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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular, or as to the action to be taken, you should consult a stockbroker, or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Launch Tech Company Limited**, you should at once hand this circular together with the enclosed forms of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of **Launch Tech Company Limited**.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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# **LAUNCH**

**深圳市元征科技股份有限公司**

**LAUNCH TECH COMPANY LIMITED**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 8196)**

**(I) PROPOSED SHARES CONSOLIDATION;  
(II) PROPOSED TRANSFER OF LISTING FROM THE GROWTH  
ENTERPRISE MARKET TO THE MAIN BOARD OF THE STOCK  
EXCHANGE OF HONG KONG LIMITED;  
(III) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;  
AND  
NOTICE OF SPECIAL GENERAL MEETING AND CLASS MEETINGS**

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This circular does not constitute an offer or an invitation to induce an offer by any person to acquire, subscribe for or purchase any securities.

The Company is incorporated, and its businesses are located, in the mainland of the People's Republic of China ("Mainland"). Potential investors of the Company should be aware of the differences in the legal, economic and financial systems between the Mainland and Hong Kong and that there are different risk factors relating to investment in Mainland-incorporated businesses. Potential investors should be aware that the regulatory framework in the Mainland is different from regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and risk factors are set out in Appendix III to this Circular headed "Summary of relevant PRC and Hong Kong laws" and Appendix IV to this Circular headed "Risk factors", respectively.

The notices dated 1 March 2010 convening the SGM and the Class Meetings of holders of Domestic Shares and holders of H Shares of the Company to be held at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the People's Republic of China on 19 April 2010 at 11:00 a.m., 10:00 a.m. and 10:30 a.m., respectively are set out on pages 116 to 139 of this circular.

Whether or not you intend to attend the meetings, you are reminded to complete the proxy forms enclosed with this circular, in accordance with the instructions printed thereon and return the same to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of the H Shares only) or the Company's business office at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC as soon as possible but in any event not less than 24 hours before the respective time fixed for holding the SGM and the Class Meetings for the holders of the H Shares and Domestic Shares or at any adjournment thereof. Completion and delivery of the said proxy forms will not prevent you from attending, and voting in person at, the SGM and the Class Meetings for the holders of the H Shares and the Domestic Shares or at any adjourned meeting if you so wish.

Reply slips for each of the SGM and the Class Meetings are also enclosed. You are reminded to complete and sign the relevant reply slips (if you are entitled to attend the relevant meetings) and return the signed slips in accordance with the instructions printed thereon.

1 March 2010

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## CHARACTERISTICS OF GEM

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

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## DEFINITION

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:–*

“Articles Amendments”	the Articles Amendments (Shares Consolidation) and/or the Articles Amendments (Transfer of Listing) (as the case may be)
“Articles Amendments (Shares Consolidation)”	the amendments proposed to be made to the Articles of Association for implementing the Shares Consolidation
“Articles Amendments (Transfer of Listing)”	the amendments proposed to be made to the Articles of Association for implementing the Transfer of Listing and complying with the relevant requirements of the Main Board Listing Rules, which will become effective on the date of completion of the Transfer of Listing and the commencement in dealing of the H Shares on the Main Board in compliance with the requirements of the Main Board Listing Rules in replacement of the GEM Listing Rules
“Articles of Association”	the articles of association of the Company as amended from time to time
“Board”	the board of Directors
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“CCASS Operational Procedures”	the operational procedures under the General Rules of CCASS
“Class Meeting(s)”	the respective class meetings of the holders of the H Shares and the Domestic Shares to be convened and held for the purpose to approve, among other things, (i) the Shares Consolidation; (ii) the Transfer of Listing; (iii) the Articles Amendments; and (iv) authorizing the Directors to do such acts or things and to take such steps as they consider necessary, desirable or expedient to carry out the above matters, including but not limited to the making of relevant applications to the Stock Exchange and the CSRC for the Transfer of Listing
“Company”	深圳市元征科技股份有限公司 (Launch Tech Company Limited), a joint stock limited company incorporated in the PRC with limited liability and whose H Shares are currently listed on the GEM

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## DEFINITION

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“Company Law”	The Company Law of the PRC enacted by the Eighth National People’s Congress of the PRC on 29 December 1993 and which became effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“Consolidated Domestic Share(s)”	ordinary domestic share(s) with a nominal value of RMB1.00 each in the registered share capital of the Company after the Shares Consolidation becoming effective
“Consolidated H Share(s)”	ordinary H share(s) with a nominal value of RMB1.00 each in the registered share capital of the Company after the Shares Consolidation becoming effective
“Consolidated Share(s)”	ordinary share(s) with a nominal value of RMB1.00 each in the registered share capital of the Company after the Shares Consolidation becoming effective, including Consolidated Domestic Share(s) and Consolidated H Share(s)
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission)
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the ordinary shares of RMB0.10 each issued by the Company, which are subscribed for or credited as fully paid up in RMB, and all of such shares are not listed on the Stock Exchange
“Domestic Stock Exchange”	the Shenzhen Stock Exchange and/or the Shanghai Stock Exchange
“Effective Date”	the effective date of the Shares Consolidation
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing committee of GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM, as amended from time to time
“General Rules of CCASS”	terms and conditions regulating the use of CCASS
“Group”	the Company and its subsidiaries

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## DEFINITION

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“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign invested ordinary shares of RMB0.10 each in the share capital of the Company, which are listed on the GEM and subscribed for and traded in Hong Kong Dollars
“Latest Practicable Date”	26 February 2010, being the latest practicable date prior to the printing of the circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	The Main Board Listing Rules and/or the GEM Listing Rules (as the case may be)
“Main Board”	the main board of the Stock Exchange
“Main Board Listing Committee”	the listing committee of the Main Board
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Mandatory Provisions”	has the meaning ascribed to in Appendix 13D to the Main Board Listing Rules
“PRC”	the People’s Republic of China, which for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened on 19 April 2010 and held for the purpose to approve, among other things, (i) the proposed Shares Consolidation, (ii) the Transfer of Listing; (iii) the Articles Amendments; and (iv) authorizing the Directors to do such acts or things and to take such steps as they consider necessary, desirable or expedient to carry out the above matters, including but not limited to the making of relevant applications to the Stock Exchange and the CSRC for the Transfer of Listing
“Shares”	shares of RMB0.10 each in the capital of the Company

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## DEFINITION

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“Shares Consolidation”	the proposed consolidation of every 10 Shares in the registered share capital of the Company into one consolidated share in the registered share capital of the Company
“Shareholders”	holders of the Shares, including holders of the Domestic Shares and the H Shares, unless specified otherwise
“Special Regulations”	the PRC Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), issued by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transfer of Listing”	the proposed transfer of listing of the existing H shares of the Company from the GEM to the Main Board

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LETTER FROM THE BOARD

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# LAUNCH

深圳市元征科技股份有限公司

**LAUNCH TECH COMPANY LIMITED**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 8196)**

*Executive Directors:*

Mr. Liu Xin (*Chairman*)  
Mr. Liu Jun (*Chief executive officer*)  
Professor Wang Xue Zhi

*Registered office:*

Xin Yang Building  
Bagua Number Four Road  
Futian District Shenzhen, the PRC

*Non-executive Director:*

Ms. Liu Yong

*Principal place of business in Hong Kong:*

Room 1801, 18th Floor,  
Wing On Central Building,  
26 Des Voeux Road Central,  
Hong Kong

*Independent Non-executive Directors:*

Mr. Zhang Xiao Yu  
Professor Hu Zi Zheng

1 March 2010

*To the Shareholders*

Dear Sir or Madam,

**(I) PROPOSED SHARES CONSOLIDATION;  
(II) PROPOSED TRANSFER OF LISTING FROM THE GROWTH  
ENTERPRISE MARKET TO THE MAIN BOARD OF THE STOCK  
EXCHANGE OF HONG KONG LIMITED; AND  
(III) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

**1. INTRODUCTION**

The Company announced on 10 February 2010 that the Company plans to implement the Shares Consolidation and apply to the Stock Exchange and the CSRC respectively for the Transfer of Listing pursuant to the streamlined transfer of listing procedures under Chapter 9A of the Main Board Listing Rules, subject to the conditions as set out in the section headed "CONDITIONS FOR SHARES CONSOLIDATION, TRANSFER OF LISTING AND ARTICLES AMENDMENTS" below.

The purpose of this circular is to provide you with information in respect of the resolutions to be proposed at the SGM and the Class Meetings for, among other things, (i) the implementation of the Shares Consolidation; (ii) the Transfer of Listing; (iii) the Articles Amendments; and (iv) authorizing the Directors to do such acts or things and to take such



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## LETTER FROM THE BOARD

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steps as they consider necessary, desirable or expedient to carry out the above matters, including but not limited to the making of relevant applications to the Stock Exchange and the CSRC for the Transfer of Listing.

### 2. SHARES CONSOLIDATION

#### Reasons for the Shares Consolidation

To facilitate the possible issue of A shares by the Company and pursuant to the general practice in the PRC securities market that A shares listed on the Domestic Stock Exchange are generally of a nominal value of RMB1.00 each, the Board proposes to implement the Shares Consolidation on the following terms and make amendments to the Articles of Association as a result of the implementation of the Shares Consolidation.

#### Proposed Shares Consolidation

As at the Latest Practicable Date, the registered share capital of the Company is RMB60,360,000, comprising 330,000,000 Domestic Shares and 273,600,000 H Shares of RMB0.10 each, all of which are in issue and fully paid.

The Company has no outstanding options, warrants, convertible notes, derivatives or other securities convertible into or exchangeable for the Shares. There is no other stock exchange on which any part of the equity or debt securities of the Company is listed or dealt in or which listing or permission to deal in is being or is proposed to be sought.

For the purpose of the Shares Consolidation, (i) every ten issued Domestic Shares of RMB0.10 each will be consolidated into one Consolidated Domestic Share of RMB1.00 and (ii) every ten issued H Shares of RMB0.10 each will be consolidated into one Consolidated H Share of RMB1.00. As a result, every ten issued Shares of RMB0.10 each will be consolidated into one Consolidated Share of RMB1.00 on the Effective Date.

Based on the number of Shares in issue of the Company as at the Latest Practicable Date and on the assumption that there will be no further Shares issued by the Company from the Latest Practicable Date to the Effective Date, the registered share capital of the Company on the Effective Date shall comprise of 33,000,000 Consolidated Domestic Shares and 27,360,000 Consolidated H Shares of RMB1.00 each, all of which are in issue and fully paid on the Effective Date.

#### Effects of the Shares Consolidation

The Consolidated Shares shall rank *pari passu* in all respects with each other.

The Board expects that other than the relevant expenses incurred, the implementation of the Shares Consolidation has no impact on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operation,

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## LETTER FROM THE BOARD

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management or financial position of the Company or the interests and relative rights of the Shareholders. The Directors believe that the Shares Consolidation would not have any material adverse effect on the financial position of the Group and that the Shares Consolidation is in the interest of the Company and the Shareholders as a whole.

### **Application for Listing**

An application will be made by the Company to the GEM Listing Committee and/ or the Main Board Listing Committee for the listing of, and permission to deal in, the Consolidated H Shares in issue upon the Shares Consolidation becoming effective. The Consolidated H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS. All necessary arrangements will be made for the Consolidated H Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **Change in board lot size**

As at the Latest Practicable Date, the H Shares are currently traded on GEM in board lots of 5,000 Shares. Upon the Shares Consolidation becoming effective, the Board proposes that the Consolidated Shares will be traded in board lots of 500 Consolidated H Shares. Based on the closing price of HK\$0.97 per Share as quoted on the Stock Exchange on the Latest Practicable Date, the board lot value is HK\$4,850. Theoretically, the change in board lot size to 500 Consolidated H Shares will keep the board lot value to HK\$4,850 (calculated based on the closing price of the Shares as at the Latest Practicable Date and adjusted for the effect of the Shares Consolidation).

The change in the board lot size will not result in any change in the relative rights of the Shareholders. The Directors consider that the change in board lot size together with the Shares Consolidation is in the interests of the Company and the Shareholders as a whole.

### **Expected Effective Date for the Shares Consolidation**

The Shares Consolidation is subject to the conditions as set out in the sub-section headed "Conditions of the Shares Consolidation" in the section headed "CONDITIONS FOR SHARES CONSOLIDATION, TRANSFER OF LISTING AND ARTICLES AMENDMENTS" below. At the current stage, the Company is unable to ascertain the exact date on which the above conditions would be satisfied. Therefore, the Effective Date of the Shares Consolidation cannot be determined as at the Latest Practicable Date.

Once the details of the arrangement and the expected timetable with regard to the parallel trading arrangement, the free exchange of Consolidated Share certificates and other matters regarding the Shares Consolidation are finalized, the Company will make further announcements as soon as practicable.

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## LETTER FROM THE BOARD

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### 3. TRANSFER OF LISTING

Reference was made to the announcement of the Company dated 4 February 2010 in which the Board announced that the Group's profit for the year ended 31 December 2009 is expected to increase significantly when compared with that for the year ended 31 December 2008. Upon preliminary review of the unaudited financial statements of the Group, the Board is of the view that the Company should be able to meet all the qualifications for listing on the Main Board and an application for a transfer of listing from GEM to the Main Board is contemplated. To expedite such application, it was resolved at the meeting of the Board held on 10 February 2010 that the Company plans to apply to the Stock Exchange and the CSRC respectively for the Transfer of Listing pursuant to the streamlined transfer of listing procedures under Chapter 9A of the Main Board Listing Rules.

#### **Reasons for the Transfer of Listing**

The Group is principally engaged in the provision of technologies, products and services serving the automobile aftermarket and the automobile industry in the PRC and certain overseas countries. Since the listing of the H Shares on the GEM on 7 October 2002, the business of the Group has grown steadily and the Group has improved its public profile. The Directors are of the view that a listing of the H Shares on the Main Board will facilitate an increase in the liquidity of the H Shares, further enhance the public profile of the Group and recognition from the investing public, including the institutional investors, which will be beneficial and complementary to the future growth and development of the Group. The Directors thus consider that the listing of the H Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Group.

The Directors do not contemplate any material change in the nature of business activities of the Company immediately following the Transfer of Listing. The Transfer of Listing will not involve any placing of H Shares by the Company.

#### **Requirements under the PRC Regulations**

Under the existing Articles of Association and the relevant PRC laws and regulations, Shareholders' approval is required for the Transfer of Listing, the Articles Amendments (Transfer of Listing) and the Company's application to the CSRC. Subject to the passing of the special resolutions by the Shareholders in each of the SGM and the Class Meetings to approve the Transfer of Listing and the Articles Amendments (Transfer of Listing), the Company will make a formal application to the CSRC for the approval of the Transfer of Listing, and at appropriate time, the Company will make a formal application to the Stock Exchange in relation to the Transfer of Listing.

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## LETTER FROM THE BOARD

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### 4. THE ARTICLES AMENDMENTS

#### **Reasons and conditions for the Articles Amendments**

In view of the Shares Consolidation, the Transfer of Listing and for the purpose of complying with the GEM Listing Rules and/or the Main Board Listing Rules (as the case may be) and the relevant laws and regulations in the PRC and Hong Kong, special resolutions will be proposed at the SGM and the Class Meetings for the Shareholders to approve the Articles Amendments on a conditional basis. The Articles Amendments are subject to the passing of the said special resolutions at the SGM and the Class Meetings. Prior to the Articles Amendments (Shares Consolidation) or the Articles Amendments (Transfer of Listing) becoming effective, the current Articles of Association will continue to be in force. In the event that the Articles Amendments (Shares Consolidation) takes effect earlier than the Articles Amendments (Transfer of Listing), the Articles of Association as amended to reflect the consequential amendments as a result of the Shares Consolidation will be adopted as the Articles of Association of the Company. In the event that the Articles Amendments (Transfer of Listing) takes effect earlier than the Articles Amendments (Shares Consolidation), the Articles of Association as amended to reflect the consequential amendments as a result of the Transfer of Listing will be adopted as the Articles of Association of the Company. In the event that both the Articles Amendments (Shares Consolidation) and the Articles Amendments (Transfer of Listing) take effect eventually, the Articles of Association as amended to reflect the consequential amendments as a result of the Shares Consolidation and the Transfer of Listing will be adopted as the Articles of Association of the Company.

#### **Proposed Amendments to the Articles of Association**

The Articles Amendments will be made for the purpose of complying with the relevant regulations in the PRC and Hong Kong.

Changes will be made to the Articles of Association, where appropriate, to reflect the Company's implementation of the Shares Consolidation. The Articles Amendments (Shares Consolidation) will become effective upon the Shares Consolidation becoming effective.

Set out below are the details of the significant amendments to be incorporated into the Articles of Association in respect of the Transfer of Listing:

1. the Articles Amendments (Transfer of Listing) will become effective on the date of completion of the Transfer of Listing and the commencement in dealing of the H shares on the Main Board in compliance with the requirements of the Main Board Listing Rules in replacement of the GEM Listing Rules;
2. changes will be made, where appropriate, in order to comply with the requirements of Appendix 3 to the Main Board Listing Rules;

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## LETTER FROM THE BOARD

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3. changes will be made, where appropriate, in order to comply with the requirements of the Main Board Listing Rules relating to financial reporting;
4. reference to any provisions of the GEM Listing Rules will be replaced by that to the corresponding provisions of the Main Board Listing Rules as far as applicable; and
5. any consequential amendments to the Articles of Association as a result of the Transfer of Listing and/or any other amendments to the Articles of Association as the Directors may consider necessary to comply with the requirements of the Main Board Listing Rules.

### **5. CONDITIONS FOR SHARES CONSOLIDATION, TRANSFER OF LISTING AND ARTICLES AMENDMENTS**

#### **Conditions of the Shares Consolidation**

The Shares Consolidation is subject to, among others things, the following conditions:

1. the passing of special resolutions by the Shareholders at the SGM to approve the Shares Consolidation and the Articles Amendments (Shares Consolidation);
2. the passing of special resolutions by the holders of Domestic Shares and the H Shares at the respective Class Meetings to approve the Shares Consolidation and the Articles Amendments (Shares Consolidation);
3. the granting of the relevant approval by the CSRC in connection with the Articles Amendments (Shares Consolidation) (if necessary); and
4. the granting of the approval by the GEM Listing Committee or the Main Board Listing Committee (as the case may be) for the listing of and permission to deal in the Consolidated H Shares.

#### **Conditions of the Transfer of Listing**

The Transfer of Listing is subject to, among others things, the following conditions:

1. the fulfillment of all the applicable listing requirements on the Main Board as stipulated in the relevant rules and regulations of the PRC and the Main Board Listing Rules by the Company;
2. the passing of special resolutions by the Shareholders at the SGM to approve the Transfer of Listing, the Articles Amendments (Transfer of Listing) and the Company's application to the CSRC and the Stock Exchange for the Transfer of Listing;

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## LETTER FROM THE BOARD

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3. the passing of special resolutions by the holders of Domestic Shares and the H Shares at the respective Class Meetings to approve the Transfer of Listing, the Articles Amendments (Transfer of Listing) and the Company's application to the CSRC and the Stock Exchange for the Transfer of Listing;
4. the granting of the relevant approval by the CSRC in connection with the Transfer of Listing and the Articles Amendments (Transfer of Listing);
5. the granting of the approval by the Main Board Listing Committee for the listing of and permission to deal in the existing H shares on the Main Board; and
6. the obtaining of all other relevant consent or approval (if any) which are required in connection with the Transfer of Listing and the fulfillment of all conditions which may be attached to such consents or approvals.

The Company will make further announcements as and when it deems necessary or appropriate, to keep the Shareholders and potential investors informed on the latest progress of the proposed Transfer of Listing. An announcement as required by the Rule 9A.08 of the Main Board Listing Rules will be published after formal approval for the Transfer of Listing has been received from the Stock Exchange.

**Warning:**

**The Company would like to emphasize that (i) preparations relating to the Shares Consolidation and the Transfer of Listing are at a preliminary stage and a definite timetable for the Shares Consolidation and the Transfer of Listing has not yet been finalized; (ii) no applications relating thereto have been made to the Stock Exchange and/or the CSRC; (iii) there is no assurance that the Company will be able to obtain the relevant approvals for the Shares Consolidation and the Transfer of Listing from, among others, the Stock Exchange, the CSRC and the Shareholders in the SGM and the Class Meetings. Shareholders and potential investors should be aware that the Company may or may not proceed with the Shares Consolidation and the Transfer of Listing, which are subject to, among others, the granting of the relevant approval by the CSRC and the Stock Exchange, together with other conditions and regulatory requirements to be fulfilled by the Company. Shareholders and potential investors are therefore advised to exercise caution when dealing in the H Shares.**

### **6. THE SGM AND THE CLASS MEETINGS**

Shareholders should note that the approval by the Shareholders of, inter alia, (i) the Transfer of Listing; (ii) the Articles Amendments (Transfer of Listing) at the SGM and the Class Meetings is the prerequisite for making an application to the CSRC in respect of the Transfer of Listing.

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## LETTER FROM THE BOARD

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Therefore, for the purpose of enabling the Company to make the CSRC application and/or for the purpose of implementing the Shares Consolidation, the Board intends to convene the SGM and the Class Meetings on 19 April 2010 for the Shareholders to consider and approve, if thought fit, among other things, (i) the Shares Consolidation; (ii) the Transfer of Listing; (iii) the Articles Amendments; and (iv) authorizing the Directors to do such acts or things and take such steps as they consider necessary, desirable and expedient to carry out and / or give effect to the above matters, including but not limited to the making of relevant applications to the Stock Exchange and the CSRC for the Transfer of Listing.

The notice of SGM is set out on pages 116 to 123 of this circular. A proxy form for use at the SGM to be held at 11:00 a.m. on 19 April 2010 at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the PRC is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying proxy form for use at the SGM in accordance with the instructions printed thereon and return the same to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of the H Shares only) or the Company's business office at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC (for the holders of the Domestic Shares only) as soon as possible but in any event not less than 24 hours before the time fixed for holding the SGM or at any adjournment thereof. Completion and delivery of the said proxy form will not prevent you from attending, and voting in person at, the SGM or at any adjourned meeting if you so wish.

The notices of the Class Meetings for the holders of the H Shares and the Domestic Shares are set out on pages 124 to 139 of this circular. Proxy forms for use at the Class Meetings for the holders of the H Shares and Domestic Shares to be held at 10:30 a.m. and 10:00 a.m. respectively on 19 April 2010 at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the PRC are enclosed. Whether or not you intend to attend the Class Meetings for the holders of the H Shares and the Domestic Shares, you are requested to complete the accompanying proxy form for use at the Class Meeting for the holders of the H Shares (for the holders of the H Shares only) or proxy form for use at the Class Meeting for the holders of the Domestic Shares (for the holders of the Domestic Shares only) in accordance with the instructions printed thereon and return the same to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of the H Shares only) or the Company's business office at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC (for the holders of the Domestic Shares only) as soon as possible but in any event not less than 24 hours before the respective time fixed for holding the Class Meetings for the holders of the H Shares and Domestic Shares or at any adjournment thereof. Completion and delivery of the said proxy form will not prevent you from attending, and voting in person at, the Class Meetings for the holders of the H Shares and the Domestic Shares or at any adjourned meeting if you so wish.

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## LETTER FROM THE BOARD

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Reply slips for each of the SGM and the Class Meetings are also enclosed. You are reminded to complete and sign the relevant reply slips (if you are entitled to attend the relevant meetings) and return the signed slips to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of the H Shares only) or the Company's business office at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC (for the holders of the Domestic Shares only) on or before 30 March 2010 in accordance with the instructions printed thereon.

### 7. CLOSURE OF REGISTER OF MEMBERS

The register of members in Hong Kong will be closed from 20 March 2010 to 19 April 2010, both days inclusive, during which period no transfer of the H Shares of the Company will be effected. In order to be eligible to attend the SGM and the Class Meetings for the holders of the H Shares, and to vote as the Shareholders, all transfers of the H Shares together with the relevant share certificates must be delivered at the Company's H Share registrar's transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4: 30 p.m on 19 March 2010. All transfers of the Domestic Shares together with the relevant share certificates must be delivered at the Company's business office at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang, Longgang District, Shenzhen, the PRC no later than 4: 30 p.m. on 19 March 2010.

### 8. RECOMMENDATIONS

The Board is of the view that the Shares Consolidation, the Transfer of Listing and the Articles Amendments are in the interest of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the special resolutions to be proposed at the SGM and the Class Meetings.

Yours faithfully,  
for and on behalf of  
**Launch Tech Company Limited**  
**Liu Xin**  
*Chairman*



**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**2. DISCLOSURE OF INTERESTS**

- (a) Interests and short positions of Directors, chief executives and supervisors of the Company in the share capital of the Company and its associated corporations**

As at the Latest Practicable Date, the Directors, chief executives and supervisors of the Company have the following interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or

which have been required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange:

### Long positions in shares

#### Domestic shares

Name of Director	Capacity in which shares were held	Number of Domestic Shares	Approximate percentage of the Company's issued Domestic Shares	Approximate percentage of the Company's total issued shares
Mr. Liu Xin	Beneficial Owner	138,636,000	42.01%	22.97%
	Interest in a controlled company	138,864,000	42.08% (Note 1)	23.00%
	Interest in a controlled company	10,261,000	3.11% (Note 2)	1.84%
Mr. Liu Jun	Interest in a controlled company	138,864,000	42.08% (Note 3)	23.00%

#### Notes:

- (1) Mr. Liu Xin holds 60.00% interest in 深圳市浪曲科技開發有限公司 (“Shenzhen Langqu”) which holds approximately 42.08% interest in the issued Domestic Shares of the Company. The corporate interest of Mr. Liu Xin in the Company duplicates with that held by Mr. Liu Jun in the Company. By virtue of Mr. Liu Xin's holding more than one-third interest in Shenzhen Langqu, Mr. Liu Xin is deemed, under Part XV of the SFO, to be interested in approximately 42.08% interest in the issued Domestic Shares of the Company apart from his personal interest of 42.01% interest in the issued Domestic Shares of the Company.
- (2) Mr. Liu Xin holds 40.00% interest in 深圳市得時域投資有限公司 (“Shenzhen De Shi Yu”) which holds 3.11% interest in the issued Domestic Shares of the Company. By virtue of Mr. Liu Xin's holding more than one-third interest in Shenzhen De Shi Yu, Mr. Liu Xin is deemed, under Part XV of the SFO, to be interested in 3.11% interest in the issued Domestic Shares of the Company apart from his personal interest of 42.01% interest in the issued Domestic Shares of the Company.
- (3) Mr. Liu Jun holds 40.00% interest in Shenzhen Langqu which holds approximately 42.08% interest in the issued Domestic Shares of the Company. The corporate interest of Mr. Liu Jun in the Company duplicates with that held by Mr. Liu Xin in the Company. By virtue of Mr. Liu Jun's holding more than one-third interest in Shenzhen Langqu which holds approximately

42.08% interest in the issued domestic shares of the Company, Mr. Liu Jun is deemed, under Part XV of the SFO, to be interested in approximately 42.08% interest in the issued Domestic Shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives or supervisors of the Company has any personal, family, corporate or other interests or short positions in any shares, debentures or underlying shares of the Company or any of its associated corporations as defined in the SFO.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders**

So far as was known to the Directors, as at the Latest Practicable Date, the following persons (not being a Director or supervisor of the Company) have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions of 2 and 3 of Part XV of the SFO or are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

**Long positions in Shares and underlying shares of the Company**

*(i) Domestic Shares*

Name	Nature and capacity in which shares were held	Number of Domestic Shares	Approximate percentage of the Company's issued Domestic Shares	Approximate percentage of the Company's total issued Shares
Shenzhen Langqu	Interest of corporation controlled by substantial Shareholder	138,864,000	42.08% <i>(Note)</i>	23.00%

*Note:* The statutory and beneficial interests in the shares of Shenzhen Langqu are owned by Mr. Liu Xin as to 60% and by Mr. Liu Jun as to 40% respectively. Mr. Liu Xin and Mr. Liu Jun are therefore deemed to be interested in all domestic Shares registered in the name of Shenzhen Langqu under Part XV of the SFO.

## (ii) H Shares

Name	Capacity in which shares were held	Interests in H Shares long position	Approximate percentage of the Company's issued H Shares	Approximate percentage of the Company's total issued Shares
McCarthy Kent C.	Interest of corporation controlled by substantial Shareholder	76,660,000	28.02%	12.70% (Note)
Jayhawk Private Equity Fund, L.P. ("JPEF")	Investment manager	71,906,693	26.28%	11.91%
Templeton Asset Management Ltd.	Investment manager	45,600,000	16.67%	7.55%
International Finance Corporation	Beneficial owner	38,000,000	13.89%	6.30%
Genesis Fund Managers, LLP	Investment manager	38,000,000	13.89%	6.30%
Genesis Smaller Companies SICAV	Investment manager	22,651,000	8.28%	3.75%
United Technologies Corporation Master Trust	Investment manager	15,349,000	5.61%	2.54%
Carlson Fund Equity Asian Small Cap	Investment manager	12,180,000	4.45%	2.02%

*Note:* McCarthy Kent C is interested in 100% of the issued share capital of JPEF. Therefore, by virtue of Part XV of the SFO, the H Shares in which JPEF are shown as being interested are included in and duplicate with interest in the H Shares held by McCarthy Kent C.

Save as disclosed above, so far as was known to the Directors, supervisors or chief executives of the Company, as at the Latest Practicable Date, none of the persons or companies (other than a Director, supervisor or chief executive of the Company) had interests or short positions in the Shares, underlying shares of the Company, which should fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO.

### **3. MATERIAL LITIGATION**

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any member of the Group.

### **4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group which does not expire or is not terminable within one year without payment of compensation (other than statutory compensation).

### **5. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or the supervisors of the Company or their respective associates had interests in any business which competed or may compete, either directly or indirectly, with the business of the Group or, any other conflicts of interest with the Group.

As at the Latest Practicable Date, there was no business or interest of controlling Shareholder and the respective associates that competed or may compete with the business of the Group and there is no conflict of interest which any such person had or may have with the Group.

### **6. DIRECTORS' INTEREST IN ASSETS AND CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of or leased by any member of the Group since 31 December 2008, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.

There was no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors was materially interested in and which was significant in relation to the business of the Group.

**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date to which the latest published audited financial statements of the Group were made up.

**8. ISSUES RELATING TO ACQUIRER OF SHARES**

The Company shall instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect:

- (1) The acquirer of shares agrees with the Company and each Shareholder, and the Company agrees with each Shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association.
- (2) The acquirer of shares agrees with the Company, each Shareholder, Director, supervisor, manager and officer of the Company and the Company acting for itself and for each Director, supervisor, manager and officer agrees with each Shareholder to refer all differences and claims arising from the Articles of Association or any right or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearing in open session and to publish its award. Such arbitration shall be final and conclusive.
- (3) The acquirer of shares agrees with the Company and each Shareholder that shares in the Company are freely transferable by the holder thereof.
- (4) The acquirer authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to Shareholders stipulated in the Articles of Association.

**9. FOREIGN EXCHANGE**

The Company will have sufficient foreign exchange to pay forecasted or planned dividends on H Shares and to meet its foreign exchange liabilities as they become due. The anticipated sources of such foreign exchange would be the conversion of RMB to Hong Kong Dollars in a PRC bank.

**10. GENERAL**

- i. The registered office of the Company is located at Xin Yang Building, Bagua Number Four Road, Futian District, Shenzhen, the PRC.

- ii. The company secretary and qualified accountant of the Company is Mr. Liu Chun Ming, FCCA.
- iii. The compliance officer of the Company is Mr. Liu Jun.
- iv. The Company's H Share registrar's transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East.
- v. The Company established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee originally comprised three independent non-executive Directors, namely Mr. Zhang Xiao Yu, Professor Hu Zi Zheng, and Mr. Yim Hing Wah.

Following Mr. Yim's passing away on 14 July 2009, the Company has only two independent non-executive directors and two members in its audit committee, and there is no independent non-executive director with relevant professional qualification of accounting or financial management expertise. Such number does not meet the minimum requirement prescribed in Rule 5.05(1) and 5.28 of the GEM Listing Rules. The Company proposes to appoint Mr. Jiang Chao as an independent non-executive Director and Chairman of the audit committee, and Mr. Liu Yuan and Dr. Zou Shulin as independent non-executive Directors and members of the audit committee subject to the Shareholders' approval at the special general meeting to be held by the Company on 18 March 2010.

The background of Mr. Zhang Xiao Yu, Professor Hu Zi Zheng, Mr. Jiang Chao, Mr. Liu Yuan and Dr. Zou Shulin are as follows:

1. Mr. Zhang Xiao Yu, aged 64, has been an independent non-executive Director since March 2002. Mr. Zhang has been the vice-chairman of China Machinery Industrial Association since April 2001, and prior to April 2001, he served as the vice commissioner of the State Machinery Industry Bureau, the chief of Automobile Industry Division of the Ministry of Machinery Industry.
2. Professor Hu Zi Zheng, aged 71, has been an independent non-executive Director since March 2002. Mr. Hu is currently the professor and doctoral student mentor of automotive studies of the school of mechanics at Jilin Industrial University. Mr. Hu is also the appointed specialist of China Automobile Engineering Association and member of the board of editors of "Mechanical Engineering Paper". He also served as the vice principal of the State Key Laboratory of Dynamic Automotive Simulation and dean of automotive school at the Jilin Industrial University. Mr. Hu graduated from the Jilin Industrial University with a degree in automobile engineering, and has around 30 years of experience in automotive science research and teaching.

3. Mr. Jiang Chao, aged 38, is currently an executive Director, the chief financial officer, vice president of China Wireless Technologies Limited (a company listed on the Stock Exchange, with stock code 02369), and the qualified accountant and company secretary of that company. He is an associated member of the Association of Chartered Certified Accountants and a certified public accountant in the PRC. Mr. Jiang has about 16 years of experience in accounting and finance. Prior to that, he had worked for the State Audit Bureau. Mr. Jiang had also worked for Qiao Xing Universal Telephone, Inc. (橋興電子有限公司, a company listed on NASDAQ, with stock code XING) and Shenzhen Zhong Xing Telecom Equipment Company Limited (深圳市中興通訊設備有限公司, a company listed on the Stock Exchange, with stock code 00763) where he was responsible for financial and accounting functions. Mr. Jiang obtained a bachelor's degree in economics from SUN Yat-Sen University (中山大學) in 1991.
  4. Mr. Liu Yuan, aged 35, is a partner of Kaiqiao (Beijing) Investment Management Company Limited (凱橋(北京)投資管理有限公司). He has been the head of the Shenzhen Branch and vice president of a main branch of the Bank of China. Mr. Liu Yuan is a graduate of the Economic Law Department of Zhongnan University of Economics and Law (中南財經政法大學) with a bachelor degree in law.
  5. Dr. Zou Shulin, aged 48, is a guest professor of the Business and Administration Department of Zhongnan University of Economics and Law (中南財經政法大學). He has been an associate professor and professor of Zhongnan University of Economics and Law (中南財經政法大學) and a branch president of the Shenzhen Branch of China Everbright Bank. Dr. Zou Shulin is a graduate of Zhongnan University of Economics and Law (中南財經政法大學).
- vi Unless otherwise specified, the English text of this circular shall prevail over the Chinese text.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except Saturdays and public holidays) at the Company's principal place of business in Hong Kong at Room 1801, 18th Floor, Wing On Central Building, 26 Des Voeux Road, Central, Hong Kong, from the date of this circular up to and including the date of the SGM and Class Meetings:

- i. the existing Articles of Association;
- ii. the amended Articles of Association for the Shares Consolidation and the Transfer of Listing;
- iii. the annual reports of the Company for each of the two financial years ended 31 December 2007 and 31 December 2008;



- iv. the PRC legal opinion issued by Zhong Lun Law Firm dated 24 February 2010;
- v. the Company Law (in Chinese) together with a copy of its unofficial English translation;
- vi. the Mandatory Provisions (in Chinese) together with a copy of its unofficial English translation;
- vii. the Special Regulations (in Chinese) together with a copy of its unofficial English translation;
- viii. the Trustee Ordinance (Cap. 29 of the Laws of Hong Kong);
- ix. the Companies Ordinance (Cap. 32 of the Laws of Hong Kong);
- x. the Main Board Listing Rules;
- xi. the GEM Listing Rules; and
- xii. the Securities Arbitration rules of the Hong Kong International Arbitration Centre.

Set out below is a summary of the principal provisions of the Articles of Association in so far as they may affect Shareholders' rights and protection and Directors' powers. Copies of the full Chinese text of the Articles of Association is available for inspection as mentioned in the section headed "Documents Available for Inspection" in Appendix I to this prospectus.

**(A) Directors and other Management Officers**

*(i) Power to allot and issue shares*

There are no provisions in the Articles of Association empowering the Directors to allot and issue shares. To increase the share capital of the Company, the Board shall prepare a proposal to permit the increase for approval by Shareholders in general meeting by way of special resolution and shall comply with the procedures prescribed by the relevant law and regulations.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

The Board is accountable to the Shareholders' general meeting.

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 expected value of the consideration for the proposed disposition, 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 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 anything contained in this paragraph. For the purpose of the Articles of Association, disposition shall include 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 the 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 between the Company and its Directors or supervisors concerning the emoluments should also 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 followings:

- (a) a general offer made by any person to the Shareholders; or
- (b) a general offer made by any person with a view that the offeror shall become a “controlling shareholder” of the Company as defined in the Articles of Association. (see paragraph R below)

If the relevant Director or supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the aforesaid general offer. The expenses incurred in distributing such sum on a pro rate basis amongst those persons shall be borne by the relevant Director or supervisor and may not be paid out of the sum being distributed.

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

The Company shall not directly or indirectly provide a loan or provide any loan or provide any loan guarantee to a Director, supervisor, general manager, or other senior management officers 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 loan guarantee to the subsidiary of the Company;
- (b) the provision by the Company of a loan or a loan guarantee or any other funds to any of its Directors, supervisor, general manager and other senior management officers to meet expenditure incurred or to be incurred by him for the purpose of the Company or for the purpose of enabling him to perform his duties in accordance with the terms of a service contract approved by the Shareholders in general meeting; or

- (c) the provision by the Company of a loan or loan guarantee to its Directors, supervisors, general manager and other senior management officers or persons connected with any of them in the ordinary course of its business on normal commercial terms, where the ordinary course of business of the Company includes the lending of money or the provision of guarantees.

A loan provided by the Company in breach of the prohibition described above shall be immediately repayable forthwith by the recipient of the loan.

A guarantee provided by the Company in breach of the prohibition described above shall be unenforceable against the Company, except where:

- (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 (iv);

- (a) a guarantee includes an undertaking to assume liabilities or the provision of property by the guarantor 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 for the purchase of shares in the Company or any subsidiaries***

Save as described in the Articles of Association, the Company and its subsidiaries shall not at any time provide any financial assistance (as hereinafter defined) in any form to any purchasers or prospective purchasers of the shares of Company. Purchasers of shares of the Company as referred to above shall include person(s) who undertake(s) (as hereinafter defined), directly or indirectly, obligations for the purpose of acquiring the shares of the Company.

No financial assistance shall be provided at any time and in any manner by the Company and its subsidiaries to reduce or waive the obligations of the said person(s) undertaking such obligations.

The following transactions shall not be prohibited:

- (a) the provision of financial assistance by the Company in good faith where such financial assistance is not for the acquisition of shares in the Company, or the financial assistance is an incidental part of some larger purpose of the Company;
- (b) distribution of the Company's assets by way of dividend in accordance with law;
- (c) the distribution of dividends in the form of shares;
- (d) reduction of registered share capital, repurchase of shares and restructuring of the shareholding structure of the Company in accordance with the Articles of Association;
- (e) the provision of loan by the Company within its scope of business and in the ordinary course of its business provided that the Company's net assets are not thereby reduced or, if the Company's net assets are thereby reduced, that financial assistance is provided out of the distributable profits of the Company; and
- (f) the provision of money by the Company as contribution 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 purpose of the foregoing provisions:

- (a) "financial assistance" shall include (but not limited to) the financial assistance in the forms set out below:
  - (1) 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 own neglect or default), or by way of release or waiver;
  - (3) provision of a loan or conclusion of a contract under which the obligations of the Company are to be fulfilled prior to the obligations of another party to the contract, or a change in the party to such loan or contract, assignment of rights under such loan or contract; or
  - (4) financial assistance in any other form given by the Company which is insolvent or has no net assets or when such assistance would lead to a substantial reduction in the Company's net assets.

- (b) “undertaking” shall include the undertaking of an obligation by the obligor by concluding a contract or an arrangement (whether or not such contract or arrangement is enforceable and whether or not such obligation is undertaken by the obligor individually or jointly with any other person) or by changing its financial position in any other way.

*(vi) Disclosure of interest in contracts with the Company or any of 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 interest to the Board at the earliest opportunity, whether or not the aforesaid matters are under normal circumstances subject to the approval of the Board. Unless the interested Director, supervisor, manager or other senior management officer has disclosed his interest in accordance with the Articles of Association and the contract, transaction or arrangement has been approved by the Board at a meeting in which such interested Director, supervisor, manager or senior management officer had not been counted in the quorum and had refrained from voting, that contract, transaction or arrangement is voidable by the Company except as against a bona fide party thereto acting without notice of the breach of duty by the Director, supervisor, manager or other senior management officer concerned. For the purposes of the foregoing, a Director, supervisor, 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, manager or other 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, the notice shall be deemed for the purposes of the preceding paragraph to have disclosed his interest, so far as attributable to the facts stated in the notice, provided that such 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 by the Company.

Pursuant to the Articles of Association, a Director is not required to hold any qualification Shares in the Company.

*(vii) Remuneration*

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

*(viii) Retirement, appointment and removal*

The term of office of the supervisor and Directors shall be three years.

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

The Directors shall be elected and removed by the Shareholders at Shareholders' general meetings.

A person may not serve as a Director, supervisor, general manager, or any other senior management officer of the Company if any of the following circumstances apply:

- (1) a person without or with restricted civil capacity;
- (2) a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his political rights, in each case where less than five (5) years have elapsed since the date of the completion of implementation of such punishment or deprivation;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has entered into insolvent liquidation because of mismanagement and he is personally liable for the insolvency of such company or enterprise, where less than three (3) years have elapsed since the date of the completion of the insolvency and the liquidation of the company or enterprise;
- (4) a person who is a former legal representative of a company or enterprise which had its business licence revoked due to a violation of the law and who incurred personal liability, where less than three (3) years have lapsed since the date of the revocation of the business licence;
- (5) a person who has a relatively large amount of debts due and outstanding;
- (6) a person who is under investigation by judicial authorities which is not yet concluded for violation of the criminal law;
- (7) a person who is not eligible for enterprise leadership according to the law and administrative regulations;
- (8) a non-natural person; or
- (9) a person convicted of contravention of provisions of relevant securities by a relevant government authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five (5) years has elapsed since the date of the conviction.

The validity of an act of a Director, general manager or other senior manager officer on behalf of the Company is not, vis-a-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

The Board shall consist of seven (7) members. The Board shall elect from amongst its members one chairman. Three of them shall be executive Directors, one of them shall be non-executive Director and three of them shall be independent non-executive Directors. The chairman and the vice-chairman can be elected and removed by a simple majority of these Directors.

***(ix) Borrowing powers***

On condition of compliance with applicable laws and regulations of PRC and the Articles, the Company has the power to raise and borrow money including the issuance of bonds and providing mortgage on the assets of the Company, given that the rights of any shareholders of any class of the Company shall not be prejudiced by the exercise of such power by the Company.

***(x) Notice and Minutes of Board Meetings***

Meetings of the Board shall be held at least twice a year. Meetings of the Board shall be convened by the Chairman by instructing the secretary of the Company to give notice to all Directors and Chairman of the supervisory committee of the Company not less than ten (10) days and not more than thirty (30) days before the meeting. An emergency Board meeting may be held if it is so requested by more than one third of the number of the Directors or the general manager of the Company. The Board shall keep minutes of resolutions passed at the Board meetings and the Directors being present at the meeting and the person taking minutes shall sign on the minutes of such meetings.

***(xi) Duties***

In addition to 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 shall owe a duty to each Shareholder, in the exercise of the powers of the Company entrusted to him:

- (a) not to cause the Company to act beyond the scope of business stipulated in its business licence;
- (b) to act honestly in the best interests of the Company;
- (c) not to deprive the Company's property in any way, including, without limitation, any opportunities that are beneficial to the Company; and



- (d) not to deprive Shareholders of their individual rights and interests, including, without limitation, rights to distribution and voting rights, save and except pursuant to a restructuring of the Company approved by Shareholders in general meeting in accordance with the Articles of Association.

Each of the Directors, supervisors, managers and other senior management officers of the Company owes a duty, in the exercise of his powers or discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each Director, supervisor, manager or other senior management officer shall, in the exercise of powers of the Company entrusted to him, observe his fiduciary obligations and not to place himself in a position where there is a conflict between his personal interest and his duties. This principle includes, without limitation, the following:

- (a) to act honestly in the best interests of the Company;
- (b) to exercise the powers within his authority without abuse;
- (c) to exercise the discretion vested in him personally and not allow himself to be manipulated by another person and, unless and to the extent permitted by laws and administrative regulations or with the informed consent of Shareholders in general meeting, not to delegate the exercise of his discretion to another party;
- (d) to treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;
- (e) unless otherwise provided for in the Articles of Association or approved by Shareholders with knowledge of the circumstances in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (f) unless otherwise approved by Shareholders with knowledge of the circumstances in general meeting, not to use the Company's property in any way for his own benefit;
- (g) not to obtain money from bribery or other illegal income by using his authority or to expropriate in any manner the Company's property, including, without limitation, not to usurp the opportunities beneficial to the Company;
- (h) unless otherwise approved and permitted by Shareholders with knowledge of the circumstances in general meeting, not to accept commissions in connection with the Company's transactions;
- (i) to abide by the Articles of Association, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and powers in the Company to advance his own private interests;

- (j) unless otherwise approved by Shareholders with knowledge of the circumstances in general meeting, not to compete in any way with the Company;
- (k) not to embezzle the Company's funds or lend them to others, 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 use the Company's assets to provide security for the debts of the Company's Shareholders or other individuals; and
- (l) unless otherwise approved by Shareholders with knowledge of the circumstances in general meeting, not to disclose confidential information of the Company acquired by him during the course of his office 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) disclosure is made under compulsion of law; (ii) there is a duty to the public to disclose; or (iii) such disclosure is necessary to protect the interest of that Director, supervisor, general manager or other senior management officer of the Company.

A Director, supervisor, general manager and 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 and other senior management officer if he is:

- (a) the spouse or minor child of that Director, supervisor, general manager and other senior management officer of the Company;
- (b) a person acting in the capacity of trustee of that Director, supervisor, general manager and other senior management officer or any person referred to in (a) above;
- (c) a person who is a partner of that Director, supervisor, general manager and other senior management officer or any person referred to in (a) and (b) above;
- (d) a company in which that Director, supervisor, general manager and other senior management officer, alone or jointly with one or more persons referred to in (a), (b), (c) above or other Directors, supervisors, general managers and other senior management officers, has de facto control; or
- (e) a Director, supervisor, general manager and 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 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 lapsed between such termination and the act concerned and the circumstances and the terms under which the relationship with the Company was terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, supervisor, general manager and other senior management officer of the Company is in breach of his duties to the Company, the Company has a right to:

- (1) claim damages from the Director, supervisor, general manager and other senior management officer in compensation for losses sustained by the Company as a result of such breach;
- (2) rescind any contract or transaction entered into by the Company with the Director, supervisor, general manager and other senior management officer or with a third party (where such third party knows or should know that there is such a breach of duties by such Director, supervisor, general manager or other senior management officer);
- (3) demand an account of the gains obtained by the Director, supervisor, general manager and other senior management officer in breach of his duties;
- (4) recover any monies received by the Director, supervisor, general manager and other senior management officer to the use of the Company, including (without limitation) commissions; and
- (5) demand payment of the interest earned or which may have been earned by the Director, supervisor, general manager or other senior management officer on the monies that should have been paid to the Company.
- (6) commence legal proceedings to obtain judgment to the effect that the assets being acquired by the Director, supervisor, general manager and other senior management officer in breach of his duties are to be awarded to the Company.

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 of Association, a Director, supervisor, general manager and 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 of Association in accordance with the laws, administrative regulations and the Articles of Association.

- (i) the Board shall adopt a proposal to amend the Articles of Association in accordance with the Articles of Association and shall formulate proposal for amendments;
- (ii) Shareholders shall be informed of the proposal for amendments and a meeting of Shareholders shall be convened to vote on the amendments; and
- (iii) The amendments shall be approved by more than two-thirds of the voting rights represented by the Shareholders present at meeting (or through their proxies).

Any amendments to the Articles of Association involving the contents of the Mandatory Provisions shall be effective only after approval by the relevant department authorized by the State Council. 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 a special resolution of Shareholders in general meeting and holders of shares of that class at a separate meeting conducted in accordance with the Articles of Association. 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) change of all or part of the shares of such class into shares of another class, conversion of all or part of the shares of another class into shares of such class or the grant of the right to effect such change or conversion;
- (iii) the removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of 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 share conversion rights, options, voting rights, transfer rights or pre-emptive rights or rights to acquire securities of the Company attached to shares of such class;
- (vi) the removal or reduction of rights to receive payment in particular currencies from the Company attached to shares of such class;

- (vii) the creation of a new class of shares having voting rights or distribution rights or other privileges equal or superior to the shares of such class;
- (viii) the imposition of or the addition of restrictions on the transfer or ownership of the shares of such class;
- (ix) the issuance 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 shares of another class;
- (xi) the restructuring of the Company which will result in different classes of Shareholders bearing a disproportionate burden of such proposed restructuring;  
and
- (xii) the variation or abrogation of stipulated provisions of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at Shareholders' general meeting, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of Shareholders shall be passed by votes representing more than two-thirds of the voting rights of that class presented at the relevant meeting who are entitled to vote at class meetings.

Written notice of a class meeting shall be given forty-five (45) days before that date of the class meeting to notify all of the Shareholders in the share register of the class of the matters to be considered, the date and the place of the class meeting. A Shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company twenty (20) days before the convening of the class meeting.

If the number of shares carrying voting rights at the meeting represented by the Shareholders who intend to attend the class meeting reaches more than one half of the voting shares at the class meeting, the Company may convene the class meeting; if not, the Company shall within five (5) days notify the Shareholders, again by public notice, of the matters to be considered, the date and the place for the class meeting. The Company may then convene the class meeting after such publication of such notice.

Notice of class meetings need only be served on Shareholders entitled to vote thereat.

Meeting of any class of Shareholders shall be conducted in a manner as similar as possible to that of general meetings of Shareholders. The provisions of the Articles of Association relating to the manner of conducting any Shareholders' general meeting shall apply to meeting of any class of Shareholders. Holders of domestic-invested shares and foreign-invested shares are deemed to be Shareholders of different classes.

The special procedures for voting at a class of Shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon the approval by a special resolution of its Shareholders in general meeting, either separately or concurrently once every twelve (12) months, not more than 20% of each of its existing issued domestic-invested Shares and foreign-invested overseas listed Shares; or
- (2) where the Company's plan to issue domestic-invested Shares and foreign-invested overseas listed Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the securities department of the State Council.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is:

- (1) in the case of a repurchase of shares by offers to all Shareholders or public dealing on a stock exchange, a "controlling shareholder" within the meaning of the Articles Association;
- (2) in the case of a repurchase of shares by an off-market contract, a holder of the shares to which the proposed contract relates; and
- (3) in the case of a restructuring of the Company, a Shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of Shareholders of that class.

**(D) Ordinary and special resolutions – majority required**

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

An ordinary resolution shall be passed by more than one half of the votes represented by the Shareholders (including proxies) 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) at the Shareholders' general meeting exercised in favour of the resolution.

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

Holders of Shares of the Company have rights to attend or authorize their proxies to attend the Shareholders' general meeting and to exercise their voting rights. Holders of Shares shall exercise their voting rights according to the respective number of shares with voting rights attached held by them. Each share carries one vote.

At any meeting of Shareholders a resolution put to the vote of 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 not less than one tenth 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 a question of 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.

When a poll is taken at a meeting, a Shareholder (including proxy) entitled to two or more votes need not cast all his votes as affirmative or negative votes.

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 the show of hands takes place or at which the poll is demanded shall have a casting vote.

**(F) Requirements for Shareholders' general meetings**

The annual Shareholders' general meetings shall be convened annually by the Board. Annual general meetings are held once every year within six months after the last financial year end.

The Board shall convene an extraordinary Shareholder's general meeting within two months in any of the following circumstances:

- (i) when the number of Directors falls below the number required by the Company Law or two-thirds of the number prescribed in the Articles of Association;
- (ii) when the losses of the Company which have not been made up amount to one third of the total share capital of the Company;
- (iii) upon written requisition of Shareholders holding 10% or more of the issued shares carrying voting rights for the convening of an extraordinary Shareholders' general meeting;
- (iv) when the Board deems necessary or the supervisory committee proposes to convene the same;

(v) when the accountants' firm engaged by the Company proposes to convene the same pursuant to the requirements under the Articles of Association; or

(vi) when two or more independent Directors propose to convene the same.

When the Company convenes a Shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting to notify all of the Shareholders in the share register of the matters to be considered and the date and the place of the meeting. A Shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company twenty (20) days before the date of the meeting.

When the Company convenes a Shareholders' annual general meeting, Shareholders holding 5% or more of the total voting Shares of the Company shall have the right to propose new motions in writing, and the Company shall place matters in the proposed motions within the scope of functions and powers of the Shareholders' general meeting on the agenda provided that such proposed motions are delivered to the Company at least 7 days before the notice of the meeting is given.

A Shareholders' extraordinary general meeting shall not decide on those matters not stated in the notice of meeting.

The Company shall, based on the written replies received twenty (20) days before the date of the Shareholders' meeting, calculate the number of voting shares represented by the Shareholders who intend to attend the meeting. If the number of voting shares represented by the Shareholders who intend to attend the meeting reaches one half or more of the Company's total voting shares, the Company may hold the meeting. If not, then the Company shall within five (5) days notify the Shareholders again by public notice of the matters to be considered, the place and the date for the meeting. The Company then may hold the meeting after such publication of such notice.

#### **(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 State Council finance department.

The Company shall prepare financial reports at the end of each financial year. Such reports shall be examined and verified according to laws.

The board of Directors of the Company shall place before the Shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations and directives promulgated by competent local governmental authorities 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 twenty (20) days before the annual general meeting. Each shareholder of the Company shall be entitled to receive the financial statements referred to in this paragraph.

The Company should send by prepaid mail the copy of the above reports at least 21 days before the Shareholders' general meeting to each holder of overseas listed foreign shares. The service address shall be the address in the register of Shareholders.

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 that of the place overseas where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix 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 must also be prepared in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the place overseas where the Company's Shares are listed.

The Company shall publish four financial reports in every financial year, namely a quarterly financial report, a half-yearly financial report (as the case may be) within forty-five (45) days after the end of the first three months, first six months and first nine months of a financial year, and an annual financial report within three (3) months after the end of a financial year.

The appointment, dismissal or termination of the office of an auditor 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 an auditor before his term of office expires, irrespective of any provisions contained in the contract entered into between the Company and the auditor. Any right of the auditor to claim against the Company in connection with his removal shall not be affected by such removal.

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

- (i) the Shareholders' general meeting at which its term of office would otherwise have expired;
- (ii) any Shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; or

(iii) any Shareholders' general meeting convened on its resignation.

**(H) Notice of meetings and business to be conducted thereat**

The Shareholders' general meeting is the authority of the Company.

The Company shall not, without the prior approval of Shareholders in general meeting, enter into any contract with any person other than a Director, supervisor, general manager or other senior management officer whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the Board.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two (2) months:

- (1) when the number of Directors is less than the number of Directors required by the Company Law or two-thirds of the number of Directors specified in the Articles of Association;
- (2) when the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (3) when shareholder(s) holding 10% or more of the Company's issued shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- (4) when deemed necessary by the Board or as requested by the supervisory committee;
- (5) when the accountants' firm engaged by the Company requests convening of an extraordinary general meeting pursuant to the requirements under the Articles of Association of the Company; or
- (6) when at least 2 independent Directors request convening of an extraordinary general meeting.

Notice of meetings of Shareholders shall be given 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 business to be transacted at the meeting;

- (iv) provide such information and explanation as are necessary for the Shareholders to exercise an informed decision on the proposals to be discussed; this shall include, where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganize the share capital or to restructure the Company in any other way, providing the terms of the proposed transaction in detail together with copies of the proposed agreement, if any, and proper explanation of the cause and effect of such proposal;
- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, supervisor, manager or other senior management officer in the transaction proposed and the effect of the proposed transaction on such Director, supervisor, 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 on his behalf 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 delivery 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, within the period of forty-five (45) to fifty (50) days prior to the meeting, in one or more publications specified by the State Council authorities for securities. 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.

When the Company convenes a Shareholders' annual general meeting, Shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place those matters in the proposed motions within the scope of functions and powers of the Shareholders' general meeting on the agenda.

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

- (1) work reports of the Board and the supervisory committee;

- (2) plans formulated by the Board for the distribution of profits and for making up losses;
- (3) removal of the members of the Board and members of the supervisory committee, their remuneration and method of payment;
- (4) annual preliminary and final budgets, balance sheets, profit and loss accounts and other financial statements of the Company; and
- (5) matters other than those required by the laws, administrative regulations or 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:

- (1) the increase or decrease of share capital and the issue of shares of any class, warrants and other similar securities;
- (2) the issue of debentures of the Company;
- (3) the division, merger, dissolution and liquidation of the Company;
- (4) amendments to the Articles of Association; and
- (5) 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 to be adopted by a special resolution.

**(I) Transfer of H shares**

All fully paid H shares listed in Hong Kong are freely transferable pursuant to the Articles of Association. The Board may refuse to recognize 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 per instrument of transfer or such higher charge 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 H Shares listed on Hong Kong GEM;
- (iii) the stamp duty payable on the instrument of transfer has been paid;
- (iv) relevant share certificates 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 four (4); and

(vi) the Company has no lien over the relevant Shares.

Any amendments or rectification of the register of Shareholders shall be made in accordance with the law of the place where the relevant part of the register is kept.

No registration of amendment of the register of Shareholders incurred by transfers of shares shall be carried out within thirty (30) days of the Shareholders' meeting or within five (5) days of the standard date on which the Company decides to distribute dividends.

**(J) Register of Shareholders**

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

(i) the names, addresses, occupations or descriptions of Shareholders, the class and the number of each class of shares held, the amount paid or payable for the shares and, the serial number of the share certificates held by each Shareholder;

(ii) the date on which each person was entered in the register as a Shareholder; and

(iii) the date on which any person ceased to be a Shareholder.

The Company shall have a complete register of Shareholders which shall comprise of the following parts;

(i) a register of Shareholders maintained at the Company's place of domicile other than those stipulated in (ii) and (iii) below:

(ii) a register of Shareholders maintained in Hong Kong relating to holders of H Shares listed on the Stock Exchange; and

(iii) any register of Shareholders maintained 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 in relation to foreign-invested listed overseas Shares 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 place of domicile. 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 amendment 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**

Pursuant to the Articles of Association, the Company may reduce its registered share capital.

Subject to governmental approvals of the relevant state authorities, the Company may, in accordance with the provisions set out in the Articles of Association, repurchase its own shares. A Share repurchase may be made under the following circumstances:

- (1) cancellation of shares for the reduction of its capital;
- (2) merging with another company that holds Shares in the Company; and
- (3) other circumstances permitted by laws and administrative regulations.

The Company may, with the approval of the relevant governing authority for repurchasing its Shares, conduct the repurchase in one of the following ways:

- (i) an offer to all Shareholders in proportion to their respective holdings;
- (ii) repurchase through open transactions on a stock exchange; or
- (iii) by an off-market contract.

The Company may, with the prior consent of Shareholders in accordance with the Articles of Association, 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 or forgo any of its rights thereunder 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 a contract to repurchase its own shares or any rights thereunder.

Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by the laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change of its registered share capital. The amount of the Company's registered share capital shall be reduced by the aggregate par value of those cancelled shares;

Unless the Company has commenced liquidation, the Company should comply with the following stipulations in repurchasing its issued Shares:

- (i) where the Company repurchases its own shares at nominal value, payment may be made out of distributable profits in the books of the Company or out of 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 distributable profits in the books of the Company or out of the proceeds of a fresh issue of shares made for that purpose. Payments 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 distributable profits in the books of the Company;
  - (B) if the shares being repurchased were issued at a premium, payment shall be made out of distributable profits in the books of the Company 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 the aggregate of premiums received by the Company on the issue of the Shares repurchased nor the amount of the Company's share premium account (or capital provident fund account) at the time of such repurchase including the premiums on the fresh issue of shares;
- (iii) payment by the Company in consideration for:
  - (A) the acquisition of rights to repurchase its own Shares;
  - (B) the variation of any contract to repurchase its own Shares; or
  - (C) the release of any of the Company's obligation under any contract to repurchase its own Shares;shall be made out of the Company's distributable profits;
- (iv) Shares redeemed or repurchased by the Company shall be cancelled 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 reduced from the distributable profits for repurchasing the Share at par value shall be credited to the share premium account (or capital provident fund account of the Company).

Upon the reduction of registered capital, the Company shall prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice at least three times in a newspaper within thirty (30) days therefrom. Creditors who receive this notice shall have the right within thirty (30) days from the date of receiving the notice, and the creditors who have not received shall have the right within ninety (90) days from the date of the notice was first published in the newspaper, to require the Company to settle the debt or to provide corresponding security in respect of the debt.

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

**(L) Power of any subsidiary of the Company to own shares in the Company**

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

**(M) Dividends and other methods of distribution**

The Company may distribute dividends by way of cash or shares (or by both ways concurrently).

Dividends and other cash distributions payable in Domestic Shares shall be calculated and declared in RMB. Dividends and other cash distributions payable in respect of H Shares shall be calculated and declared in RMB and paid in Hong Kong dollars in accordance with the relevant foreign exchange control regulations 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 a trust company registered under the Trustee Ordinance in Hong Kong.

Subject to the relevant laws and regulations in the PRC, the Company is entitled to exercise the power to forfeit any unclaimed dividends, provided that such power shall not be exercised until after the expiration of the applicable limitation period.

**(N) Proxies**

Any Shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more persons (whether a Shareholder or not) as his proxy(ies) to attend and vote on his behalf, 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 to demand a poll, and
- (iii) have the right to vote on a show of hands or on a poll, but 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 authorized in writing, or if the appointor is a company either under seal or the hand of a director 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, 24 hours before the time for holding the meeting or adjourned meeting at which the proxy proposes to vote or 24 hours before the stipulated time for the taking of the poll.

If the appointor is a legal entity, its legal representative or such person as is authorized by resolution of its board of directors or other governing body to act as its representative may attend at any meeting of Shareholders of the Company.

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 each resolution 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 appointor 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 the Company had not received any other notice in respect of the above matters before the commencement of the meeting or adjourned meeting at which the proxy is used.

**(O) Calls on Shares and forfeiture of Shares**

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

**(P) Shareholders' Rights (including inspection of register of shareholders)**

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 meeting and to vote thereat;
- (iii) to supervise and manage the business operations and activities of the Company and to give advice or raise enquiries;
- (iv) to transfer his Shares according to applicable laws, administrative regulations and the provisions of the Articles of Association;
- (v) to receive any relevant information in accordance with the Articles of Association;
- (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 of Association and the relevant laws and administrative regulations.

The right of the Shareholders to information includes, without limitation, the following:

- (i) the right to a copy of the Articles of Association for a charge to cover cost;
- (ii) the right to inspect and copy for reasonable charges:
  - (a) all part of the register of Shareholders;
  - (b) particulars of Directors, supervisors, general manager and other senior management officers of the Company including:
    - (1) his present and former forename and surname and any aliases;
    - (2) his principal residential address;
    - (3) his nationality;
    - (4) his primary and all other part time business occupations;
    - (5) his identification document and its number.
  - (c) the state of the Company's share capital;
  - (d) reports showing the number and par value of each class of Shares repurchased by the Company since the last financial year end, the aggregate amount paid by the Company for the Shares repurchased and the maximum and minimum price paid in respect of each class of Shares repurchased; and
  - (e) minutes of Shareholders' meetings.

**(Q) Quorum for Shareholder's meeting and class meetings**

A Shareholder proposing to attend a Shareholder's general meeting shall deposit a written reply confirming his attendance twenty (20) days prior to the holding of the meeting. The Company shall according to the written replies received twenty (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 (5) days notify the Shareholders again of the agenda, date and place of the meeting by way of public announcement. After such announcement, the Company may hold the Shareholder's general meeting.

**(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 exchanges on which H Shares are listed, a Controlling Shareholder (defined below) shall not exercise his voting right in a manner prejudicial to the interests of all or part of the Shareholders of the Company in respect of the following matters:

- (i) to relieve a Director or supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve a Director or supervisor (for his own benefit or for the benefit of another person) to expropriate in any manner, the Company's assets, including without limitation, opportunities beneficial to the Company; or
- (iii) to approve a Director or supervisor (for his own benefit or for the benefit of another person) to deprive the other Shareholders of their individual rights, including without limitation, rights to distributions and voting rights save and except pursuant to a restructuring of the Company submitted to the Shareholders for approval in accordance with the Articles of Association.

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

- (i) he alone or acting in concert with others has the power to elect more than half of the Directors;
- (ii) 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;
- (iii) he alone or acting in concert with others hold more than 30% of the shares of the Company; or
- (iv) he alone or acting in concert with others in any other manner controls the Company in fact.

Please refer to the section headed "Variation of rights of existing Shares or classes of Shares"

**(S) Liquidation Procedures**

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) where the Shareholders' general meeting resolves that the Company be dissolved;

- (ii) where dissolution is necessary as a result of the merger or division of the Company;
- (iii) where the Company is declared insolvent according to law because it is unable to pay its debts as they fall due;
- (iv) when the Company is ordered to be closed down by reason of its violation of laws or administrative regulations.

Where the Board decides to liquidate the Company, other than because of a declaration of insolvency, the Board shall, in the notice convening a 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 twelve (12) months from the date of commencement of the liquidation.

In the event the Company shall be dissolved under the provisions of (i) above, it shall set up within fifteen (15) days thereof a liquidation committee team, the members of which shall be determined by an ordinary resolution passed in the general meeting.

In the event the Company shall be dissolved under provisions of (iii) above, the People's Court shall form a liquidation committee comprising of the Shareholders, relevant authorities and relevant professionals in accordance with the laws to proceed with the liquidation thereof.

In the event the Company shall be dissolved under (iv) above, the relevant governing authorities shall form a liquidation committee comprising of the Shareholders, relevant authorities and relevant professionals in accordance with the laws to proceed with the liquidation thereof.

Upon the passing of a resolution to liquidate the Company, all powers of the Directors shall cease. The liquidation committee shall act in accordance with the instructions of the Shareholders' general meeting to report at least once every year to the Shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report to the Shareholders at the Shareholders' general meeting on completion of the liquidation.

**(T) Other provisions material to the Company or its Shareholders**

**(i) General provision**

The Company is a joint stock limited company in general existence.

From the date of the Articles of Association becoming effective, the Articles of Association constitute a legally binding document regulating the Company's organization and activities, and the rights and obligations between the Company and each Shareholder and among the Shareholders inter se.

The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an investee company shall be limited to the amount of its capital contribution to such investee company.

Upon approval of the examination and approving department companies authorized by the State Council, the Company may, according to its need of operation and management, operate as a holding company in accordance with paragraph (2) of article 12 of the Company Law.

The Company may, based on its needs for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase of capital.

The Company may increase its capital in the following ways:

- (1) offering new Shares to non-designated investors for subscription;
- (2) placing new shares to its existing Shareholders;
- (3) distributing new Shares to its existing Shareholders by way of bonus issues;  
and
- (4) any other way permitted by law and administrative regulations.

The Company's increase of capital by issuing new Shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted and announced in accordance with the procedures stipulated by relevant laws and administrative regulations.

Unless otherwise provided by law or administrative regulations, Shares are freely transferable and are not subject to any lien.

When the company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days from the date of the Company's resolution for reduction of its registered share capital and shall publish a notice in a newspaper at least three times within thirty (30) days from the date of such resolution. A creditor has the right within thirty (30) days of receiving the notice from the Company or, in the case of a creditor who does not receive the notice, within ninety (90) days of the date of the notice first published in a newspaper, to demand the Company to repay its debts or provide a corresponding guarantee for such debts. The Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary Shareholders of the Company shall assume the following obligations:

- (1) to abide by the Articles of Association;

- (2) to pay subscription monies according to the number of shares subscribed and the method of subscription; and
- (3) other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

***(ii) Secretary of the Company's Board***

The secretary of the Company's Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. His primary responsibilities are:

- (1) to ensure that the Company has complete organizational documents and records;
- (2) to ensure that the Company, in accordance with law, prepares and delivers those reports and documents required by relevant authorities; and
- (3) to ensure that the Company's registers of Shareholders are properly maintained, and that persons entitled to the Company's records and documents are furnished with such records and documents promptly; and
- (4) to fulfill the duties of a company secretary as stipulated in law and the Articles of Association (including the reasonable requests of the Board).

***(iii) Supervisory Committee***

The Company shall have a supervisory committee. The Director, general manager or other senior management officer (including but not limited to the financial controller of the Company) shall not act concurrently as supervisors. The supervisory committee shall be composed of three supervisors. The term of office of supervisors shall be three years, renewable upon re-election and re-appointment.

The supervisory committee shall have one chairman who shall be elected or removed by two-thirds or more of the members of the supervisory committee. The supervisory committee shall comprise of two representatives of the Shareholders and one representative of staff and workers of the Company. The representatives of the Shareholders shall be elected or removed by the Shareholders in general meeting and the representative of staff and workers of the Company shall be elected or removed democratically by the staff and workers of the Company.

The supervisory committee shall be accountable to the Shareholders' general meeting and exercise the following powers in accordance with the law:

- (1) to examine the Company's financial situation;

- (2) to supervise the Directors, general manager and other senior management officers and to ensure that such Directors, general manager and senior management officers in performing their duties will not be in contradiction with the law, administrative regulations and the Articles of Association;
- (3) to demand rectification from Directors, general manager and any other senior management officers when the acts of such persons are harmful to the Company's interests;
- (4) to verify the financial information such as the financial reports, business reports and plans for distribution of profits to be submitted by the Board to the Shareholders' general meetings and, should any queries arise, to authorize, in the name of the Company, a re-examination by the certified public accountants and practicing auditors of the Company for the time being;
- (5) to propose to convene a Shareholders' extraordinary general meeting;
- (6) to represent the Company in negotiation with or bring an action against a Director; and
- (7) to exercise other powers specified in the Articles of Association.

Members of the supervisory committee shall be present at meetings of the Board.

*(iv) General manager of the Company*

The Company shall have one general manager, who shall be appointed and dismissed by the Board. The Company shall have a chief engineer and a financial controller. The chief engineer and financial controller shall be nominated by the general manager and engaged or dismissed by the Board.

The general manager shall be accountable to the Board and exercise the following powers:

- (1) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the Board;
- (2) to organize the implementation of the Company's annual business plans and investment plans;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to draft the Company's basic management system;
- (5) to formulate basic rules and regulations for the Company;

- (6) to propose the appointment or dismissal or re-positioning of the Company's vice-manager(s), the financial controller, chief engineer or chief economist;
- (7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;
- (8) to personally (or delegate an assistant general manager to) convene or conduct meetings of the office of general manager, the general manager, assistant general managers and other senior management officers shall attend such meetings;
- (9) to determine rewards and punishments, promotion and demotion, increase and decrease of salaries, recruitment, appointment, termination of employment and dismissal of the staff and workers of the Company;
- (10) to, as authorised by the Board, grant security over, lease, sub-underwrite or transfer the Company's assets on behalf of the Company; and
- (11) to exercise other powers conferred by the Articles of Association and the Board.

The general manager shall be present at meetings of the Board. However, the general manager has no voting rights at the meetings unless he is also a Director.

The general manager and assistant general manager, in performing their functions and powers, shall act honestly and diligently and in accordance with laws, administrative regulations and the Articles of Association.

**(v) Board**

The Board is accountable to the Shareholders' general meeting and may exercise the following powers:

- (1) to be responsible for the convening of the Shareholders' general meeting and to report on its work to the Shareholders' general meeting;
- (2) to implement the resolutions of the Shareholders' general meetings;
- (3) to decide on the Company's business plans and investment plans;
- (4) to formulate the Company's proposed annual preliminary and final financial budgets;
- (5) to formulate the Company's profit distribution plans and plans for recovery of losses;
- (6) to formulate proposals for increases or reductions of the Company's registered share capital and the issue of debentures of the Company;



- (7) to draw up plans for the merger, division or dissolution of the Company;
- (8) to decide on the establishment of the Company's internal management structure;
- (9) to appoint or dismiss the Company's general manager, and pursuant to the general manager's nominations to appoint or dismiss assistant general managers, financial controller and other senior management officers of the Company and decide on their remuneration and the method of payment of such remuneration;
- (10) to formulate the Company's basic management system;
- (11) to formulate proposals for any amendments of the Articles of Association;
- (12) draft proposals relating to material acquisitions and realizations;
- (13) to exercise the borrowing powers and powers to raise capital of the Company and to decide the mortgage, lease, contracting or transfer of the Company's material assets on condition of compliance of applicable laws, regulations, the Articles of Association and relevant regulations, and to authorise the general manager to exercise the aforesaid powers within specified scopes; and
- (14) to exercise any other powers designated by the Shareholders in general meeting or conferred by the Articles of Association.

Except the Board's resolution in respect of the matters specified in the above paragraphs (6), (7), (11) and (12), which shall be passed by two-thirds or more of the Directors, the Board resolutions in respect of all other matters may be passed by more than one half of the Directors. Connected transactions shall be approved by the independent Directors in order to be effective.

Meetings of the Board shall be held at least twice every year. The Chairman of the Board shall instruct the company secretary to send notice of the meeting to all of the Directors and the chairman of the supervisory committee not less than ten (10) days and not more than thirty (30) days before the date of the meeting. In case of any urgent matters, upon requisition by more than one-third of the Directors, or the general manager an emergency meeting of the Board may be held. The Chairman of the Board shall instruct the company secretary to send notice of the emergency meeting to all of the directors and the Chairman of the supervisory committee not less than two (2) days and not more than ten (10) days before the date of the meeting.

Meetings of the Board shall be held only if more than half of the Directors attend. Each Director shall have one vote. Where the number of votes cast for and against a resolution are equal, the chairman of the Board shall have a casting vote.

Where a Director is interested in any resolution proposed at a Board meeting, such Director shall not have a right to vote. Such Director shall not be counted in the quorum of the relevant meeting.

*(vi) Accounts and Audit*

*(1) Appointment of accountants' firm*

The Company shall appoint an independent firm of certified public accountants which is qualified under the relevant regulations of the State to audit the Company's annual financial report and review the Company's other accounting reports. The first certified public accountants' firm of the Company may be appointed by the inaugural meeting of the Company before the first annual general meeting of the Shareholders and the certified public accountants' firm as appointed shall hold office until the conclusion of the first annual general meeting of the Shareholders. If the inaugural meeting fails to exercise its powers as aforesaid, those powers shall be exercised by the Board.

The certified public accountants' firm appointed by the Company shall hold office from the conclusion of the annual general meeting of the Shareholders at which the appointment is made until the conclusion of the next annual general meeting of the Shareholders.

Before the convening of the Shareholders' general meeting, the Board may fill any causal vacancy in the office of the certified public accountants' firm, but while any such vacancy continues, the surviving or continuing firm, if any, may act.

The Shareholders in a general meeting may, by ordinary resolution, remove a certified public accountants' firm before the expiration of its term of office, notwithstanding the stipulations in the contract between the Company and such firm, but without prejudice to such firm's right to claim, if any, for damages in respect of such removal.

The remuneration of a certified public accountants' firm or the manner in which such firm is to be remunerated shall be determined by the Shareholders in general meeting. The remuneration of a certified public accountants' firm appointed by the Board shall be determined by the Board.

*(2) Change and removal of accountants' firm*

The Company's appointment of, removal of or non-reappointment of a certified public accountants' firm shall be resolved by Shareholders in general meeting. The resolution of the Shareholders' general meeting shall be filed with the securities governing authority of the State Council.

Where it is proposed that any resolution be passed at a Shareholders' general meeting concerning the appointment of a certified public accountants' firm which is not an incumbent firm to fill a casual vacancy in the office of the certified public accountants' firm or the re-appointment of a certified public accountants' firm which was appointed by the Board to fill a casual vacancy, or the removal of the certified public accountants' firm before the expiration of its term of office, the following provisions shall apply:

- (1) A copy of the proposal shall be sent before notice of the general meeting relating to the appointment or removal of such firm is given to the Shareholders to the firm proposed to be appointed or proposed to leave its post or the firm which has left its post (leaving includes removal, resignation and retirement).
- (2) If the firm leaving its post makes representations in writing and requests the Company to notify such representations to the Shareholders, the Company shall (unless the representations in writing are received too late):
  - (i) in any notice of the relevant resolution given to Shareholders, state the fact of the representations having been made; and
  - (ii) attach a copy of the representations to the notice and deliver it to the Shareholders in the manner stipulated in the Articles of Association.
- (3) If the firm's representations are not sent in accordance with the preceding paragraph, the relevant firm may require that the representations be read out at the Shareholders' general meeting and may lodge further complaints.
- (4) A certified public accountants' firm which is leaving its post shall be entitled to attend:
  - (i) the Shareholders' general meeting at which its term of office would otherwise have expired;
  - (ii) any Shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and
  - (iii) any Shareholders' general meeting convened on its resignation;

and such certified public accountants' firm shall be entitled to receive all notices of, and other relevant information relating to, any such meeting, and to speak at any such meeting in relation to matters concerning its role as the former certified public accountants' firm of the Company.

(3) *Resignation of accountants' firm*

Where the certified public accountants' firm resigns from its post, it shall make clear to the Shareholders' general meeting whether there has been any impropriety on the part of the Company.

Any certified public accountants' firm may resign from its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the Shareholders or creditors of the Company; or
- (2) a statement of any circumstances that should be stated.

Where a notice is deposited as mentioned in the preceding paragraph, the Company shall within fourteen (14) days from the date on which such notice is received send a copy of the notice to the relevant governing authority. If the notice contains statement as mentioned in the preceding paragraph (2), a copy of such statement shall be placed at the Company's residence for Shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every holder of foreign-invested Shares listed overseas at the address registered in the register of Shareholders.

Where the certified public accountants' firm's notice of resignation contains a statement of any circumstances which should be brought to the notice of the Shareholders or creditors of the Company, it may require the Board to convene a Shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

(vii) *Dispute resolution*

Whenever any disputes or claims relating to the Company's affairs between holders of the overseas-listed foreign-invested Shares and the Company, holders of the overseas-listed foreign-invested Shares and the Company's Directors, supervisors, general manager or other senior management officers, or holders of the overseas-listed foreign-invested Shares and holders of domestic-invested Shares, arising out of any rights or obligations provided for in the Articles of Association, the Company Law or any other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.

An applicant for arbitration may elect arbitration at either the China International Economic and Foreign Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities

Arbitration Rules. Once the applicant for arbitration refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the applicant for arbitration.

If an applicant for arbitration elects arbitration at the Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

If any disputes or claims of rights mentioned in the first paragraph of section (vii) are referred to arbitration, the laws of the People's Republic of China shall apply, save as otherwise provided in laws and administrative regulations.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company's Shareholder, Director, supervisor, general manager or other senior management officer. Disputes in relation to the definition of Shareholders and disputes in relation to the register of members need not be referred to arbitration.

The award of an arbitration body shall be final and conclusive and binding on all parties.

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## APPENDIX III SUMMARY OF RELEVANT PRC AND HONG KONG LAWS

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This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the Company Law and the Companies Ordinance, certain requirements of the Listing Rules and certain additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers.

### PRC LAWS AND REGULATIONS

#### I. PRC LEGAL SYSTEM

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

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

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

The people's congresses of provinces, autonomous regions and municipalities directly under the PRC Central Government and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, which do not contravene the Constitution, laws and administrative regulations. The people's congresses of comparatively larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs which do not contravene the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions, and implement upon approval from the standing committees of the people's congresses of provinces or autonomous regions. The standing committee of the people's congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the people's government of the province or autonomous region concerned are identified in the examination of local regulations of comparatively larger cities by the standing committee of the people's congresses of provinces or autonomous regions, a decision shall be made to

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## APPENDIX III SUMMARY OF RELEVANT PRC AND HONG KONG LAWS

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resolve the issue. “Comparatively larger cities” refer to cities where the people’s governments of provinces or autonomous regions are located, cities where special economic zones are located and comparatively larger cities as approved by the State Council.

People’s congresses of national autonomous regions have the power to enact autonomous regulations and separate regulations in the light of the political, economic and cultural characteristics of the ethnic minority groups in the region. The autonomous regulations and separate regulations of autonomous regions shall be effective upon approval by the Standing Committee of the NPC. The autonomous regulations and separate regulations of autonomous prefecture or autonomous county shall be effective upon approval by the standing committees of the people’s congresses of provinces, autonomous regions or municipalities directly under the PRC Central Government. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomous regulations and separate regulations based on the characteristics of ethnic minority groups in the region so long as they do not contravene the basic principles of the laws or administrative regulations, provided that no adaptations shall be made to the PRC Constitution, the Law of the People’s Republic of China on Regional National Autonomy (《中華人民共和國民族區域自治法》) and the specific provisions concerning national autonomous regions contained in other relevant laws and administrative regulations.

The ministries and commissions of the State Council, People’s Bank of China (“PBOC”), the National Audit Office of the PRC and institutions with administrative functions directly under the State Council may formulate rules within the scope of their power based on the laws or the administrative regulations, decisions and orders of the State Council. Provisions of departmental rules shall relate to the enforcement of the laws and administrative regulations, decisions and orders of the State Council. The people’s governments of provinces, autonomous regions, municipalities directly under the PRC Central Government and comparatively larger cities may formulate rules based on the laws, administrative regulations and local regulations of such provinces and autonomous regions and municipalities directly under the PRC Central Government.

The power to interpret laws is vested in the Standing Committee of the NPC. According to The Resolution of the Standing Committee of the NPC Regarding an Improved Interpretation of Laws (《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》) 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 regulations is vested in the regional legislative and administrative organs which promulgate such regulations.

## II. PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organization of the People’s Courts of the People’s Republic of China (《中華人民共和國人民法院組織法》), the judicial system is made up of the Supreme People’s Court, the people’s courts at various local levels, military courts and other special people’s courts. The local people’s courts are divided into three levels,

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## APPENDIX III SUMMARY OF RELEVANT PRC AND HONG KONG LAWS

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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). People's courts at the lower levels are subject to supervision of people's courts at the higher levels. The people's procurators also have the power to exercise legal supervision over the proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by the people's courts at all levels.

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

The Civil Procedure Law of the People's Republic of China (《中華人民共和國民事訴訟法》) (the "**Civil Procedure Law**") adopted on 9 April 1991 and later amended on 28 October 2007, prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is 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 performing the contract, the place of signing the contract or the place of the subject matter, as long as such agreement on jurisdiction does not contravene the provisions of the Civil Procedure Law.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of the PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to perform a judgment or ruling made by a people's court or an award made by an arbitration institution in the PRC, the other party may apply to the people's court for the enforcement of the same. Specific time limits are imposed on the right to apply for such enforcement. The time limit applicable to applications to enforce a judgment is two years, commencing from the last day of the time limit for satisfaction of the judgment specified in the legal documentation; where the legal documentation provides for



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satisfaction of the judgment in stages, the time limit shall commence from the last day of the period for satisfaction of the judgment at the relevant stage; where the legal documentation does not provide a time limit for satisfaction of the judgment, the time limit shall commence from the effective date of the legal documentation. Where a party refuses to perform a binding ruling or judgment, the other party may apply to the people's court for execution of the ruling or judgment. Alternatively, a judge may refer such judgment or ruling to an enforcement officer for enforcement.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. A people's court of the PRC may recognize and enforce a foreign judgment or ruling according to the international treaties concluded or acceded to by the PRC or based on the principle of reciprocity, as long as the court does not consider such foreign judgment or ruling contradicts the basic principles of the laws of the PRC or contravenes the sovereignty, national security or social and public interests of the PRC.

### **III. COMPANY LAW**

The Company Law (《中華人民共和國公司法》) was promulgated by the Standing Committee of the NPC on 29 December 1993 and came into effect on 1 July 1994. It was amended on 25 December 1999 and 28 August 2004 and revised on 27 October 2005. The revised Company Law came into effect on 1 January 2006.

The Special Regulations were promulgated on 4 August 1994 by the State Council. The Special Regulations are formulated in respect of the overseas share subscription and listing of joint stock limited companies according to Articles 85 and 155 of the applicable Company Law. The Mandatory Provisions jointly promulgated by the PRC Securities Commission of State Council and the PRC State Commission for Restructuring the Economic Systems on 27 August 1994, prescribe provisions which must be incorporated in the articles of association of a joint stock limited company to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a "company" which were made in this appendix refers to a joint stock limited company established pursuant to the Company Law with foreign shares.

The main provisions of the Company Law, the Special Regulations and the Mandatory Provisions are listed as below.

#### **1. General Provisions**

A "joint stock limited company" is a corporate legal person established under the Company Law with independent legal properties and enjoys property rights of legal person, whose registered capital is divided into shares of equal value. Its shareholders' liability is limited to the extent of the shares subscribed by them; while the company's liability is limited to the amount of its total assets.

## **2. Establishment**

A company may be established by promotion or subscription.

A company may be established by a minimum of 2 but not more than 200 promoters, and more than half of the promoters must have domicile within the PRC.

Companies incorporated by promotion are companies of which the entire registered capital registered with the company registration authorities is subscribed for by the promoters. The initial capital contribution by all promoters of the Company shall not be less than 20% of the registered capital. The remainder shall be paid up within two years from the date of incorporation of the company by the promoters. For investment companies, the remainder may be paid up within five years. Shares shall not be offered to other persons unless the registered capital has been paid up. For companies incorporated by subscription, the registered capital of a company is the amount of its total paid up capital as registered with the relevant registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher. In accordance with the PRC Securities Law, the minimum registered capital of a joint stock limited company seeking to be listed shall not be less than RMB30 million.

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

Where companies are incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters, unless otherwise provided by the law or administrative regulations. A promoter who offers shares to the public must publish a share offer prospectus and draft a share subscription letter to be signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and their addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities companies established lawfully, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also sign an agreement with a bank in relation to the receipt of subscription amounts. The receiving bank shall receive and keep in custody the subscription amounts, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to relevant

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authorities. After the subscription amounts for the share issuance have been paid in full, a capital verification institution established by law must be engaged to conduct capital verification and furnish a report thereon. The promoters shall preside and convene an inaugural meeting within 30 days after subscription amount of shares issued have been fully paid up. The inauguration meeting shall be formed by the subscribers. Where shares issued remain under subscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days after subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter to return the subscription amounts so paid up together with interests at bank rates for a deposit for the same term. Within 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 on the date when its business license is granted.

A company's promoter shall be liable for:

- (i) the obligations incidental to the liabilities and expenses incurred in the incorporation process if the company cannot be incorporated;
- (ii) the obligations incidental to the refund of subscription amounts 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 fault of the promoters in the course of incorporation of the company.

### 3. Share Capital

The promoter may make capital contribution in cash, non-monetary assets such as in kind, intellectual property right, land use right, or other non-monetary properties that can be appraised by monetary value and transferred lawfully, save for assets that cannot be treated as capital contributions under any law or administrative regulation. If a capital contribution is made other than in cash, a valuation and verification of the asset contributed must be carried out without any overvaluation or under-valuation, subject to any provisions of the law or administrative regulations on valuation. The amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

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

#### **4. Increase in Capital**

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

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

#### **5. Reduction of 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:

- The company shall prepare a balance sheet and an inventory of assets;
- The reduction of registered capital must be approved at a shareholders' general meeting;
- The company shall inform its creditors of the reduction in registered capital within 10 days from the date of the resolution approving such reduction and publish a public announcement in a newspaper within 30 days from the date of such resolution;
- The creditors may within 30 days from the receipt of notice or 45 days from the date of announcement in absence of notice, require the company to repay its debts or provide security for the debts; and
- The company must apply to the relevant administration bureau for industry and commerce for modification registration relating to the reduction in registered capital.

**6. Repurchase of Shares**

A company shall 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) upon the request of its shareholders who vote against the resolution regarding the merger or demerger in a shareholders' general meeting to purchase the shares held by such shareholders.

The company's acquisition of its own shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution of the shareholders' general meeting. Following the company's acquisition of its shares in accordance with the foregoing, such shares shall be canceled within 10 days from the date of acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

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

The company shall not accept the shares of the company as the subject of a pledge.

**7. Transfer of Shares**

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only make a transfer of its shares on a stock exchange established in accordance with law or by other way as required by the State Council.

Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name and address of the transferee into the share register. No changes of registration in the share register provided in the foregoing shall be effected during a period of 20 days prior to the convening of the shareholders' general meeting or 5 days prior to the record day for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies.

Transfer of bearer shares shall be effective upon the delivery of the share certificates by the shareholders to the transferees.

Shares of a company held by a promoter shall not be transferred within one year after the date of establishment of the company. Shares issued before public offering shall not be transferred within one year after the date of the company's listing on the stock exchange.

Directors, supervisors and the senior management of a company shall declare to the company his shareholdings in the company and any changes of such shareholdings. During their term of office, they shall transfer no more than 25% of the shares they hold in the company each year. They shall not transfer the shares they hold within 1 total year from the date of the company's listing on a stock exchange. Any of the aforesaid persons who ceases

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to hold his post shall not transfer any of his shares within 6 months from the date on which he ceases to hold his post. The articles of association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the Directors, supervisors and the senior management of the company.

### 8. Shares

Shareholders have the rights and obligations as set forth in the articles of association of the company, which is binding on each shareholder.

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

- to receive asset gain, participate in major decision-making and be able to choose the management;
- to attend shareholders' general meetings in person or by proxy, and to vote in accordance with the number of shares held;
- to transfer his shares in accordance with the applicable laws and administrative regulations and the articles of association of the company;
- to inspect the company's articles of association, share register, corporate bond counterfoils, minutes of shareholders' general meetings, resolutions of board meetings, resolutions of supervisory meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- to apply to the people's court to revoke any resolution passed at a shareholders' meeting or a board meeting that has been convened or whose voting has been conducted in a manner violating any law, administrative regulations or the articles of association, or any resolution which violates the articles of association provided that such application is submitted within a prescribed period;
- to receive dividends or distributable benefits in other forms in proportion to his shareholding;
- to receive residual assets of the company upon its liquidation in proportion to his shareholding; and
- any other shareholders' rights provided for in the Company Law and the articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription amounts in respect of shares subscribed for, to be liable for the company's debts and liabilities to the extent of the shares subscribed by him and any other shareholders' obligation specified in the company's articles of association.

## **9. Shareholders' General Meetings**

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

The shareholders' general meeting exercises the following powers:

- To decide on the company's business policies and investment plans;
- To elect and remove directors not being employee representatives, and to decide on matters relating to the remuneration of directors;
- To elect and remove supervisors not being employee representatives, and decide on matters relating to the remuneration of supervisors;
- To examine and approve reports of the board of directors;
- To examine and approve reports of the supervisory committee;
- To examine and approve the company's proposed annual financial budget and final accounts;
- To examine and approve the company's proposal for profit distribution plans and recovery of losses;
- To decide on increase or reduction of the company's registered capital;
- To decide on the issue of bonds by the company;
- To decide on issues such as merger, demerger, dissolution, liquidation and change of company form of the company;
- To amend the company's articles of association; and
- Other authorities as provided for in the article of association.

The shareholders' general meeting shall be held once a year. An extraordinary shareholders' general meeting shall be held within two months after the occurrence of any of the following circumstances:

- The number of directors is less than the number stipulated by the Company Law or two-thirds of the number specified in the company's articles of association;
- The aggregate un-recovered losses of the company reach one-third of the company's total paid-up share capital;

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- Shareholder alone or in aggregate holding more than 10% of the company's issued shares request the convening of an extraordinary shareholders' general meeting;
- The board of directors deems necessary;
- The supervisory committee so requests; or
- Other circumstances as provided and/or stated in the articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by the majority of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting in accordance with the Mandatory Provisions. Shareholders alone or in aggregate holding more than 3% of the company's shares may submit interim proposals to the board of directors in writing 10 days before the shareholders' general meeting. The board of directors shall notify other shareholders within 2 days after receiving such proposal and submit such interim proposal for review by the shareholders' general meeting. Interim proposals shall be within the powers of the shareholders' general meeting and shall carry specific subjects and matters for resolution. A shareholders' general meeting shall not make any resolution in respect of any matters not set out in the two types of notices mentioned above. Holders of bearer share certificates who wish to attend the shareholders' general meeting shall deposit their share certificates with the company 5 days before the meeting, which share certificates shall remain in the custody of the company until the close of the shareholders' general meeting. Shareholders present at the shareholders' general meeting shall have one vote for each share held. However, shares of the company held by the company carry no voting rights.

Resolutions proposed at the shareholders' general meeting must be passed 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 special resolutions which, in accordance with the articles of association of the company, must be passed with more than two-thirds of the voting rights held by shareholders present, including those represented by proxies at the meeting.



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Where the Company Law and the articles of association provide that the transfer or assignment of significant assets or the provision of external guarantees by a company must be approved by way of resolution of the shareholders' general meeting, the directors shall convene a shareholders' general meeting promptly to vote on the above matters. The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected for the election of directors and supervisors at the shareholders' general meeting, and shareholders may consolidate their voting rights when casting a vote.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of shares of any type, warrants or other similar securities, bonds or debentures, liquidation, and any matters required by ordinary resolutions to be approved through special resolutions, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the shareholders' general meeting. A shareholder may appoint a proxy to attend a shareholders' general meeting on his behalf by a written power of attorney specifying the scope of the authorization.

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 shareholders' general meeting may be held when written replies to the notice of that meeting from shareholders holding shares representing more than 50% of the voting rights in the company have been received 20 days before the proposed date. If that 50% level is not achieved, the company shall within five days of the last day for receiving written 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 shareholders' general meeting may be held thereafter. The Mandatory Provisions require class shareholders' meeting to be held in the event of a variation or abolition of the rights of class shareholders. Holders of domestic invested shares and holders of H shares are deemed to be different classes of shareholders for this purpose.

### **10. 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 three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and the articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Meetings of the board of directors shall be convened at least twice a year. Notices of the meetings shall be given to all directors and supervisors 10 days before the meetings. The board of directors may provide for a different method of giving notice and notice period of board meetings for convening an extraordinary meeting of the board of directors.

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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 meeting;
- (ii) To implement the resolutions of the shareholders' general meetings;
- (iii) To decide on the company's business plans and investment proposals;
- (iv) To formulate the company's proposed annual budget and final accounts;
- (v) To formulate the company's proposal for profit distribution plans and recovery of losses;
- (vi) To formulate proposals for increase or reduction of the company's registered capital and the issuance of corporate bonds;
- (vii) To prepare plans for the merger, demerger, dissolution or change in the form of the company;
- (viii) To decide on the composition of the company's internal management structure;
- (ix) To appoint or dismiss the company's general manager and decide on his remuneration, and, based on the general manager's nomination, to appoint or dismiss the deputy general manager and financial officers of the company and to decide on their remunerations;
- (x) To formulate the company's basic management system;
- (xi) To formulate proposals for the amendment to the articles of association; and
- (xii) To exercise other powers provided for in the company's articles of association.

Meetings of the board of directors shall be held only if over half of the directors are present. Resolutions of the board of directors require the approval of more than half of all the directors. In the event of equality of affirmative votes and negative votes, the chairman of the board of directors shall have a casting vote. In any vote on a resolution of the board of directors, each director shall have one vote.

If a director is unable to attend a board meeting, he may appoint another director by a proxy form 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, the articles of association or resolutions of shareholders' 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 ever expressly opposed the resolution, and that such opposition was recorded in the minutes of the meeting, such director may be relieved from that liability.

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

- persons without civil capacity or with restricted civil capacity;
- persons having been sentenced to imprisonment for the following crimes: corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the completion of this deprivation;
- former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated being personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- legal representatives of a company or enterprise which had its business license revoked or ordered to close due to violation of the law being personally liable, where less than three years have elapsed since the date of the revocation of the business license of the company or enterprise; or
- persons with a relatively large amount of individual debts due and outstanding.

The election or appointment of directors by the company in violation of the aforesaid provisions shall be null and void. Directors committing the above during their terms of office shall be released of their duties by the company.

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

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

### **11. Supervisors**

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and a supervisor 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, provided that the proportion of company's staff shall not be less than one-third. Directors

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and senior management shall not act concurrently as supervisors. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory committee exercises its powers:

- To review the company's financial information such as financial reports, business reports and profit distribution plan submitted by the board of directors to the shareholders' general meeting and in case of finding any doubts, appointing certified public account on behalf of company to assist re-examination of the same;
- To supervise the duty of directors and senior management and to propose the removal of the directors and senior management who have violated laws, administrative regulations, the articles of association or resolution of a shareholders' general meeting;
- To require the directors or senior management to rectify any action which adversely affects the company's interests;
- To propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under the Company Law;
- To propose any bill in a shareholders' general meeting;
- To initiate proceedings against directors and senior management in accordance to Article 152 of the Company Law; and
- Other powers specified in the company's articles of association.

Supervisors may be in attendance at board meetings as non-voting delegates and make enquiries or proposals in respect of board resolutions. The supervisory committee may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in his work at the company's expense.

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

The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory

committee is incapable of performing or not performing his duties, a supervisor nominated by the majority of supervisors shall convene and preside over supervisory committee meetings.

## **12. Manager and Other Senior Management**

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

- (i) To oversee the production, operation and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) To arrange for the implementation of the company's annual business and investment proposals;
- (iii) To propose plans for the establishment of the company's internal management structure;
- (iv) To propose the basic management system of the company;
- (v) To formulate the company's specific rules;
- (vi) To recommend the appointment or dismissal of deputy manager(s) and person(s) in charge of finance and decide on the appointment or dismissal of other officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) To sit in at board meetings; and
- (viii) To exercise other powers granted by the board of directors or the company's articles of association.

Pursuant to the Company Law, the Special Regulations and Mandatory Provisions provide that, apart from the manager, other senior management of a company includes deputy manager(s), person(s) in charge of finance secretary of the board of directors of a listed company and other officers as specified in the articles of association.

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

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and file legal proceedings according to the articles of association of the company.

**13. Duties of Directors, Supervisors, Managers and Other Senior Management**

Directors, supervisors, managers and senior management 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 in good faith and diligence.

Directors, supervisors, managers and other senior management are prohibited from making use of their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

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

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

A director, supervisor or senior management who contravenes any law, administrative regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be liable to the company.

Where the attendance of a director, supervisor or senior management is requested by the shareholders' general meeting, such director, supervisor or senior management shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior management should furnish with truthful facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

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Where a director or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company, shareholders holding alone or in aggregate more than 1% of the company's shares consecutively for more than 180 days may request in writing the supervisory committee to institute litigation at the people's court. Where a supervisor violates the law or administrative regulations or the articles of association in the discharge of his duties resulting in losses to the company, the aforesaid shareholders may request in writing the board of directors to institute litigation at the people's court. In the event that the supervisory committee or board of directors refuses to institute litigation after receiving the written request of shareholders as provided in the foregoing, or fails to institute litigation within 30 days after receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interest, shareholders mentioned in the foregoing shall have the power to institute litigation directly at the people's court in his own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in losses to the company, shareholders may institute litigation at the people's court in accordance with the foregoing provisions. Where a director or a senior manager contravenes any law, administrative regulation or the articles of association in infringement of shareholders' interests, shareholders may also institute litigation at the people's court.

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

### **14. Financial and Accounting Affairs**

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 accounting year prepare a financial and accounting report which shall be audited by an accountant as provided in accordance with law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of financial department of the State Council.

A joint stock limited company shall deposit its financial and accounting report at the company for the inspection by the shareholders 20 days before the convening of an annual general meeting of shareholders. A joint stock limited company established by subscription must publish its financial and accounting report. 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 up the losses before allocations are set aside for the statutory common reserve fund. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made up its losses and made

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allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, except for distributions stipulated by the articles of association which are not to be made in a proportionate manner. Profit distributed to shareholders by the shareholders' general meeting or the board of directors, before losses have been made and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. Shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of the company on issue and other gains required by the department of finance under the State Council to be treated as the capital common reserve shall be accounted for as capital common reserve. The common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital, provided that the capital common reserve shall not be used to make up the company's losses. Upon the conversion of statutory common reserve into capital, the balance of such statutory common reserve shall not be less than 25% of the registered capital of the company before such conversion.

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

### **15. Appointment and Retirement of Auditors**

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

The Special Regulations require a company to employ independent PRC certified public accountants to audit the company's annual report and review and verify 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 following annual general meeting.

If a company removes or ceases to engage the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make presentation at a shareholders' general meeting. The appointment, removal or engagement of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC.



**16. Distribution of Profit**

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

**17. Amendment to Articles of Association**

Any amendments to the articles of association must be made in accordance with the procedures set forth in applicable laws, administrative regulations and the articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after obtaining approvals from the company examination and approval department authorized by the State Council and the CSRC. If the amendment to the articles of association falls to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and administrative regulations.

**18. Dissolution and Liquidation**

Pursuant to the Company Law, a company shall be dissolved for the following reasons:

- (i) The term of its operation stipulated in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (ii) A resolution is passed at a shareholders' general meeting to dissolve the company;
- (iii) The company is dissolved due to its merger or division;
- (iv) The business license is revoked, the operation is ordered to close down, or the company is dissolved in accordance with the law;
- (v) The company shall be dissolved by the people's court pursuant to Article 183 of the Company Law.

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with the foregoing provisions shall require approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

When a company is to be dissolved pursuant to item (i), (ii), (iv) or (v), it shall establish a liquidation committee within 15 days from the occurrence of cause for liquidation and commence the liquidation process. Members of a liquidation committee are appointed by directors or shareholders in a shareholders' general meeting.

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The creditors may apply to the people's court to designate a team to form a liquidation committee in the event the company fails to establish a liquidation committee within the time limit.

A liquidation committee is required to notify creditors of the company within 10 days after its establishment and issue public announcement on a newspaper within 60 days. A creditor is required to file its claim with the liquidation committee within 30 days after receiving the notification, or within 45 days after the announcement, if such notification has not been received. The liquidation committee shall exercise the following powers during the liquidation period:

- To identify the company's properties and to prepare a balance sheet and an inventory of assets;
- To inform or notify creditors by way of notice or public announcement;
- To dispose of and liquidate any relevant outstanding businesses of the company;
- To settle outstanding taxes and other taxes incurred in the course of liquidation;
- To settle financial claims and liabilities;
- To deal with the surplus properties of the company after its debts have been paid off; and
- To represent the company in civil lawsuits.

The assets of the company shall be distributed in the following order: the liquidation expenses, employee wages, social insurance fund and statutory compensation; outstanding taxes and general indebtedness of the company. Any properties post settlement will be distributed to shareholders in proportion to their respective shareholdings.

During liquidation period, the company shall not engage in operating activities that are not related to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient properties to meet its liabilities, it must immediately apply to the people's court for a declaration of bankruptcy. After the company is declared bankrupt by the people's court, the liquidation committee shall hand over all matters relating to 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 company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation committee shall be prohibited from making use of their powers to accept bribes or other unlawful income and from

appropriating the company's properties. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Liquidation of a company declared bankrupt according to the law shall be processed in accordance with laws on corporate bankruptcy.

### **19. Overseas Listing**

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

According to the Special Regulations, a company's plan to issue H shares and domestic shares which have been approved by CSRC may be implemented by the board of directors of the company by way of separate issues, within 15 months from the date of approval from the CSRC.

### **20. Loss of Share Certificates**

A shareholder of domestic shares 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 registered share certificates are either stolen, lost or damaged, for a declaration that such certificates are void. Upon such a declaration by the people's court, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions provides a separate procedure regarding the loss of H share certificates.

### **21. Merger and Demerger**

The merger or demerger of a company must be decided by resolution on shareholders' general meeting.

Companies may merge through merger and acquisition or consolidation. In the case of merger and acquisition, the company which is acquired shall be dissolved. In the case of consolidation, both parties to the merger shall be dissolved.

When companies merge together, both parties to the merger must reach a merger agreement and prepare for balance sheets and financial statements.

The company shall within 10 days from the date of the resolution of merger notify the creditors and issue announcements in newspapers within 30 days from such date. The creditors may within 30 days from the receipt of notice or 45 days from the date of announcement in the absence of notice, require the company to repay its debts or provide security for the debts.

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When companies merge, the credits and debts of the merging parties shall be assumed by the surviving company or the new company. When a company demerges, its assets must be divided accordingly and a balance sheet and inventory of assets must be drawn up. The company should notify its creditors within 10 days of such resolution being passed and announce 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 borne jointly by the demerged companies.

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

### **IV. SECURITIES LAW AND RULES OF SUPERVISION**

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

In early 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission is responsible for co-coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the securities regulator set up under Securities Commission, and is responsible for drafting securities regulations, supervising securities markets, regulating public offers of securities by PRC companies in the PRC or overseas, and regulating the trading of securities, drawing up statistic information related to securities and conducting research and analysis.

In early 1998, the State Council dissolved the Securities Commission. The duties previously assumed by the Securities Commission were all transferred to CSRC.

On 4 August 1994, the State Council promulgated the Special Provisions. These regulations mainly regulate the issue, subscription, trading and declaration of dividends and other distributions of overseas listed shares, articles of association and disclosure of information of joint stock limited companies having overseas listed shares.

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

On 29 December 1998, the Standing Committee of the NPC passed the Securities Law of the People's Republic of China (《中華人民共和國證券法》). This is the first national securities law in the PRC and is the fundamental law regulating activities in the PRC securities market. The Securities Law took effect on 1 July 1999 and was revised on 27 October 2005.

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The Securities Law is applicable to issuance and trading in the PRC shares, bonds, and other securities designated by the State Council according to laws. Provisions of Company Law and other applicable laws and rules are applicable to any affairs not stipulated in the Securities Law.

On 26 March 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Enhancing of the Standardized Operation and In-depth Reform of Overseas Listed Companies (the “**Opinion**”) (《關於進一步促進境外上市公司規範運作和深化改革的意見》), which is aimed at regulating the internal operation and management of the PRC companies listed overseas. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors on the board of directors, and the appointment and functions of external supervisors on the supervisory committee.

### V. THE ARBITRATION LAW

The Arbitration Law of the People’s Republic of China (or the Arbitration Law) (《中國人民共和國仲裁法》) was issued 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, disputes involving properties or contracts where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee is constituted according to the Arbitration Law. Arbitration Law stipulates that before China Arbitration Association draws out arbitration rules, arbitration committee may draw out temporary rules pursuant to the Arbitration Law and Civil Procedure Law. Where the parties have by agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people’s court unless the arbitration agreement is void.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided for in the articles of association, the Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of overseas listed foreign and a director, supervisor, or senior management, unless otherwise specified in the articles of association, such parties shall submit that dispute or claim to arbitration to 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 selects 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.

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CIETAC is an economic and trade affairs arbitration organ. Pursuant to the CIETAC Arbitration Rules (《中國國際經濟貿易仲裁委員會仲裁規則》) as amended on 11 January 2005 (which amendment became effective on 1 May 2005), CIETAC's jurisdiction covers disputes relating to Hong Kong. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, the single ruling system shall be applied in arbitration where the arbitration judgment is binding on the parties. If a party fails to comply with an award, the other party may apply to the court for enforcement. The court may revoke or refuse to enforce an arbitrate award made by an arbitration body in accordance with Arbitration Law and Civil Procedure Law.

A party seeking to enforce an arbitral award of a PRC arbitration organ against a party who or whose property is not in the territory of the PRC, may apply to foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The Standing Committee of the NPC passed a resolution on 2 December 1986 that the PRC acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”), which was passed for recognition and enforcement of foreign arbitral awards on 10 June 1958. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual or non-contractual mercantile legal relations. On 18 June 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitral authorities can be enforced in Hong Kong. The arbitration awards made by Hong Kong arbitration authorities are also enforceable in China.

### VI. FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is RMB, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. The State Administration of Foreign Exchange (“SAFE”), under the authority of the PBOC, is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In 1994, the conditional convertibility of RMB in current account items was implemented, and the official RMB exchange rate and the market rate for RMB was unified. On 29 January 1996, the State Council promulgated new Regulations of the People's

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Republic of China for the Control of Foreign Exchange (“**Control of Foreign Exchange Regulations**”) (《中華人民共和國外匯管理條例》) which became effective on 1 April 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are not subject to SAFE approval while capital account items are. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997 and 1 August 2008 respectively to affirmatively state that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (the “**Settlement Regulations**”) (《結匯售匯及付匯管理規定》) which became effective on 1 July 1996. The Settlement Regulations abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On 1 January 1994, the former dual exchange rate system for RMB was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply. The PBOC set and published daily the RMB-U.S. dollar base exchange rate. This exchange rate was determined with reference to the transaction price for RMB-U.S. dollar conversions in the inter-bank foreign exchange market on the previous day. The PBOC also, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of RMB against other major currencies. In foreign exchange transactions, designated foreign exchange banks could, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

The PBOC announced that, beginning on 21 July 2005, China would implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The RMB exchange rate is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the close of market on each working day, setting the central parity for trading the RMB on the following trading day.

Since 4 January 2006, the PBOC has improved the method to generate the central parity of the RMB exchange rate by introducing an inquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, the PBOC provided liquidity in the market by introducing a market maker system in the inter-bank foreign exchange market. After the introduction of the inquiry system, the formation of the central parity of RMB against the U.S. dollar was transformed from the previous arrangement based on the closing price determined by price-matching transactions in the inter-bank foreign exchange market to a mechanism under which the PBOC authorized the China Foreign Exchange Trading System to determine and announce the central parity of RMB against the U.S. dollar, based on the inquiry system, at 9:15 am on each business day.

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All foreign exchange income (except such amount of foreign exchange income as is permitted to be retained and deposited into foreign exchange accounts at the designated foreign exchange banks) generated from current account transactions of Chinese enterprises (including foreign-invested enterprises) is sold to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income by us from the sale of shares overseas) is not required to be sold to designated foreign exchange banks but instead may be deposited into foreign exchange accounts at the designated foreign exchange banks.

Chinese enterprises (including foreign-invested enterprises) which require foreign transactions relating to current account items may, without the approval of SAFE, effect payment into foreign exchange accounts at the designated foreign exchange banks if the enterprises have valid proof of such requirements. Foreign-invested enterprises which require foreign exchange for the distribution of profits to their shareholders, and Chinese enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like us), may, on the strength of shareholders' general meeting resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, including direct investments and capital contributions, is still subject to restrictions, and prior approval from SAFE must be obtained.

Dividends to holders of H Shares are declared in RMB but must be paid in Hong Kong dollars.

We prepare our consolidated financial statements in RMB.

### VII. TAXATION IN THE PRC

#### **Taxation applicable to joint stock limited companies**

##### *Corporate income tax*

The Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**New EIT Law**”) was promulgated by the NPC on 16 March 2007 and effective on 1 January 2008. Under such law, enterprises and other organizations which generate income in the PRC are required to pay corporate income tax in the PRC.

The New EIT Law provides a unified tax rate at 25% for all PRC resident enterprises, including domestic and foreign invested enterprises. Non-PRC resident enterprises (means companies established pursuant to a non-PRC law with their de facto management conducted outside the PRC, but which have established organizations or premises in the PRC, or which have generated income within the PRC without having established organizations or premises in the PRC) which have not established organizations or premises within the PRC, or if established, the income derived is in fact not associated with such organizations and premises in the PRC, are subject to



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corporate income tax at a rate of 20% of their income generated within the PRC. The 20% tax rate applicable to such non-PRC resident enterprises has been further reduced to 10% by the implementation rules of the New EIT Law.

Pursuant to the Regulations for the special economic zone of Guangdong province (《廣東省經濟特區條例》), Shenzhen enterprises have been subject to a corporate tax rate of 15%.

Pursuant to the Notice of the State Council on the implementation of transitional preferential policies in respect of the Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) promulgated on 26 December 2007, with effect from 1 January 2008, the enterprises which were originally entitled to preferential tax treatment would continue to enjoy such treatment up to the expiry of its preferential term in 5 years, among which, the enterprises which were originally subject to a corporate tax rate of 15% would be subject to a corporate tax rate of 18%, 20%, 22% and 24% in 2008, 2009, 2010, and 2011 respectively. Such enterprises would be subject to the unified tax rate of 25% in 2012. In addition, the enterprises which were originally entitled to the tax preferential treatment of “two-year exemption and three-year 50% reduction” and “5-year exemption and 5-year 50% reduction” would continue to enjoy such treatment in accordance with the original Enterprise Income Tax Law of the PRC and the relevant regulatory provisions until the expiry of the term of such entitlement.

### *Value added tax*

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax (《中華人民共和國增值稅暫行條例》) and their implementing rules, the sale of products within the PRC, the importation of products and the provision of processing and/or repair services within the PRC by the Company are subject to value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. Input VAT payable by the Company on purchases is recoverable out of the output VAT collected from its customers, and any excess of output VAT over input VAT paid is payable to the tax authority. The rate of VAT is 17%, or, in certain limited circumstances, 13%, depending on the product type.

### *Business tax*

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax (《中華人民共和國營業稅暫行條例》) and their implementation rules, a business tax is imposed on enterprises that provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate of 3% to 20% on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC.

### *Land appreciation tax*

Pursuant to the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) (the “**LAT Provisional Regulations**”) and their implementation rules, any appreciation amount gained from taxpayer's transfer of property shall be subject to land appreciation tax (“**LAT**”). LAT is calculated based on a 4-band excess progressive tax rate: for the portion with appreciation not exceeding 50% of the deductible amount, the applicable tax rate is 30%; for the portion with appreciation exceeding 50% but not exceeding 100% of the deductible amount, the applicable tax rate is 40%; for the portion exceeding 100% but not exceeding 200% of the deductible amount, the applicable tax rate is 50%; for the portion exceeding 200% of the deductible amount, the applicable tax rate is 60%. The related deductible items aforesaid include the following:

- (i) amount paid for obtaining the land use right certificate;
- (ii) costs and expenses for development of land;
- (iii) costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and construction;
- (iv) related tax payable for transfer of property; and
- (v) other deductible items as specified by the Ministry of Finance (the “**MOF**”).

### *Taxation applicable to security holders*

The following is a summary of certain PRC tax consequences of the ownership of H shares by an investor that purchases such H shares and holds the H shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC as in effect on the date hereof, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of PRC taxation other than income taxation, capital taxation, stamp duties and estate duties. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H shares.

### *Taxation of dividends*

#### *Individual investors*

According to the Provisional Regulations of China Concerning Questions of Taxation on Enterprises Experimenting with the Share System (《股份制試點企業有關稅收問題的暫行規定》) (the “**Provisional Regulations**”) and the Individual Income Tax Law of China (《中華人民共和國個人所得稅法》), dividends paid by PRC companies are ordinarily

subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty. According to the Notice of the State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Invested Enterprises, Foreign Enterprises and Foreign Individuals (《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 “**Tax Notice**”) issued by the State Administration of Taxation of the PRC (《中華人民共和國國家稅務總局》) (the “**SAT**”) on 21 July 1993, the dividends paid by a PRC company to foreign individuals with respect to shares listed on an overseas stock exchange (“**Overseas Shares**”), such as H shares, are temporarily not subject to PRC withholding tax. In the event that this exemption is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations and the Individual Income Tax Law. Such withholding tax may be reduced pursuant to an applicable tax treaty on prevention of double taxation. To date, the relevant tax authorities have not collected withholding tax from dividend payments on such shares exempted under the Tax Notice.

#### *Non-individual investors*

The implementation rules of the New EIT Law provide that the dividend paid to shareholders which are non-PRC resident enterprises will be subject to a withholding tax at a rate of 10%. According to the Notice on Several Issues related to Withholding of Enterprise Income Tax by PRC Resident Enterprises for its Overseas Non-PRC Resident Enterprise H-share Shareholders (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) issued by the SAT on 6 November 2008, when a PRC resident enterprise distributes share dividend for 2008 or any subsequent years to shareholders which are overseas non-PRC resident enterprises, it shall withhold and pay corporate income tax on behalf of such shareholders at a rate of 10%. However, after such shareholders receive the share dividend, they may by themselves or through their entrusted agents or obligors of the tax withholding and payment, submit application for entitlement to tax protocol (arrangement) treatment, and if and where the competent tax authorities determine that the shareholders are entitled to tax protocol (arrangement) treatment, the tax authorities shall refund the tax differences between the taxes already levied and the taxes payable as calculated according to the tax rate set forth in the tax protocol (arrangement).

#### *Tax treaties*

Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends. The PRC currently has double-taxation treaties with a number of other countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

***Taxation of capital gains******Individual investors***

According to the Individual Income Tax Law and its implementation rules, gains realised on the sale of equity interests would be subject to income tax at a rate of 20%. The MOF has the power to formulate the detailed implementing measures for levying the individual income tax on the gains realised on the sale of shares in PRC companies. However, to date, no such implementing measures have been promulgated by the MOF, and individual income tax on gains realised on sales of shares has not yet been levied in the PRC.

The Tax Notice provides that gains realised by foreign individuals on the sale of overseas shares, such as H shares, are temporarily not subject to PRC income tax. In the event that such temporary exemption ceases to be effective, individual holders of H shares may be subject to income tax at a rate of 20% on capital gains, unless such tax is reduced or eliminated by applicable double taxation treaties.

***Non-individual investors***

Under the New EIT Law and its implementation rules, gains on sales of shares of PRC resident enterprises by non-PRC resident enterprises are subject to an income tax at a rate of 10%.

***Stamp duty***

PRC stamp duty imposed on the transfer of shares of PRC listed companies should not apply to the acquisition and disposal by non-PRC investors of H shares outside of the PRC by virtue of the Provisional Regulations of China Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》), which became effective on 1 October 1988 and which provide that PRC stamp duty is imposed only on documents, executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

***Estate duty***

No liability for estate tax under PRC law will arise from non-PRC national holding H shares.

**HONG KONG LAWS AND REGULATIONS****A. Hong Kong Company Law**

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC is governed by the Company Law and all other rules and

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## APPENDIX III SUMMARY OF RELEVANT PRC AND HONG KONG LAWS

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regulations promulgated pursuant to the Company Law applicable to a joint stock limited company established in the PRC issuing and listing overseas foreign shares on the Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a limited liability company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

### *Corporate existence*

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. The articles of association of a private company incorporated in Hong Kong is required by the Companies Ordinance to contain certain pre-emptive provisions. A public company does not contain such pre-emptive provisions in its articles of association.

Under the Company Law, a joint stock limited company may be incorporated by promotion method or the subscription method. A company must have a minimum registered capital of RMB5 million, or a higher amount as may otherwise be required by laws and regulations. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company. Under the Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

### *Share capital*

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited company established by promoters is the amount of the total share capital subscribed by all promoters registered with the authority of company registration. The registered capital of a joint stock limited company established by subscription is the amount of the total paid-in capital registered with the authority of company registration. Any increase in the registered capital must be approved by the shareholders at a shareholder's general meeting and by the relevant PRC governmental and regulatory authorities.

Under the PRC Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

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## APPENDIX III SUMMARY OF RELEVANT PRC AND HONG KONG LAWS

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Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

### *Restrictions on shareholding and transfer of shares*

Under the PRC law, the domestic shares ("domestic shares") in the share capital of a joint stock limited company which are denominated and subscribed for in RMB may only be subscribed or traded by the State, PRC legal or natural persons, Qualified Foreign Institutional Investors and Qualified Foreign Strategic Investors. The overseas listed foreign shares ("foreign shares") issued by a joint stock limited company which are denominated in RMB, and subscribed for in a currency other than RMB may only be subscribed for, and traded by domestic investors of the PRC with approval granted by the relevant PRC authorities, as well as investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC.

Under the Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they hold in the company. Moreover, the shares they hold in the company cannot be transferred within one year from the listing date of the shares, and within six months after the said personnel has left office. The articles of association of the company may set out other restrictive requirements on shareholdings and transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfer of shares under Hong Kong company law.

### *Financial assistance for acquisition of shares*

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

### *Variation of class rights*

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of

class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix II in this circular. Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate general meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of a Hong Kong company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of the H Shares and Domestic Shares are defined in the Articles of Association as holders of shares of different classes, but the special voting procedures of class meetings shall not apply in the following circumstances: (i) with the approval by a special resolution at a Shareholders' general meeting, the Company issues, either separately or simultaneously, Domestic Shares and H Shares at an interval of twelve months, and the numbers of Domestic Shares and H Shares proposed to be issued do not exceed 20% of the issued Domestic Shares and 20% of the issued H Shares respectively; (ii) the Company's plan to issue Domestic Shares and H Shares at the time of incorporation is accomplished within 15 months from the date of the approval by the CSRC; or (iii) having obtained the approval from the CSRC or relevant securities regulatory authority of the State Council, the Domestic Shares of the Company are transferred to overseas investors and such shares are listed and traded on an overseas stock exchange. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

#### ***Directors***

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts (save for those related to connected transactions), 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, restrictions on directors' authority in making major dispositions, and guarantees in respect of directors' liability or prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix II to this circular.

#### ***Supervisory committee***

Under the Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision of a supervisory committee. However, there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each

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

*Derivative action by minority shareholders*

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company. The Company Law stipulates that if directors and senior officers incur losses for the company due to violation of laws, administrative regulations or the articles of association of the company in his performance of duties for the company, shareholders holding more than 1% shares of the company individually or collectively for a consecutive of more than 180 days may request the supervisory committee to initiate proceedings in the people's court by giving a written request to the supervisory committee. If supervisors incur losses for the company due to violation of laws, administrative regulations or the articles of association in their office, the aforesaid shareholders may request the board of directors to initiate proceedings in the people's court by giving a written request to the board of directors. If the supervisory committee, board of directors or the executive directors refuse the written request of proceedings from the shareholders, or do not initiate proceedings within 30 days upon receipt of request, or in case of emergency that will incur irrecoverable losses for the company if no immediate actions are taken, the aforesaid shareholders are entitled to initiate proceedings in the people's court directly in their own names for the interest of the company. The Mandatory Provisions further provide remedies to the company against directors, supervisors and officers who breach their duties to the company. In addition, as a condition for the listing of H shares on the Stock Exchange and in accordance with the Mandatory Provisions, every director and supervisor of a joint stock limited company applying for a listing of its H shares on the Stock Exchange is required to give an undertaking in favor of the company acting as agent for each of the shareholders. This allows minority shareholders to litigate against the directors and supervisors in default.

*Protection of minorities*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong Government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.



***Notice of shareholders' meetings***

Under the Company Law, notice of a shareholders' general meeting must be given not less than 20 days before the meeting, or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

***Quorum for shareholders' meetings***

Under Hong Kong law, two members shall be a quorum for a general meeting, unless the articles of association of the company provides otherwise. In the case of one-member companies, one member shall be a quorum. The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within 5 days notify its shareholders by way of a public announcement and the shareholders' general meeting may be held thereafter.

***Voting***

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the Company Law, the passing of any resolution requires one half or more of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, merger, demerger or dissolution of, change of form of a joint stock limited company, increase or decrease of registered capital and the change of a company's form, which require two-thirds or more of votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

***Financial disclosure***

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the Company Law must publish its financial statements. The annual balance sheet has to be verified by certified public

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accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

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

The Special Regulations require that there shall 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 shall also be disclosed simultaneously in the relevant stock exchanges.

### ***Information on directors and shareholders***

The PRC Company Law gives the shareholders of a joint stock limited company the right to inspect the articles of association, minutes of the shareholders' general meetings, register of shareholders, counterfoil of corporate bonds, records of board meetings, records of the meetings of the supervisory committee and financial and accounting reports. Under the articles of association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

### ***Receiving agent***

Under both the Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is 6 years while that under the PRC law is 2 years. The Mandatory Provisions require the appointment of a trust company registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such H shares.

### ***Corporate reorganization***

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another

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company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under the Company Law, such reorganization shall be subject to the relevant approval under the Company Law.

### *Disputes*

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

### *Mandatory deductions*

Under the PRC Company Law, after-tax profits of a joint stock limited company are subject to deductions of contributions to the company's statutory common reserve fund and discretionary common reserve fund, as approved by shareholders by way of resolution at a shareholders' meeting, before they can be distributed to its shareholders. There are prescribed percentages under the Company Law for such deductions. There are no such requirements under Hong Kong Law.

### *Remedies of a company*

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

### *Dividends*

The articles of association of a company empower the company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

### *Fiduciary duties*

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty and due diligence duty

towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company without prior approval of shareholders' general meeting.

***Closure of register of shareholders***

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within 5 days before the record date set for the purpose of distribution of dividends.

**B. Listing Rules**

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

***Compliance Adviser***

A company seeking listing is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after its listing date. The compliance adviser is to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to its two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

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

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

***Accountant's report***

An accountant's report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international accounting standards.

***Process agent***

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

***Public float***

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

***Independent non-executive directors and supervisors***

The independent non-executive directors of a PRC issuer 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 of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

***Restrictions on purchase and subscription of its own securities***

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H Shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolutions of shareholders in general meeting and of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar applicable law of

which the Directors are aware of, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares of the Company.

***Mandatory Provisions***

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

***Redeemable shares***

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

***Pre-emptive rights***

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

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

***Supervisors***

The Company is required to adopt rules governing dealings by its supervisors in securities of the Company in terms no less exacting than those of the Model Code for Securities Transactions by Directors of Listed Issuers (set out in Appendix 10 to the Main Board Listing Rules) issued by the Stock Exchange.

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The Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the Company or its subsidiary: (i) the term of the contract may exceed three years; or (ii) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments.

The remuneration committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable and whether such contracts are in the interests of the Company and its shareholders as a whole and advise shareholders on how to vote.

### *Amendment to the Articles of Association*

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules, the Mandatory Provisions and the Company Law relating to such Articles of Association.

### *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 complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce; and
- for shareholders only, copies of minutes of meetings of shareholders.

***Receiving agents***

Under Article 140 of the Mandatory Provisions, the Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

***Statements in share certificates***

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

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each Shareholder of the Company, to observe and comply with the Company Law, the Special Regulations, other relevant laws and administrative regulations and the Articles of Association;
- agrees with the Company, each Shareholder, Director, supervisor, manager and officer of the Company, and the Company, acting for itself and for each Director, supervisor, manager and officer of the Company, agrees with each Shareholder of the Company, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearing in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each Shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his behalf with each Director, supervisor, manager and officer of the Company whereby each such Director, supervisor, manager and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

***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 its Directors, officers and supervisors*

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

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

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## APPENDIX III SUMMARY OF RELEVANT PRC AND HONG KONG LAWS

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The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

### *Subsequent listing*

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

### *English translation*

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

### *General*

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

## **C. Securities Arbitration Rules**

The Articles of Association provides that certain claims arising from 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 for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of telecommunications. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

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## **APPENDIX III SUMMARY OF RELEVANT PRC AND HONG KONG LAWS**

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### **PRC LEGAL MATTERS**

Zhong Lun Law Firm, the Company's legal adviser on PRC law, has sent to the Company an opinion dated 24 February 2010 confirming that the description and summaries of PRC laws, rules and regulations as contained in this appendix are correct, true, accurate and not misleading. This opinion is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix I to this circular.

Should anyone wish to seek detailed advice on PRC laws or any laws of any jurisdiction, please consult independent legal advisers.

**RISKS RELATING TO THE GROUP'S BUSINESS****Reliance on major customers**

For the three years ended 31 December 2006, 31 December 2007 and 31 December 2008 (the “**Track Record Period**”), the Group’s five largest customers together contributed approximately 22%, 28% and 27% to the Group’s total turnover respectively; and during the same period the Group’s largest customer contributed approximately 5%, 11% and 14% to the Group’s total turnover respectively. Should any of the major customers stop purchasing from the Group, or should any of them encounter internal operating or financial difficulties, it would adversely affect the Group’s business as well as its profitability.

The well being of the Group’s business is subject to the increase in the number of its dealers, distributors and agents as well as the growth of their demand and purchasing power. Should any of the dealers, distributors and agents stop purchasing from the Group, or should they encounter deteriorating business or payment difficulties, it would adversely affect the Group’s business as well as its profitability.

**Uncertainty of overseas market**

The Group has extended its business to the overseas market since 1999 and has achieved considerable success in establishing a sizable overseas sales network. During the Track Record Period, turnover derived from the overseas market contributed approximately 53%, 58% and 57% to the Group’s total turnover respectively. However, the Group would face a number of uncertainties, such as differences in regulatory environment, industrial policies, protectionism, tax rates, currency exchange rates, employment policies and consumer behaviour, for each of its individual foreign operation. There is no assurance that the Group can succeed in expanding its overseas sales network as intended.

**Unproven success of business strategies and new products**

The Group aims to become an established high-tech product and service provider to the automobile after-sales market in the PRC, particularly as a total technology, product and service solutions provider. Accordingly, the Group has commenced the research and development (“**R&D**”) of a set of new products that would be important to the future success of the Group. It is uncertain whether the Group’s execution of its business or product strategies will be successful or will provide concrete benefits to the Group. Investors should also be aware that the market demand for and acceptance of these new products in the future is not yet proven. Should the Group’s business strategy of becoming total technology, product and service solutions provider fail, or that the Group’s new products are proven unsuccessful, or should there be any delay in the launch of its new products, the Group’s business and profitability would be adversely affected.

**Sustainability of growth and high profit margin**

The growth of the Group's business is subject to a number of uncertain factors such as its ability to provide quality products and services to its customers, its ability to launch new and innovative products, a well executed business strategy, a stable management team and overall industrial performance and competition. Any adverse changes occurring to any of the above factors would have an adverse impact on the Group's operating performance.

During the Track Record Period, the Group recorded a gross profit margin of approximately 54%, 55% and 48% respectively; and a net profit margin of approximately 14%, 15% and 3% respectively. However, the Directors believe the reasons attributed to the Group's high growth and profit margins such as lower development and marketing costs and preferential tax rate, can be characterized as short-term factors that may only occur during the early stages of the Group's development and in certain markets, such as the PRC. Investors should therefore be aware that the Group cannot guarantee that, in the future, it can achieve the kind of growth and profit margin that it had achieved during the Track Record Period at all times.

**Increases in raw material prices that we are not able to transfer to our customers would reduce our profit margins and profitability**

Raw materials we use in our production are subject to a high degree of price volatility caused by external conditions, such as commodity price fluctuations, currency fluctuations, and changes in governmental policies. Although the average price for the raw materials of the Group did not experience significant fluctuation during the three years ended 31 December 2008, we cannot guarantee that the price we pay for our raw materials will be stable in the future. Price changes to our raw materials may result in unexpected increases in production, packaging and distribution costs, and we may be unable to increase the prices of our products to offset these increased costs, and therefore may suffer a reduction to our profit margins and profitability. We do not currently hedge against changes in our raw material prices.

**Inventory risk and stock obsolescence**

The Group currently holds a certain level of inventory comprising raw materials and semi-finished products for production and assembly. The Group also holds a certain quantity of finished goods to meet the demand of its customers. As at 31 December 2006, 31 December 2007 and 31 December 2008, the Group had inventories of approximately RMB82 million, RMB83 million and RMB77 million and recorded an inventory turnover period of approximately 195 days, 164 days and 127 days respectively during the same period. The Directors believe that the Group's inventory turnover period during the Track Record Period may be comparatively higher than the industry average. Should the Group fail to manage its inventory properly, which might lead to stock obsolescence and stock provision, the liquidity and profitability of the Group might be adversely affected.

**Reliance on certain suppliers**

Purchases made by the Group mainly comprise steel and electronic components such as chips, CPUs and LCD monitors, which may be in short supply and experience price fluctuations at certain time. During the Track Record Period, the purchases made from the Group's five largest suppliers of raw materials and semi-finished goods accounted for approximately 30%, 23% and 42% of the Group's total purchases respectively. During the same period, purchases made from the largest supplier accounted for approximately 10%, 6% and 10% of the Group's total purchases respectively. Should any of its major suppliers fail to supply the Group with key components necessary for its sub-contracting production arrangement, the Group's operations may be adversely affected.

**Reliance on key operating personnel**

The Group's performance depends, to a certain extent, on the services of a number of key operating personnel, such as its chairman, Mr. Liu Xin who oversees the Group's development strategy and chief executive officer, Mr. Liu Jun, who oversees the Group's day-to-day management. Should the Group lose the services of any of these key operating personnel, for whatever reasons, there could be a material adverse effect on its operations. The Directors realize the shortages in the supply of qualified professionals in the PRC and difficulty in retaining or recruiting suitable professional personnel, and the keen competition for their services could adversely affect the Group's ability to continue attracting experienced, qualified and talented workers to work for the Group.

**Reliance on continuous R&D and ability in catching up with the latest technological trend and market demand**

The markets in which the Group operated are characterized by rapidly changing technology, evolving industry standards, frequent new service and product introductions and upgrades and changing customer demands. The competition in the market is exacerbated as the competitors may offer automotive diagnostic and testing systems, automobile electronic accessory systems and automobile service information systems with similar or more advanced technologies. Accordingly, the Group's future success will depend on its ability to adapt rapidly to changing technology, to launch up-to-date products to gain an edge in such a competitive market condition and to improve the performance, features and reliability of its products. The Group has placed and will continue to place emphasis on R&D, as well as closely monitoring on the technological development in the industry. The failure of the Group to adapt to such changes or to launch new products and service would have a material adverse effect on the Group's business, operating results and financial conditions. Furthermore, the functions and performances of the Group's products depend on the Group's ability to catch up with any new models or technologies adopted by different automobile manufacturers, which in turn depend on the availability of such information from either automobile manufacturers or public domain.

**Research and development projects may not be commercialized**

One of our Group's business objectives is to develop new products through continued research and development. Before undertaking research in any direction, the Group will take into account, among others, market analysis, technology survey, research cost, the period of time required for the research, and the probability of success. However, in view of the rapid changes in market demands and the period of time required for launching new products to the market, there is no assurance that the Group's new products will obtain approval for production from the relevant government authorities, or that the research results can be put into commercial production, or that such new products will be accepted by the market. Accordingly, expenses may be incurred in research and development without resulting in the successful launching of new products.

**Expiry of preferential tax treatment**

Pursuant to the approval issued by the Shenzhen Municipal Tax Bureau (the "SMTB") (深圳市地方稅務局) dated 12 January 2001 and 20 March 2001, the Company was regarded as a new and high technology enterprise and was entitled to certain preferential treatment which mainly included an exemption from income tax for the year 2000 and 2001, and a reduced income tax rate of 7.5% starting from the year 2002 till year 2004. The Company obtained approval from SMTB for an extension of the 50% exemption to 2007 and a reduced income tax rate of 7.5% starting from the year 2005 till year 2007. After the expiry of the relevant taxation preferential period, and with the New EIT Law which was effective from 1 January 2008, the Company was subject to an annual income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter.

上海元征機械設備有限責任公司 ("Launch Shanghai"), a subsidiary of the Company established in the PRC, is subject to an income tax at the rate of 27% in 2006 and 2007. Launch Shanghai is entitled to the preferential treatment of "two-year exemption and three-year 50% reduction" from the first profitable year of operation. Launch Shanghai did not derive any taxable income during the Track Record Period. With the New EIT Law which was effective from 1 January 2008, Launch Shanghai was subject to an annual income tax rate of 25% in 2008 and thereafter and the reduced tax rate under the preferential treatment will be 12.5%. After the expiry of the preferential treatment, Launch Shanghai will be subject to a tax rate of 25%.

深圳元征軟件開發有限公司 ("Launch Software"), a subsidiary of the Company established in the PRC, as a software company recognised by the SMTB, is subject to an income tax at the rate of 15% in 2006 and 2007. Launch Software is entitled to the tax preferential treatment of "two-year exemption and three-year 50% reduction" from the first profitable year of operation and thus an exemption from income tax for the years 2006 and 2007, and a 50% reduction of income tax rate starting from 2008 till 2010. With the New EIT Law which was effective from 1 January 2008, the Company was subject to an annual income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter, and therefore Launch Software will enjoy the reduced tax rate of 9% in 2008 and 10% and 2009.

The expiry of such preferential tax treatment and increase of tax rate have increased and will further increase the tax exposure of the Group, and thus adversely affect its profitability. Should there be any upward changes to the tax rate in the future or the Company is unable to benefit from the approval of preferential taxation policy, the Group's profitability will be adversely affected.

**Dividend policy**

For the three years ended 31 December 2006, 31 December 2007 and 31 December 2008, the Group declared and paid dividends of RMB19,530,000, RMB30,180,000 and RMB0 to its shareholders.

Potential investors should note that the above dividend payments should not be used as a reference for the Group's dividend policy. The Directors expect that, in future, dividend recommendation will be dependent upon the Group's earnings, financial condition, cash requirements and availability, and other relevant factors.

**Product liability**

The Group's business may be subject to product liability claims, suits and complaints incidental to its business. Currently, the Group maintains product liability insurance. As at the Latest Practicable Date, the Group has not experienced any third party claims in respect of its products. If the Group's products contain defects or errors which adversely affect the operations of its customers, the Group may have to devote certain resources to defend any claims which may be brought against it by its customers if the customers' claim is larger than the insurance coverage.

**RISKS RELATING TO THE INDUSTRY****Demand for automobiles and automobile after-sales services**

The Group's business is solely confined to the automobile sector and the automobile after-sales market and therefore the business performance of the Group is closely linked to the growth of the automobile sector and the automobile after-sales market in the PRC and worldwide. Although a number of projections had indicated strong potential of the PRC automobile sector, numerous uncertainties such as business cycles, potential over investment, fall in disposable income of PRC residents and market saturation may curb the demand for automobiles and automobile after-sales services in the PRC. Investors should be aware that there is no guarantee that the automobile sector in the PRC would remain prosperous at all times, and any adverse changes in its general economic conditions and relevant government policies would adversely affect the Group's business.

**Competition**

The automobile after-sales market in the PRC is a developing and fragmented market. The Group not only faces intense competition from domestic and foreign market players but new competitors who may enter into this market with lower prices or better technologies to compete for the Group's customers and market share. The Group may face additional



competition from new market players, who may possess greater financial and technical resources and better brand recognition. Additional competition in the market may reduce the Group's market share and may have an adverse impact on the Group's profit margin.

#### **Trademark, patent and copyright infringement**

The Group regards its copyrights, patents, trademarks and similar intellectual property as critical to its success and has obtained or applied for trademark, patent and copyright protection of certain of its technology. However, certain less technology-intensive products of the Group, such as its automobile cleaning series and automobile tool series products, are not patented and the Group relies on a combination of non-disclosure, confidentiality and other contractual agreements with its directors, employees and other third parties, as well as privacy, trade secret or copyright laws, to protect and limit access to and distribution of the intellectual property, confidential information and technical know-how that the Group has developed or acquired. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Group's intellectual property, confidential information or technical know-how without authorization, or develop similar products or technologies independently.

There are countries where effective copyright, patent, trademark and trade secret protection may be unavailable or limited. Policing unauthorized use of its proprietary technologies is difficult and there is no assurance that the steps taken by the Group will prevent misappropriation or infringement of the Group's intellectual property rights. In addition, litigation may be necessary to enforce the Group's intellectual property rights, protect the Group's trade secrets or determine the validity and scope of the proprietary rights of others, all of which could result in substantial costs and diversion of the Group's resources and its management's time and, as a result, adversely affect the Group's business.

#### **Technology and product cycles**

The products provided by the Group are subject to rapid changes in the automobile, electronics and IT industries, as advanced version of similar products are constantly being introduced to the market at a rapid pace. The demand for the Group's products is also subject to the overall economic growth and business investment in the PRC and worldwide which in turn would have an impact on the automobile industry. Investors should be aware that the Group's success might be dependent upon its quick response to technology and product cycle, whereby the Group should offer products and services to meet the changing demands of its customers, and failure in doing so might significantly undermine the Group's future development.

#### **RISKS RELATING TO THE PRC**

Currently, all the Group's assets and operations are located in the PRC and it derives most of its revenue from its operations in the PRC. Hence, the Group's financial condition and results of operations are, to a significant degree, subject to economic, political and legal developments in the PRC.

**PRC economic, political and social conditions as well as governmental policies could affect our business and prospects**

Prior to the adoption of reform and open policies beginning in 1978, the PRC was primarily a planned economy. Since that time, the PRC government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a significant portion of the productive assets in the PRC, economic reform policies have emphasised autonomous enterprises and the utilisation of market mechanisms. The Directors currently expect that the PRC government will continue with these reforms, further reduce governmental intervention with enterprises and rely more heavily on market mechanism to allocate resources. Although the Directors believe that these reforms will have a positive effect on the Group's overall and long-term development, any changes in the PRC's political, economic and social conditions and its laws, regulations and policies would have an adverse effect on the Group's current or future businesses, financial condition or results of operations.

**Foreign exchange**

The PRC government imposes control over the convertibility of RMB into foreign currencies and, in certain cases, the remittance of foreign exchange out of the PRC. With effect from 1 January 1994, the PRC government implemented a unified floating exchange rate system based on market supply and demand. Under the new system, the PBOC publishes exchange rates based on the previous day's dealings in the interbank foreign exchange market. Foreign currency designated banks use the exchange rate published by the PBOC as a basis and decide a rate of its own, which is within the floating range specified by PBOC, to enter into foreign exchange sales and purchase transactions with customers. Although new regulations have provided for greater liquidity of RMB, RMB is still not a freely convertible currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require the prior approval of the SAFE. These limitations could affect the Group's ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures or dividend payments to the holders of H Shares, which is subject to prior approval from the SAFE.

The value of RMB depends, to a large extent, on the PRC's domestic and international economic, financial and political developments and governmental policies, as well as the currency's supply and demand in the local and international markets. The official exchange rate for the conversion of RMB into the U.S. dollar was largely stable until July 2005. On 21 July 2005, the PBOC revalued RMB by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of RMB appreciated by more than 2% on that day. Since then, the PRC central bank has allowed the official RMB exchange rate to float against a basket of foreign currencies. There can be no assurance that such exchange rate will not fluctuate widely against the U.S. dollar or any other foreign currency in the future.

Since the Group's income and profits are denominated in RMB, any depreciation of RMB will have a negative impact on the Group's overall operations and the value of dividends payable on the H Shares in foreign currency terms.

### **Legal and other regulatory considerations**

#### *Legal system*

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases may have little precedential value. Since 1979, the PRC Government has begun to introduce many new laws and regulations to provide general guidance on economic and business practices and to regulate foreign investment in the PRC. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group and its operations. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be influenced by policy changes that reflect domestic political changes. As the PRC legal system develops, the promulgations of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have a material adverse effect on the Group's ability to operate its business.

#### *Shareholders' rights*

As the Group's business is substantially conducted in the PRC, the Group's operations are governed principally by the laws of the PRC. As a PRC company offering and listing its shares outside the PRC, the Company is subject to the Special Regulations and to the Mandatory Provisions. The Mandatory Provisions contain certain provisions that are required to be included in the articles of association of PRC companies to be listed abroad and are intended to regulate the internal affairs of those companies. The Company Law and the Special Regulations, in general, and provisions for the protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the United Kingdom, the U.S. and other developed countries or regions.

The Company Law is different in certain important aspects from company laws in Hong Kong, the U.S. and other common law countries or regions, particularly with regard to investor protection, including such areas as derivative actions by minority shareholders and other minority protections, restrictions on directors, financial disclosure, variations of class rights, procedures at general meetings and payments of dividends.

The limited nature of investor protection under the Company Law is compensated for, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the Listing Rules with a view to reducing the scope of differences between Hong Kong company law and the Company Law. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying to be listed in Hong Kong. The Articles of Associations

incorporate the provisions required by the Mandatory Provisions and the Listing Rules. Despite the incorporation of those provisions, there can be no assurance that Shareholders of the Company will enjoy protections that they may be entitled to in other jurisdictions.

**We are financially dependent on distributions of dividends from our subsidiaries. Any changes in PRC policies on dividend distributions and enterprise income tax may adversely affect our ability in paying dividends and financial condition.**

We are a PRC joint stock limited company and we conduct our core business operations through our subsidiaries and associated companies in the PRC and Germany. We are financially dependent on dividends received from these subsidiaries and associated companies to enable us to pay dividends to our Shareholders and to service the Company's indebtedness. Therefore, we may face difficulties should our subsidiaries and associated companies incur debt or losses affecting their ability in paying us dividends and other distributions.

According to the PRC regulations, our subsidiaries may distribute their after-tax profits, as determined in accordance with the PRC accounting principles (which differ in many aspects from the generally accepted accounting principles in other jurisdictions), to their shareholders according to their capital contribution only after they have made appropriate contributions to the relevant statutory reserves. Furthermore, we or our subsidiaries and associated companies may enter into certain agreements such as bank credit facilities and joint venture agreements which may contain restrictive covenants restricting our subsidiaries and associated companies' ability in making contributions to us and thereby restricting our ability in receiving distributions. These factors may affect our ability in paying dividends to our Shareholders and in servicing the Company's indebtedness, which could materially and adversely affect our business, operational performance and financial condition.

Our subsidiaries are incorporated in the PRC or Germany. On 16 March 2007, the New EIT Law was issued and on 6 December 2007, the Rules on the Implementation of Enterprise Income Tax Law of the PRC ("**Implementation Rules**") were issued, both of which became effective on 1 January 2008. Under the New EIT Law, if an entity is deemed a PRC tax resident enterprise, which is an enterprise that is set up under PRC law within the territory of the PRC, or set up under the law of a foreign country or region but which has "de facto management organization" within the PRC, qualified dividend and profit distribution from equity investment between them shall be exempted from withholding tax and income tax. Amongst other things, qualified dividend and profit distribution as stated in new tax law shall refer to investment income derived by a PRC tax resident enterprise from the direct investment in other PRC tax resident enterprises, which shall exclude investment income from circulating stock issued publicly by PRC tax resident enterprises and traded on stock exchanges where the holding period is less than 12 months.

Our subsidiaries may trigger withholding tax requirements in the future under the new tax law and the Implementation Rules, depending on their classification as a PRC or non-PRC tax resident enterprise. The new tax law provides that if an enterprise incorporated outside of the PRC has "de facto management organization" within the PRC, it may be recognized as a PRC tax resident enterprise and may be subject to 25% enterprise income tax on its worldwide income. According to the Implementation Rules, "de facto management

organization” means the institution which materially and comprehensively manages and controls the enterprise’s business, personnel, finance and assets. Given the short history of the new tax law and the Implementation Rules, how an enterprise qualifies for tax exemptions remains unclear. Our ability in paying dividends and financial condition may be adversely affected as a result of the new tax law and other changes in PRC policies and regulations on dividend distributions, withholding tax, and enterprise income tax.

### **RISKS RELATING TO THE SHARES**

#### **An active trading market for the Consolidated H Shares may not develop and the trading price for the Consolidated H Shares may fluctuate significantly**

The price and trading volume of the Consolidated H Shares will be determined in the market place and may be volatile. In addition, there can be no assurance that an active trading market for the Consolidated H Shares will develop.

The trading price of the Consolidated H Shares could also be subject to significant volatility in response to, among other factors:

- investors’ perceptions of the Group and its future plans;
- variations in the Group’s operating results;
- changes in the Group’s senior management personnel; and
- general economic and other factors in the PRC and the Group’s other principal markets.

#### **Enforcement of Shareholders’ rights and mandatory arbitration**

Currently, the primary sources of Shareholders’ rights are contained in the Articles of Association and the Company Law and the Listing Rules, which, among other things, impose corresponding standards of conduct, fairness and disclosure on the Company, the Directors and the Company’s controlling Shareholder. The Company was established under the Company Law and is governed by the Articles of Association, which contain provisions required under the PRC law and the Listing Rules. To the knowledge of the Company, there has not been any published report of judicial enforcement in the PRC by holders of H shares of their rights under constituent documents of joint stock limited companies or the Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies.

The legal framework to which the Company and its subsidiaries are subject may be materially different from Hong Kong company laws with respect to, for example, protection of minority shareholders. In addition, the mechanisms for enforcement or rights under the corporate framework to which they are subject may also be relatively undeveloped and untested.

The Articles of Association as well as the Listing Rules provide that most disputes between holders of H Shares and itself, its directors, supervisors, officers or holders of Domestic Shares, arising out of the Articles of Association or the Company Law concerning the affairs of the Company, or with respect to the transfer of Shares are to be resolved through arbitration by arbitration organizations in Hong Kong or China, rather than through a court of law. On 21 June 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and implemented on 1 February 2000. So far as the Company is aware, no action has been brought in China by any shareholder to enforce an arbitral award, and the Company is uncertain as to the outcome of any action brought in China to enforce an arbitral award granted to shareholders.

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## NOTICE OF SPECIAL GENERAL MEETING

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# LAUNCH

深圳市元征科技股份有限公司

## LAUNCH TECH COMPANY LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 8196)

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “**SGM**”) of Launch Tech Company Limited (the “**Company**”) will be convened and held at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the People’s Republic of China on 19 April 2010 at 11:00 a.m. (or immediately after the class meeting of the holders of H shares in the Company to be convened and held on the same date and at the same place), for the purpose of considering and, if thought fit, approving the following special resolutions:

1. **“THAT** subject to and conditional upon the conditions (as set out in the paragraph headed “**Conditions of the Shares Consolidation**” in the section titled “5. Conditions for Shares Consolidation, Transfer of Listing and Articles Amendments” in the circular of the Company dated 1 March 2010 (the “**Circular**”), a copy of which is produced to the meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification), the consolidation of every ten (10) shares of RMB 0.10 each into one (1) consolidated share of RMB 1.00 each (the “**Shares Consolidation**”) be and is hereby approved.”
2. **“THAT** subject to and conditional upon the conditions (as set out in the paragraph headed “**Conditions of the Transfer of Listing**” in the section titled “5. Conditions for Shares Consolidation, Transfer of Listing and Articles Amendments” in the Circular), the possible transfer of listing from the Growth Enterprise Market (the “**GEM**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) to the Main Board of the Stock Exchange (the “**Main Board**”) (the “**Transfer of Listing**”) be and are hereby approved.”
3. **“THAT** the consequential amendments to the articles of association of the Company as a result of the proposed Shares Consolidation (subject to further amendments (if any) being made to the same articles of association by the Directors as authorized by the shareholders of the Company) (the “**Shares Consolidation Amended Articles**”) (a copy of which is produced to the meeting marked “B” and initialed by the chairman of this meeting for the purpose of identification) be and are hereby incorporated into the articles of association of

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## NOTICE OF SPECIAL GENERAL MEETING

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the Company, with effect from the date of obtaining necessary approval from relevant regulatory authorities. The details of the amendments set out in the Shares Consolidation Amended Articles are as follows:

- (i) Article 14 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“The shares issued by the Company are with par value. The par value of each share is RMB1.00.”;

- (ii) Article 18 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“With the approval of the China Securities Regulatory Commission, the Company has issued 27,360,000 ordinary shares after its incorporation, all of which are overseas listed foreign shares, representing 45.33% of the authorized share capital (for ordinary shares) of the Company. The par value of each share was RMB1.00 at the time of its incorporation. With the approval of the China Securities Regulatory Commission, the par value of each share was sub-divided into RMB0.10 and was consolidated into RMB1.00 again.

The Company’s existing share structure consists of 60,360,000 ordinary shares, among which:

- (1) shareholders of domestic shares hold 29,076,100 shares in aggregate, representing 48.17% of the issued share capital of the Company:

Liu Xin\* (劉新) holds 13,863,600 shares, representing 22.97% of the issued share capital of the Company;

Shenzhen Langqu Technology Development Company Limited\* (深圳市浪曲科技開發有限公司) holds 13,886,400 shares, representing 23.01% of the issued share capital of the Company;

Shenzhen Deshiyu Investment Company Limited\* (深圳市得時域投資有限公司) holds 1,026,100 shares, representing 1.70% of the issued share capital of the Company;

Shenzhen Dafeng Investment Company Limited\* (深圳市達豐投資有限公司) holds 300,000 shares, representing 0.50% of the issued share capital of the Company;

- (2) shareholders of overseas non-listed shares hold 3,923,900 shares in aggregate, representing 6.5% of the issued share capital of the Company, among which:



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## NOTICE OF SPECIAL GENERAL MEETING

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Crosby ChinaChips Holdings (1) (BVI) Limited holds 1,646,700 shares, representing 2.73% of the issued share capital of the Company;

China Special Situations Holdings (1) (BVI) Limited holds 277,200 shares, representing 0.46% of the issued share capital of the Company;

China Special Situations Holdings (2) (BVI) Limited holds 2,000,000 shares, representing 3.31% of the issued share capital of the Company;

(3) shareholders of overseas listed shares hold 27,360,000 shares in aggregate, representing 45.33% of the issued share capital of the Company.”.

4. **“THAT** the consequential amendments to the articles of association of the Company as a result of the proposed Transfer of Listing (subject to further amendments (if any) being made to the same articles of association by the Directors as authorized by the shareholders of the Company) (the **“Transfer of Listing Amended Articles”**) (a copy of which is produced to the meeting marked “C” and initialed by the chairman of this meeting for the purpose of identification) be and are hereby incorporated into the articles of association of the Company, with effect from the date of listing of the H shares on the Main Board. The details of the amendments set out in the Transfer of Listing Amended Articles are as follows:

(i) the first sentence of Article 6 of the Existing Articles of the Company shall be deleted in its entirety and replaced by the following:

“The Articles will take effect upon obtaining the passing of the special resolutions at the shareholders’ meeting of the Company, obtaining the approval from the relevant authority in charge and on the date of listing of the H shares of the Company on the Main Board of the Stock Exchange.”;

(ii) the second sentence of paragraph 3 of Article 16 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Overseas listed foreign shares can be listed on the Main Board of the Stock Exchange.”;

(iii) the following sub-paragraph of Article 32 shall be deleted in its entirety and replaced by the following:

“(i) If purchase is not made through the market or by tender, the price of such purchase shall be limited to a maximum price as approved by the meeting of the Shareholders.”;

(iv) the last paragraph of Article 53 of the Existing Articles shall be deleted in its entirety and replaced by the following:

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## NOTICE OF SPECIAL GENERAL MEETING

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“No powers shall be taken to freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.”;

- (v) the following sub-paragraph of Article 68 shall be deleted in its entirety and replaced by the following:

“(i) the speaking rights and voting rights of such shareholder at the general meeting.”;

- (vi) sub-paragraphs (ii) and (iii) of Article 68 shall be deleted in its entirety;

- (vii) the following paragraph shall be inserted before the first paragraph of Article 73 of the Existing Articles:

“In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.”;

- (viii) Article 75 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Any vote of shareholders at a general meeting must be taken by poll.”;

- (ix) the second sentence of Article 78 of the Existing Articles shall be deleted in its entirety;

- (x) the following paragraph shall be inserted after the second paragraph of Article 92 of the Existing Articles:

“The quorum for a separate class meeting (other than an adjourned meeting) to consider a variation of the rights of any class of shares shall be the holders of at least one-third of the issued shares of the class.”;

- (xi) the following sentence shall be inserted after the first paragraph of Article 97 of the Existing Articles:

“Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.”;

- (xii) the following paragraph shall be inserted after the fifth paragraph of Article 97 of the Existing Articles:

“Any person appointed by the directors to fill a casual vacancy on or as an addition to the board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.”;

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## NOTICE OF SPECIAL GENERAL MEETING

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(xiii) the following paragraph shall be inserted after the last paragraph of Article 98 of the Existing Articles:

“The functions of non-executive directors should include but should not be limited to the following:

- (a) participating in board meetings of the issuer to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) taking the lead where potential conflicts of interests arise;
- (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and
- (d) scrutinizing the issuer’s performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.”;

(xiv) the first sentence of the first paragraph of Article 101 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Meetings of the board of Directors shall be convened at least four times every year. Such meetings shall be convened by the chairman of the board of Directors.”;

(xv) the following sentence shall be inserted after the second paragraph of Article 101 of the Existing Articles:

“Such regular meeting does not include the practice of obtaining board consent through the circulation of written resolutions.”;

(xvi) the words “ten days” in the first paragraph of Article 102 of the Existing Articles shall be deleted and replaced with the words “fourteen days”;

(xvii) the fourth paragraph of Article 103 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“That, subject to such exceptions specified in the articles of association as the Stock Exchange may approve, a Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as defined in the Rules governing the listing of securities on the Main Board) has a material interest nor shall he be counted in the quorum present at the meeting.

In this Article, “material interest” of a Director or his associate means any contract, arrangement or proposal in which the Director or his associate is interested in 5% or more.”;

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## NOTICE OF SPECIAL GENERAL MEETING

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(xviii) the following paragraph shall be inserted after Article 104 of the Existing Articles:

“Article 104A There should be a procedure agreed by the board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer’s expense. The board should resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his / their duties to the issuer.”;

(xix) Article 151 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“The Company shall publish financial reports twice in a financial year, i.e. publish an interim financial report (the compilation of such shall be in compliance with the requirements under the Rules governing the listing of securities on the Stock Exchange) within 60 days after the end of the first six (6) months of the accounting year, and publish the annual financial report within 120 days after the end of the financial year.

Apart from complying with the above requirements, the Company shall despatch the Directors’ report and its annual accounts and the auditors’ report for the purpose of its annual accounts to the shareholders at least 21 days before the date of the annual general meeting and within 4 months after the end of the accounting year.”;

(xx) the consequential amendments to the effect that all references to “the Hong Kong GEM Listing Rules” in the Existing Articles shall be deleted and replaced with “Rules governing the listing of securities on the Main Board”.

5. **“THAT** the Directors be and are hereby authorized to do such other acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the proposed Shares Consolidation and the transactions contemplated thereunder, with such changes as the Directors may consider necessary desirable or expedient, which include but are not limited to:

(1) setting up a board committee comprising of any two Directors to handle and decide on matters relating to the proposed Shares Consolidation;

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## NOTICE OF SPECIAL GENERAL MEETING

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- (2) determine and implement at its discretion with full authority the proposed Shares Consolidation, including but not limited to the specific timing of the Shares Consolidation, the issue of the relevant announcements, the application for the listing of, and permission to deal in, the Consolidated H Shares and the application for the acceptance of the Consolidated H Shares as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in The Central Clearing and Settlement System;
  - (3) determine the board lot size for trading in the H Shares in accordance with the requirements of the relevant authorities and the Company's own situation;
  - (4) amending the Shares Consolidation Amended Articles further, as the Directors may deem appropriate and necessary;
  - (5) filing or registering the Shares Consolidation Amended Articles (subject to further amendments (if any) being made to the same by the Directors as authorized by the shareholders of the Company) with the relevant approval authorities of the PRC and Hong Kong, if required; and
  - (6) attending to and handling all other necessary procedures and registrations relating to or as a result of the proposed Shares Consolidation.”
6. **“THAT** the Directors be and are hereby authorized to do such other acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the possible Transfer of Listing and the transactions contemplated thereunder, with such changes as the Directors may consider necessary desirable or expedient, which include but are not limited to:
- (1) setting up a board committee comprising of any two Directors to handle and decide on matters relating to the possible Transfer of Listing;
  - (2) making any applications and submissions to the Stock Exchange and the China Securities Regulatory Commission for the Transfer of Listing;
  - (3) amending the Transfer of Listing Amended Articles further, as the Directors may deem appropriate and necessary;
  - (4) filing or registering the Transfer of Listing Amended Articles (subject to further amendments (if any) being made to the same by the Directors as authorized by the shareholders of the Company) with the relevant approval authorities of the PRC and Hong Kong, if required; and

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## NOTICE OF SPECIAL GENERAL MEETING

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- (5) attending to and handling all other necessary procedures and registrations relating to or as a result of the possible Transfer of Listing.”

By Order of the Board  
**Launch Tech Company Limited**  
**Liu Xin**  
*Chairman*

1 March 2010  
Shenzhen, the PRC

*Notes:*

- (A) Shareholders of the Company shall note that pursuant to Article 46 of the Articles of Association of the Company, the share register of the Company will be closed during the period from 20 March 2010 to 19 April 2010, both days inclusive, during which period no transfer of shares will be registered. Shareholders of the Company whose names appear on the register of shareholders of the Company upon the closing of trading on 19 March 2010 shall be entitled to attend the SGM of the Company and to vote thereat.
- (B) Any shareholders of the Company entitled to attend and to vote at the SGM shall be entitled to appoint a proxy who need not be a shareholder of the Company, to attend and to vote on his behalf. A member who is the holder of two or more shares may appoint more than one proxy.
- (C) Where a shareholder of the Company appoints more than one proxy, his proxy may only vote in a poll.
- (D) To be valid, the proxy forms for the use of shareholders of the Company and, if such proxy is signed by a person on behalf of the appointer pursuant to a power of attorney or other authority, a notarised copy of that power of attorney or other authority must be delivered to the Company not less than 24 hours before the time scheduled for holding the special meeting or its adjourned meetings of the Company.
- (E) Shareholders of the Company who intend to attend the SGM are required to return the reply slip to the Company on or before 30 March 2010. Please refer to the reply slip and instruction for details.
- (F) Completion and return of the proxy form and the reply slip will not affect the right of the shareholders of the Company to attend and to vote at the SGM. In such event, the form of proxy will be deemed to have been revoked.
- (G) Holders of domestic shares shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's principal place of business in the PRC.
- (H) Holders of H shares shall deliver the proxy form and, if such proxy is signed by a person on behalf of his appointer pursuant to a power of attorney or other authority, a notarially certified copy of the power of attorney or other authority and the reply slip to the Company's branch share registrar and transfer office in Hong Kong.
- (I) The SGM is expected to last for half an hour. Shareholders of the Company and their proxies attending the SGM shall be responsible for the transportation and accommodation expenses on their own.

\* *for identification purposes only*

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## NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

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# LAUNCH

深圳市元征科技股份有限公司

## LAUNCH TECH COMPANY LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 8196)

### NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

**NOTICE IS HEREBY GIVEN** that a class meeting of holders of the H shares of Launch Tech Company Limited (the “**Company**”) will be convened and held at 10:30 a.m. (or immediately after the class meeting of the holders of Domestic Shares in the Company to be convened and held on the same date and at the same place) on 19 April 2010 at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the People's Republic of China, for the purpose of considering and, if thought fit, approving the following special resolution:

1. “**THAT** subject to and conditional upon the conditions (as set out in the paragraph headed “**Conditions of the Shares Consolidation**” in the section titled “5. Conditions for Shares Consolidation, Transfer of Listing and Articles Amendments” in the circular of the Company dated 1 March 2010 (the “**Circular**”), a copy of which is produced to the meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification), the consolidation of every ten (10) shares of RMB 0.10 each into one (1) consolidated share of RMB 1.00 each (the “**Shares Consolidation**”) be and is hereby approved.”
2. “**THAT** subject to and conditional upon the conditions (as set out in the paragraph headed “**Conditions of the Transfer of Listing**” in the section titled “5. Conditions for Shares Consolidation, Transfer of Listing and Articles Amendments” in the Circular), the possible transfer of listing from the Growth Enterprise Market (the “**GEM**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) to the Main Board of the Stock Exchange (the “**Main Board**”) (the “**Transfer of Listing**”) be and are hereby approved.”
3. “**THAT** the consequential amendments to the articles of association of the Company as a result of the proposed Shares Consolidation (subject to further amendments (if any) being made to the same articles of association by the Directors as authorized by the shareholders of the Company) (the “**Shares Consolidation Amended Articles**”) (a copy of which is produced to the meeting marked “B” and initialed by the chairman of this meeting for the purpose of identification) be and are hereby incorporated into the articles of association of

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## NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

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the Company, with effect from the date of obtaining necessary approval from relevant regulatory authorities. The details of the amendments set out in the Shares Consolidation Amended Articles are as follows:

- (i) Article 14 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“The shares issued by the Company are with par value. The par value of each share is RMB1.00.”;

- (ii) Article 18 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“With the approval of the China Securities Regulatory Commission, the Company has issued 27,360,000 ordinary shares after its incorporation, all of which are overseas listed foreign shares, representing 45.33% of the authorized share capital (for ordinary shares) of the Company. The par value of each share was RMB1.00 at the time of its incorporation. With the approval of the China Securities Regulatory Commission, the par value of each share was sub-divided into RMB0.10 and was consolidated into RMB1.00 again.

The Company’s existing share structure consists of 60,360,000 ordinary shares, among which:

- (1) shareholders of domestic shares hold 29,076,100 shares in aggregate, representing 48.17% of the issued share capital of the Company:

Liu Xin\* (劉新) holds 13,863,600 shares, representing 22.97% of the issued share capital of the Company;

Shenzhen Langqu Technology Development Company Limited\* (深圳市浪曲科技開發有限公司) holds 13,886,400 shares, representing 23.01% of the issued share capital of the Company;

Shenzhen Deshiyu Investment Company Limited\* (深圳市得時域投資有限公司) holds 1,026,100 shares, representing 1.70% of the issued share capital of the Company;

Shenzhen Dafeng Investment Company Limited\* (深圳市達豐投資有限公司) holds 300,000 shares, representing 0.50% of the issued share capital of the Company;



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## NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

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- (2) shareholders of overseas non-listed shares hold 3,923,900 shares in aggregate, representing 6.5% of the issued share capital of the Company, among which:

Crosby ChinaChips Holdings (1) (BVI) Limited holds 1,646,700 shares, representing 2.73% of the issued share capital of the Company;

China Special Situations Holdings (1) (BVI) Limited holds 277,200 shares, representing 0.46% of the issued share capital of the Company;

China Special Situations Holdings (2) (BVI) Limited holds 2,000,000 shares, representing 3.31% of the issued share capital of the Company;

- (3) shareholders of overseas listed shares hold 27,360,000 shares in aggregate, representing 45.33% of the issued share capital of the Company.”.

4. **“THAT** the consequential amendments to the articles of association of the Company as a result of the proposed Transfer of Listing (subject to further amendments (if any) being made to the same articles of association by the Directors as authorized by the shareholders of the Company) (the **“Transfer of Listing Amended Articles”**) (a copy of which is produced to the meeting marked “C” and initialed by the chairman of this meeting for the purpose of identification) be and are hereby incorporated into the articles of association of the Company, with effect from the date of listing of the H shares on the Main Board. The details of the amendments set out in the Transfer of Listing Amended Articles are as follows:

- (i) the first sentence of Article 6 of the Existing Articles of the Company shall be deleted in its entirety and replaced by the following:

“The Articles will take effect upon obtaining the passing of the special resolutions at the shareholders’ meeting of the Company, obtaining the approval from the relevant authority in charge and on the date of listing of the H shares of the Company on the Main Board of the Stock Exchange.”;

- (ii) the second sentence of paragraph 3 of Article 16 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Overseas listed foreign shares can be listed on the Main Board of the Stock Exchange.”;

- (iii) the following sub-paragraph of Article 32 shall be deleted in its entirety and replaced by the following:

“(i) If purchase is not made through the market or by tender, the price of such purchase shall be limited to a maximum price as approved by the meeting of the Shareholders.”;

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## NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

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- (iv) the last paragraph of Article 53 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“No powers shall be taken to freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.”;

- (v) the following sub-paragraph of Article 68 shall be deleted in its entirety and replaced by the following:

“(i) the speaking rights and voting rights of such shareholder at the general meeting.”;

- (vi) sub-paragraphs (ii) and (iii) of Article 68 shall be deleted in its entirety;

- (vii) the following paragraph shall be inserted before the first paragraph of Article 73 of the Existing Articles:

“In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.”;

- (viii) Article 75 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Any vote of shareholders at a general meeting must be taken by poll.”;

- (ix) the second sentence of Article 78 of the Existing Articles shall be deleted in its entirety;

- (x) the following paragraph shall be inserted after the second paragraph of Article 92 of the Existing Articles:

“The quorum for a separate class meeting (other than an adjourned meeting) to consider a variation of the rights of any class of shares shall be the holders of at least one-third of the issued shares of the class.”;

- (xi) the following sentence shall be inserted after the first paragraph of Article 97 of the Existing Articles:

“Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.”;

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## NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

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- (xii) the following paragraph shall be inserted after the fifth paragraph of Article 97 of the Existing Articles:

“Any person appointed by the directors to fill a casual vacancy on or as an addition to the board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.”;

- (xiii) the following paragraph shall be inserted after the last paragraph of Article 98 of the Existing Articles:

“The functions of non-executive directors should include but should not be limited to the following:

- (a) participating in board meetings of the issuer to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) taking the lead where potential conflicts of interests arise;
- (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and
- (d) scrutinizing the issuer’s performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.”;

- (xiv) the first sentence of the first paragraph of Article 101 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Meetings of the board of Directors shall be convened at least four times every year. Such meetings shall be convened by the chairman of the board of Directors.”;

- (xv) the following sentence shall be inserted after the second paragraph of Article 101 of the Existing Articles:

“Such regular meeting does not include the practice of obtaining board consent through the circulation of written resolutions.”;

- (xvi) the words “ten days” in the first paragraph of Article 102 of the Existing Articles shall be deleted and replaced with the words “fourteen days”;

- (xvii) the fourth paragraph of Article 103 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“That, subject to such exceptions specified in the articles of association as the Stock Exchange may approve, a Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as defined in the Rules governing the listing of securities on the Main Board) has a material interest nor shall he be counted in the quorum present at the meeting.

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## NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

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In this Article, “material interest” of a Director or his associate means any contract, arrangement or proposal in which the Director or his associate is interested in 5% or more.”;

(xviii) the following paragraph shall be inserted after Article 104 of the Existing Articles:

“Article 104A There should be a procedure agreed by the board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer’s expense. The board should resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his / their duties to the issuer.”;

(xix) Article 151 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“The Company shall publish financial reports twice in a financial year, i.e. publish an interim financial report (the compilation of such shall be in compliance with the requirements under the Rules governing the listing of securities on the Stock Exchange) within 60 days after the end of the first six months of the accounting year, and publish the annual financial report within 120 days after the end of the financial year.

Apart from complying with the above requirements, the Company shall despatch the Directors’ report and its annual accounts and the auditors’ report for the purpose of its annual accounts to the shareholders at least 21 days before the date of the annual general meeting and within 4 months after the end of the accounting year.”;

(xx) the consequential amendments to the effect that all references to “the Hong Kong GEM Listing Rules” in the Existing Articles shall be deleted and replaced with “Rules governing the listing of securities on the Main Board”.

5. **“THAT** the Directors be and are hereby authorized to do such other acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the proposed Shares Consolidation and the transactions contemplated thereunder, with such changes as the Directors may consider necessary desirable or expedient, which include but are not limited to:

(1) setting up a board committee comprising of any two Directors to handle and decide on matters relating to the proposed Shares Consolidation;

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## NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

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- (2) determine and implement at its discretion with full authority the proposed Shares Consolidation, including but not limited to the specific timing of the Shares Consolidation, the issue of the relevant announcements, the application for the listing of, and permission to deal in, the Consolidated H Shares and the application for the acceptance of the Consolidated H Shares as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in The Central Clearing and Settlement System;
  - (3) determine the board lot size for trading in the H Shares in accordance with the requirements of the relevant authorities and the Company's own situation;
  - (4) amending the Shares Consolidation Amended Articles further, as the Directors may deem appropriate and necessary;
  - (5) filing or registering the Shares Consolidation Amended Articles (subject to further amendments (if any) being made to the same by the Directors as authorized by the shareholders of the Company) with the relevant approval authorities of the PRC and Hong Kong, if required; and
  - (6) attending to and handling all other necessary procedures and registrations relating to or as a result of the proposed Shares Consolidation.”
6. “**THAT** the Directors be and are hereby authorized to do such other acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the possible Transfer of Listing and the transactions contemplated thereunder, with such changes as the Directors may consider necessary desirable or expedient, which include but are not limited to:
- (1) setting up a board committee comprising of any two Directors to handle and decide on matters relating to the possible Transfer of Listing;
  - (2) making any applications and submissions to the Stock Exchange and the China Securities Regulatory Commission for the Transfer of Listing;
  - (3) amending the Transfer of Listing Amended Articles further, as the Directors may deem appropriate and necessary;
  - (4) filing or registering the Transfer of Listing Amended Articles (subject to further amendments (if any) being made to the same by the Directors as authorized by the shareholders of the Company) with the relevant approval authorities of the PRC and Hong Kong, if required; and

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## NOTICE OF CLASS MEETING OF HOLDERS OF H SHARES

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- (5) attending to and handling all other necessary procedures and registrations relating to or as a result of the possible Transfer of Listing.”

By Order of the Board  
**Launch Tech Company Limited**  
**Liu Xin**  
*Chairman*

1 March 2010  
Shenzhen, the PRC

*Branch share registrar and transfer office in Hong Kong:*  
Computershare Hong Kong Investor Services Ltd.  
46/F, Hopewell Centre  
183 Queen's Road East  
Wan Chai, Hong Kong

*Notes:*

- (A) Holders of the Company's H shares are reminded that pursuant to Article 46 of the Articles of Association, the register of members of the Company will be closed from 20 March 2010 to 19 April 2010, both days inclusive, during which period no transfer of shares will be registered. The Company's H shares shareholders, whose names appear on the register of members of the Company on 19 March 2010 (after closing of trading), are entitled to attend the H Class Meeting and to vote thereat.
- (B) Any holder of the Company's H shares entitled to attend and vote at the H Class Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy needs not be a shareholder of the Company. A shareholder holding two or more H shares may appoint more than one proxy.
- (C) Where a holder of H shares of the Company appoints more than one proxy, his proxies may only vote in a poll.
- (D) To be valid, the proxy forms for the use of holders of H shares and, if such proxy is signed by a person on behalf of the appointor pursuant to a power of attorney or other authority, a notarially certified copy of that power of attorney or other authority must be delivered to the Company's branch share registrar and transfer office in Hong Kong not less than 24 hours before the time scheduled for holding the H Class Meeting.
- (E) Holders of H shares of the Company who intend to attend the H Class Meeting are required to complete and return to the Company the enclosed reply slip by 30 March 2010. Further details are set out in the reply slip and explanation thereto.
- (F) Completion and return of the proxy forms and reply slip will not affect the right of shareholders of the Company to attend and vote at the H Class Meeting, if the shareholders of the Company so desire and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (G) The H Class Meeting is expected to last for half an hour. Shareholders of the Company and proxies attending the H Class Meeting shall be responsible for their own transportation and accommodation expenses.

\* *For identification purposes only*

# **LAUNCH**

深圳市元征科技股份有限公司

**LAUNCH TECH COMPANY LIMITED**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 8196)**

## **NOTICE OF CLASS MEETING OF HOLDERS OF DOMESTIC SHARES**

**NOTICE IS HEREBY GIVEN** that a class meeting of holders of the domestic shares of Launch Tech Company Limited (the “**Company**”) will be convened and held at 10:00 a.m. on 19 April 2010 at 9th Floor, Office Block, Launch Industrial Park, North of Wuhe Road, Banxuegang Longgang District, Shenzhen, the People’s Republic of China, for the purpose of considering and, if thought fit, approving the following special resolutions:

1. “**THAT** subject to and conditional upon the conditions (as set out in the paragraph headed “**Conditions of the Shares Consolidation**” in the section titled “5. Conditions for Shares Consolidation, Transfer of Listing and Articles Amendments” in the circular of the Company dated 1 March 2010 (the “**Circular**”), a copy of which is produced to the meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification), the consolidation of every ten (10) shares of RMB 0.10 each into one (1) consolidated share of RMB 1.00 each (the “**Shares Consolidation**”) be and is hereby approved.”
2. “**THAT** subject to and conditional upon the conditions (as set out in the paragraph headed “**Conditions of the Transfer of Listing**” in the section titled “5. Conditions for Shares Consolidation, Transfer of Listing and Articles Amendments” in the Circular), the possible transfer of listing from the Growth Enterprise Market (the “**GEM**”) of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) to the Main Board of the Stock Exchange (the “**Main Board**”) (the “**Transfer of Listing**”) be and are hereby approved.”
3. “**THAT** the consequential amendments to the articles of association of the Company as a result of the proposed Shares Consolidation (subject to further amendments (if any) being made to the same articles of association by the Directors as authorized by the shareholders of the Company) (the “**Shares Consolidation Amended Articles**”) (a copy of which is produced to the meeting marked “B” and initialed by the chairman of this meeting for the purpose of identification) be and are hereby incorporated into the articles of association of

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the Company, with effect from the date of obtaining necessary approval from relevant regulatory authorities. The details of the amendments set out in the Shares Consolidation Amended Articles are as follows:

- (i) Article 14 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“The shares issued by the Company are with par value. The par value of each share is RMB1.00.”;

- (ii) Article 18 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“With the approval of the China Securities Regulatory Commission, the Company has issued 27,360,000 ordinary shares after its incorporation, all of which are overseas listed foreign shares, representing 45.33% of the authorized share capital (for ordinary shares) of the Company. The par value of each share was RMB1.00 at the time of its incorporation. With the approval of the China Securities Regulatory Commission, the par value of each share was sub-divided into RMB0.10 and was consolidated into RMB1.00 again.

The Company’s existing share structure consists of 60,360,000 ordinary shares, among which:

- (1) shareholders of domestic shares hold 29,076,100 shares in aggregate, representing 48.17% of the issued share capital of the Company:

Liu Xin\* (劉新) holds 13,863,600 shares, representing 22.97% of the issued share capital of the Company;

Shenzhen Langqu Technology Development Company Limited\* (深圳市浪曲科技開發有限公司) holds 13,886,400 shares, representing 23.01% of the issued share capital of the Company;

Shenzhen Deshiyu Investment Company Limited\* (深圳市得時域投資有限公司) holds 1,026,100 shares, representing 1.70% of the issued share capital of the Company;

Shenzhen Dafeng Investment Company Limited\* (深圳市達豐投資有限公司) holds 300,000 shares, representing 0.50% of the issued share capital of the Company;



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- (2) shareholders of overseas non-listed shares hold 3,923,900 shares in aggregate, representing 6.5% of the issued share capital of the Company, among which:

Crosby ChinaChips Holdings (1) (BVI) Limited holds 1,646,700 shares, representing 2.73% of the issued share capital of the Company;

China Special Situations Holdings (1) (BVI) Limited holds 277,200 shares, representing 0.46% of the issued share capital of the Company;

China Special Situations Holdings (2) (BVI) limited holds 2,000,000 shares, representing 3.31% of the issued share capital of the Company;

- (3) shareholders of overseas listed shares hold 27,360,000 shares in aggregate, representing 45.33% of the issued share capital of the Company.”.

4. **“THAT** the consequential amendments to the articles of association of the Company as a result of the proposed Transfer of Listing (subject to further amendments (if any) being made to the same articles of association by the Directors as authorized by the shareholders of the Company) (the **“Transfer of Listing Amended Articles”**) (a copy of which is produced to the meeting marked “C” and initialed by the chairman of this meeting for the purpose of identification) be and are hereby incorporated into the articles of association of the Company, with effect from the date of listing of the H shares on the Main Board. The details of the amendments set out in the Transfer of Listing Amended Articles are as follows:

- (i) the first sentence of Article 6 of the Existing Articles of the Company shall be deleted in its entirety and replaced by the following:

“The Articles will take effect upon obtaining the passing of the special resolutions at the shareholders’ meeting of the Company, obtaining the approval from the relevant authority in charge and on the date of listing of the H shares of the Company on the Main Board of the Stock Exchange.”;

- (ii) the second sentence of paragraph 3 of Article 16 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Overseas listed foreign shares can be listed on the Main Board of the Stock Exchange.”;

- (iii) the following sub-paragraph of Article 32 shall be deleted in its entirety and replaced by the following:

“(i) If purchase is not made through the market or by tender, the price of such purchase shall be limited to a maximum price as approved by the meeting of the Shareholders;”;

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- (iv) the last paragraph of Article 53 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“No powers shall be taken to freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.”;

- (v) the following sub-paragraph of Article 68 shall be deleted in its entirety and replaced by the following:

“(i) the speaking rights and voting rights of such shareholder at the general meeting.”;

- (vi) sub-paragraphs (ii) and (iii) of Article 68 shall be deleted in its entirety;

- (vii) the following paragraph shall be inserted before the first paragraph of Article 73 of the Existing Articles:

“In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.”;

- (viii) Article 75 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Any vote of shareholders at a general meeting must be taken by poll.”;

- (ix) the second sentence of Article 78 of the Existing Articles shall be deleted in its entirety;

- (x) the following paragraph shall be inserted after the second paragraph of Article 92 of the Existing Articles:

“The quorum for a separate class meeting (other than an adjourned meeting) to consider a variation of the rights of any class of shares shall be the holders of at least one-third of the issued shares of the class.”;

- (xi) the following sentence shall be inserted after the first paragraph of Article 97 of the Existing Articles:

“Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.”;

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- (xii) the following paragraph shall be inserted after the fifth paragraph of Article 97 of the Existing Articles:

“Any person appointed by the directors to fill a casual vacancy on or as an addition to the board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.”;

- (xiii) the following paragraph shall be inserted after the last paragraph of Article 98 of the Existing Articles:

“The functions of non-executive directors should include but should not be limited to the following:

- (a) participating in board meetings of the issuer to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) taking the lead where potential conflicts of interests arise;
- (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and
- (d) scrutinizing the issuer’s performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.”;

- (xiv) the first sentence of the first paragraph of Article 101 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“Meetings of the board of Directors shall be convened at least four times every year. Such meetings shall be convened by the chairman of the board of Directors.”;

- (xv) the following sentence shall be inserted after the second paragraph of Article 101 of the Existing Articles:

“Such regular meeting does not include the practice of obtaining board consent through the circulation of written resolutions.”;

- (xvi) the words “ten days” in the first paragraph of Article 102 of the Existing Articles shall be deleted and replaced with the words “fourteen days”;

- (xvii) the fourth paragraph of Article 103 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“That, subject to such exceptions specified in the articles of association as the Stock Exchange may approve, a Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in

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which he or any of his associates (as defined in the Rules governing the listing of securities on the Main Board) has a material interest nor shall he be counted in the quorum present at the meeting.

In this Article, “material interest” of a Director or his associate means any contract, arrangement or proposal in which the Director or his associate is interested in 5% or more.”;

- (xviii) the following paragraph shall be inserted after Article 104 of the Existing Articles:

“Article 104A There should be a procedure agreed by the board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer’s expense. The board should resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his / their duties to the issuer.”;

- (xix) Article 151 of the Existing Articles shall be deleted in its entirety and replaced by the following:

“The Company shall publish financial reports twice in a financial year, i.e. publish an interim financial report (the compilation of such shall be in compliance with the requirements under the Rules governing the listing of securities on the Stock Exchange) within 60 days after the end of the first six months of the accounting year, and publish the annual financial report within 120 days after the end of the financial year.

Apart from complying with the above requirements, the Company shall despatch the Directors’ report and its annual accounts and the auditors’ report for the purpose of its annual accounts to the shareholders at least 21 days before the date of the annual general meeting and within 4 months after the end of the accounting year.”;

- (xx) the consequential amendments to the effect that all references to “the Hong Kong GEM Listing Rules” in the Existing Articles shall be deleted and replaced with “Rules governing the listing of securities on the Main Board”.”

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5. “**THAT** the Directors be and are hereby authorized to do such other acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the proposed Shares Consolidation and the transactions contemplated thereunder, with such changes as the Directors may consider necessary, desirable or expedient, which include but are not limited to:
- (1) setting up a board committee comprising of any two Directors to handle and decide on matters relating to the proposed Shares Consolidation;
  - (2) determine and implement at its discretion with full authority the proposed Shares Consolidation, including but not limited to the specific timing of the Shares Consolidation, the issue of the relevant announcements, the application for the listing of, and permission to deal in, the Consolidated H Shares and the application for the acceptance of the Consolidated H Shares as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in The Central Clearing and Settlement System;
  - (3) determine the board lot size for trading in the H Shares in accordance with the requirements of the relevant authorities and the Company’s own situation;
  - (4) amending the Shares Consolidation Amended Articles further, as the Directors may deem appropriate and necessary;
  - (5) filing or registering the Shares Consolidation Amended Articles (subject to further amendments (if any) being made to the same by the Directors as authorized by the shareholders of the Company) with the relevant approval authorities of the PRC and Hong Kong, if required; and
  - (6) attending to and handling all other necessary procedures and registrations relating to or as a result of the proposed Shares Consolidation.”
6. “**THAT** the Directors be and are hereby authorized to do such other acts and things, enter into all such transactions and arrangements, execute such other documents and/or deeds and/or take all such steps, which in their opinion may be necessary, desirable or expedient to implement the possible Transfer of Listing and the transactions contemplated thereunder, with such changes as the Directors may consider necessary, desirable or expedient, which include but are not limited to:
- (1) setting up a board committee comprising of any two Directors to handle and decide on matters relating to the possible Transfer of Listing;
  - (2) making any applications and submissions to the Stock Exchange and the China Securities Regulatory Commission for the Transfer of Listing;

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- (3) amending the Transfer of Listing Amended Articles further, as the Directors may deem appropriate and necessary;
- (4) filing or registering the Transfer of Listing Amended Articles (subject to further amendments (if any) being made to the same by the Directors as authorized by the shareholders of the Company) with the relevant approval authorities of the PRC and Hong Kong, if required; and
- (5) attending to and handling all other necessary procedures and registrations relating to or as a result of the possible Transfer of Listing.”

By Order of the Board  
**Launch Tech Company Limited**  
**Liu Xin**  
*Chairman*

1 March 2010  
Shenzhen, the PRC

*Principal Place of Business in PRC:*  
9th Floor, Office Block,  
Launch Industrial Park,  
North of Wuhe Road,  
Banxuegang Longgang District,  
Shenzhen, the People’s Republic of China

*Notes:*

- (A) Any holder of the Company’s domestic shares, whose names appear on the register of members of the Company on 19 March 2010 (after closing of trading), are entitled to attend the Domestic Class Meeting and to vote thereat.
- (B) Any holder of the Company’s domestic shares entitled to attend and vote at the Domestic Class Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy needs not be a shareholder of the Company. A shareholder holding two or more domestic shares may appoint more than one proxy.
- (C) Where a holder of domestic shares of the Company appoints more than one proxy, his proxies may only vote in a poll.
- (D) Holders of domestic shares of the Company who intend to attend the Domestic Class Meeting are required to complete and return to the Company’s principal place of business in the PRC the enclosed reply slip by 30 March 2010. Further details are set out in the reply slip and explanation thereto.
- (E) Completion and return of the proxy forms and reply slip will not affect the right of shareholders of the Company to attend and vote at the Domestic Class Meeting, if the shareholders of the Company so desire and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (F) Holders of domestic shares shall deliver the proxy forms (and a notarially certified copy of the power of attorney or other authority if such proxy is signed by a person on behalf of the appointor pursuant to a power of attorney or other authority) and the reply slip to the Company’s principal place of business in the PRC.

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- (G) The Domestic Class Meeting is expected to last for half an hour. Shareholders of the Company and proxies attending the Domestic Class Meeting shall be responsible for their own transportation and accommodation expenses.

\* *For identification purposes only*