to the interests of all or some of the Shareholders of the Company in respect of the following matters:

- (i) in relieving a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (ii) permitting a Director or Supervisor (for his own benefit or for the benefit of another person) to deprive the Company's assets in whatever manner, including without limitation, opportunities beneficial to the Company; or
- (iii) permitting a Director or Supervisor (for his own benefit or for the benefit of another person) to deprive the individual rights or interest of other Shareholders, including without limitation, rights to distributions and voting rights save and except pursuant to a reorganisation of the Company submitted to the Shareholders for approval in accordance with the Articles.

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

- (i) the Shares he holds exceed 50% or more of the total capital of the Company;
- (ii) the proportions of the Shares he holds is lower than 50%, yet the votes represented by the Shares he holds have been enough to greatly affect the resolutions of a general meeting;
- (iii) he alone or acting in concert with others has the power to elect more than half of the Directors;

- (iv) he alone or acting in concert with others has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (v) he alone or acting in concert with others holds 30% or more of the issued Shares;
or
- (vi) he alone or acting in concert with others in any other manner is in de facto control of the Company.

(s) Shareholders' rights relating to, and procedures on, liquidation

Shareholders have the right to participate in the distribution of the surplus assets of the Company in proportion to the number of Shares held by them in the event of a liquidation of the Company.

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (i) when the business period stipulated by the Articles expires or other reasons stipulated by the Articles for dissolution appear;
- (ii) where the Shareholders' general meeting resolves that the Company should be dissolved;
- (iii) where dissolution is necessary as a result of the merger or division of the Company;
- (iv) where the business license is revoked according to laws or where the Company is ordered to be closed down or quashed;
- (v) when the Company is ordered to be closed down by the people's court for reason of its violation of Article 183 in the Company Law.

Where the Board decides to liquidate the Company otherwise than because of a declaration of insolvency, the Board shall, in the notice convening the general meeting of Shareholders for this purpose, include a statement to the effect that, after having made full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

In the event the Company shall be dissolved under the provisions of (i), (ii), (iv) & (v) above, it shall within 15 days thereof set up a liquidation team, the members of which shall be Directors or persons determined by an ordinary resolution passed in the general meeting. If a liquidation team is not set up within the said period, a creditor can petition to the People's Court for the constitution of such liquidation term and implement the liquidation.

In the event the Company shall be declared bankruptcy it shall proceed with the liquidation in accordance with the relevant law on bankruptcy.

Upon the passing of the relevant resolution to liquidate the Company, all powers of the Board shall cease.

The liquidation team shall follow the directions of the general meeting:

- (i) at least once each year report to the general meeting on the team's revenue and expenses, the business of the Company and the progress of liquidation; and
- (ii) present a final report to the shareholders' general meeting on completion of the liquidation.

(t) Other provisions material to the Company or its shareholders

(i) Scope of Business

The major scope of the Company's operations include, among other things, sale of foodstuff, pre-shaped packaged food products (including chilled dairy products), individually packaged food products, cooked food products, raw meat, dried and fresh fruits, vegetables, non-staple foodstuff, health food products, beverages, wine, cereal and oil products, fodder, general merchandise, knitted and weaved goods, hardware and electronic and chemical products, mobile telephone handsets, medical equipment (categories I), cars, artifacts, flowers and plants, magnetic cards, clothes, jewellery, stationery, sporting goods and equipment, miscellaneous daily products, labour work related products, furniture, clocks and watches, spectacles, pets products, communication equipment, electronic products, planned fertility products, cosmetic products; repair of communication equipment; retail of over-the-counter drugs (category B), food, PRC published books, periodicals, newspapers and electronic publications, audio-visual articles, golden ornaments, photocopying and catering services (operated by branches and sub-branches); cigarettes; cigars, fireworks, fire crackers; import and export business; import and export of technology business; import and export agency; commercial facilities leasing; laundry services; enlargement and printing of colour film; warehousing services; commodity delivery; development of technology, transfer of technology, technological consultation, technological services; e-commerce; seamstress services; commercial equipment manufacture; processing of foodstuffs and non-staple foodstuffs; photographic services; repairs of articles for daily use; jewellery processing to be produced at the premises: noodle products, decorated cakes, staple food, fast food, snacks; sale of monthly tickets as agent; lock repair, key duplication. The following shall be operated by branches: property management, vehicle parking facilities; processed bean curd, soya milk, soya products; property development. (The scope of business approved by the administration for industry and commerce and regulatory department shall prevail.)

(ii) Effect of the Articles

The Articles were approved by the Company at the annual general meeting held on 18 May 2007 and become effective upon filing with the administration for industry and commerce and regulatory department. Relevant provisions of the Articles regarding withdrawal of listing on GEM and listing on the Main Board by way of introduction

were amended and approved by the Company at the extraordinary general meeting held on 20 March 2007 and become effective upon approval by the relevant governmental departments (if required) from the time of withdrawal of the listing of the Company on GEM and the commencement of its listing on the Main Board and shall be filed with the PRC companies registration authority. From the date when the Articles take effect, the Articles constitute a legally binding document regulating the relationship between the Company and each Shareholder and among the Shareholders. A Shareholder may bring an action against the Company and vice versa and against each other or against the Directors, Supervisors, general manager or other senior management officers in respect of rights and obligations concerning the affairs of the Company arising out of the Articles. For these purposes, actions include court proceedings and arbitration proceedings.

(iii) Legal form of the Company

- (A) The Company is a joint stock limited company. It is an independent legal entity, governed and protected by laws, regulations and other governmental provisions of the PRC.

The Company has perpetual existence unless and until terminated and liquidated in accordance with the Articles.

A company may invest in other enterprises. However, unless otherwise required by the laws, it shall not become the contribution party which accepts joint and several liabilities of the obligations of the invested enterprise.

- (B) Shares and transfers

Upon approval by the State Council securities regulatory authority, the Company may issue shares to domestic investors and foreign investors.

For the purpose of the foregoing paragraph, “foreign investors” refer to investors outside the PRC and investors from Hong Kong, Macau and Taiwan who subscribe for the shares issued by the Company; and “domestic investors” refer to investors within the PRC other than investors from the territories referred to above who subscribe for the shares issued by the Company. Foreign shares are subscribed by foreign investors (including investors from the regions of Hong Kong, Macau and Taiwan) in foreign currencies or otherwise permitted under PRC laws. Domestic shares are subscribed for in Renminbi by investors within the PRC other than investors from the territories referred to above.

Foreign shares listed overseas are known as overseas listed foreign shares (including, but not limited to H shares). H Shares are foreign shares listed on the Stock Exchange, which are subscribed for in Hong Kong dollars.

Subject to the approval by the securities regulatory authorities of the State Council, holders of Domestic Shares may transfer their Domestic Shares to overseas investors, and such shares may be listed and traded overseas; the listing and trading of such shares on an overseas stock exchange shall comply with the regulations of the overseas securities market, and the listing and trading of such shares on an overseas stock exchange are not subject to the approval of class meeting of the Shareholders. Save as otherwise provided in the Articles, holders of Domestic Shares and holders of foreign shares shall enjoy the same rights and assume the same obligations. The rights and obligations in respect of the Company enjoyed and assumed by Shareholders shall be limited to the extent of the number of Shares held by them. The Company shall be liable to its creditors to the extent of all of its assets.

The total amount of Shares to be issued by the Company under the Articles as currently constituted shall be not less than 366,620,000 shares and shall not exceed 384,620,000 shares including (i) 246,620,000 promoter shares already in issue at the time of establishment of the Company; and (ii) not less than 132,000,000 overseas listed foreign shares and not more than 151,800,000 overseas listed foreign shares.

The Company may, based on its business development requirements and in accordance with the Articles, increase its total registered capital. The increase in registered capital may be effected by the following methods:

- (1) by an issue of new Shares to unspecified investors;
- (2) by a placing of new Shares to the existing Shareholders;
- (3) by a bonus issue of Shares to the existing Shareholders; and
- (4) by any other method authorised by law and/or administrative regulations of the PRC.

Any increase in the capital of the Company shall be effected in accordance with the Articles and the procedures required by laws and administrative regulations of PRC.

(iv) Legal notices

Notices for Shareholders' meetings to be given by the Company to holders of H Shares must be served on holders of H Shares by hand to, or by post addressed to each holder of H Shares at, the address shown in the register of Shareholders. Notices for Shareholders' meetings to be given by the Company to holders of Domestic Shares may also be published in or one or more publications specified by PRC securities regulatory authority; once published, all holders of Domestic Shares shall be deemed to have received such notice.

(v) *Shareholders' obligations*

Ordinary Shareholders of the Company shall assume the following obligations:

- (A) to abide by the Articles;
- (B) to pay subscription monies according to the number of Shares subscribed and the method of subscription; and
- (C) other obligations imposed by the Articles and relevant laws and administrative regulations.

(vi) *Secretary of the Board*

The Company shall have one secretary of the Board. The secretary of the Board is a senior management officer of the Company.

The secretary shall be a natural person having the requisite professional knowledge and experience and appointed by the Board.

The secretary shall be mainly responsible for ensuring that the constitutional documents and records of the Company are in order, that the necessary reports and documents are prepared and submitted to relevant PRC authorities in accordance with law, that the register of Shareholders of the Company is properly maintained and that persons entitled to have access to records and documents of the Company are furnished with such records and documents without delay.

(vii) *Supervisory committee*

The Company shall have a supervisory committee. The supervisory committee is the Company's standing internal supervisory organ. The supervisory committee shall comprise of six members, each a Supervisor.

Four members of the supervisory committee shall be the representatives of Shareholders and the remaining two Supervisors shall be the representative of the staff of the Company. The representatives of the Shareholders shall be elected and removed by the Shareholders' general meeting; the representatives of the staff shall be elected and removed through democratic election by the staff of the Company. External Supervisors (being Supervisors who are not working in the Company) shall comprise more than half of the members of the supervisory committee, and there shall be two independent Supervisors (being Supervisors who are independent of the Shareholders and are not working in the Company).

The supervisory committee is accountable and reports to Shareholders in general meeting and shall exercise the following powers:

- (1) to examine the Company's financial affairs;
- (2) to supervise the Directors, general manager and other senior management officers to see whether they violate any laws, administrative regulations, the Articles or the resolutions of the Shareholder's general meeting in performing their duties and make a proposal to dismiss those from office whose behavior is in breach of the foresaid documents;
- (3) to require the Directors, general manager and other senior management officers to rectify their acts which are harmful to the Company;
- (4) to verify the financial reports, business reports and profit distribution plans proposed to be tabled at a Shareholders' general meeting and to appoint, in the name of the Company, a registered accountant to assist in reviewing them should any queries arise;
- (5) to propose to convene extraordinary general meetings of Shareholders and to convene and preside the general meeting of Shareholders when the Board does not perform its duty stipulated by the Company Law and the Articles on convening and presiding the general meeting of Shareholders;
- (6) to propose a resolution to the general meeting of Shareholders;
- (7) to represent the Company in negotiating with any Director or in initiating legal proceeding against any Director, general manager and other senior management officers;
- (8) to present its views to the accounting firm of the Company, and where necessary, separately appoint another accounting firm in the name of the Company to audit the accounts of the Company, and may directly report to the securities supervisory and regulatory body of the State Council and to other relevant departments; and
- (9) other powers as stipulated in the Articles.

Supervisors are entitled to attend and observe Board meetings. The chairman of the supervisory committee may be elected or removed with a two-third majority or more of the Supervisors. Each Supervisor shall not exceed 3 years. A supervisor may serve consecutive terms if re-elected. Resolutions of the supervisory committee shall be passed by a two-third majority or more of the Supervisors.

(viii) Dispute resolution

Whenever any disputes or claims arise in relation to the Articles, the Company Law or any rights or obligations conferred by any laws or administrative regulations concerning the affairs of the Company between the parties set out below, such disputes or claims shall, unless otherwise provided in the Articles, be referred to arbitration to either the CIETAC in accordance with its rules or to HKIAC in accordance with its securities arbitration rules, at the election of the claimant. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration shall be final and conclusive.

The above provisions apply to disputes or claims between the following parties:

- (A) a holder of overseas listed foreign shares and the Company;
- (B) a holder of overseas listed foreign shares and a Director, Supervisor, general manager or other senior management officer of the Company; and
- (C) a holder of overseas listed foreign shares and a holder of Domestic Shares.

Where a dispute or claim involves the above parties, the entire claim or dispute must be referred to arbitration and all persons (being Shareholders, Directors, Supervisors, general manager or other senior management officers of the Company or 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 such dispute or claim, shall submit to arbitration.

Unless otherwise provided in laws and administrative regulations, any of the above disputes or claims between the above mentioned parties shall be resolved in accordance with the laws of the PRC.

4. PRC LEGAL MATTERS

Jun Ze Jun Law Offices, the Company's legal advisers on PRC law, has sent to the Company a letter confirming that they have reviewed the summary of relevant laws and regulations contained in this Appendix and that in their opinion, the summary is a correct summary of the relevant PRC laws and regulations and the Articles of Association. A copy of this letter is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI in this document.

Any person wishing to have detailed advice on PRC law is recommended to seek independent legal advice.