
APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

THE PRC LEGAL SYSTEM

The PRC legal system is based on *the Constitutional Law of the PRC* (中華人民共和國憲法) (the “*Constitutional Law*”) and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, regulations of departments of the State Council, regulations and normative documents of local governments, international treaties of which the PRC Government is a signatory and other regulatory documents. Court judgments do not constitute binding precedents. However, they may be used for the purposes of judicial reference and guidance.

According to the *Constitutional Law* and *the Legislation Law of the PRC* (中華人民共和國立法法) (the “*Legislation Law*”), the National People’s Congress (the “NPC”) and the Standing Committee of the NPC (the “SCNPC”) are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The SCNPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments may not contravene the basic principles of such laws.

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

The people’s congresses of the provinces, autonomous regions and municipalities and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene any provision of the *Constitutional Law*, laws or administrative regulations.

The ministries and commissions of the State Council, the PBoC, the National Audit Office as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within their authorities, formulate rules and regulations.

The people’s congresses of cities divided into districts and their respective standing committees may enact local regulations on the matters relating to urban and rural development and management, environmental protection and historical and cultural protection based on the specific circumstances and actual needs which shall come into effect upon approval from the respective standing committees of the people’s congresses of the provinces and autonomous regions, provided that such local regulations shall not be in conflict with the *Constitutional Law*, laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities. People’s congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate regulations based on the characteristics of the local ethnic group, so long as they do not contravene the basic principles of the laws or administrative regulations, and no adaptations shall be made to the specific provisions on national autonomous areas in the *Constitutional Law*, national region autonomy law and other relevant laws and administrative regulations.

The *Constitutional Law* has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations, rules and regulations may contravene the *Constitutional Law*. The authority of laws is greater than that of administrative regulations, local regulations and rules and regulations. The authority of administrative regulations is greater than that of local regulations and rules and regulations. The authority of local regulations is greater than that of the rules of the local governments at and below the corresponding level. The

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authority of the rules and regulations enacted by the people's governments of the provinces and the autonomous regions is greater than that of the rules and regulations enacted by the people's governments of the cities with districts or autonomous prefectures within the administrative areas.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by the SCNPC, but which contravene the *Constitutional Law* or the *Legislation Law*. The SCNPC has the power to annul any administrative regulations that contravene the *Constitutional Law* and laws, to annul any local regulations that contravene the *Constitutional Law*, laws or administrative regulations, and to annul any autonomous regulations or separate regulations which have been approved by the standing committees of the people's congresses of any provinces, autonomous regions or municipalities, but which contravene the *Constitutional Law* and the *Legislation Law*. The State Council has the power to alter or annul any inappropriate rules and regulations of departments and local governments. The people's congresses of provinces, autonomous regions or municipalities have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The standing committees of the local people's congresses have the power to annul inappropriate rules and regulations enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules and regulations enacted by the people's governments at a lower level.

According to the *Constitutional Law* and the *Legislation Law*, the power to interpret laws is vested in the SCNPC. According to the *Resolution of the Standing Committee of the National People's Congress Regarding the Strengthening of 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 by the SCNPC on June 10, 1981, laws and decrees subject to further clarification or supplement shall be interpreted and provided by the SCNPC, issues related to the application of laws and decrees in a court trial shall be interpreted by the Supreme People's Court, issues related to the application of laws and decrees in a prosecution process of a procuratorate shall be interpreted by the Supreme People's Procuratorate. If there is any disagreement in principle between the Supreme People's Court's interpretations and the Supreme People's Procuratorate's interpretations, such issues shall be reported to the SCNPC for interpretation or judgment. The other issues related to the application of laws and decrees other than in the trial and procuratorial work shall be interpreted by the State Council and the competent authorities. If the provisions of local regulations themselves need to be further clarified or supplemented, the standing committees of the people's congresses of the provinces, autonomous regions, and municipalities that formulate such regulations shall interpret or formulate the supplemental provisions. All issues related to the specific application of local regulations shall be interpreted by the competent departments of the people's governments of provinces, autonomous regions and municipalities.

PRC JUDICIAL SYSTEM

Under the *Constitutional Law* and the *PRC Law on the Organization of the People's Courts* (中華人民共和國人民法院組織法), the people's court is made up of the Supreme People's Court, the local people's courts at all levels and the special people's courts.

The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people's courts at all levels and all special people's courts. Local people's courts at all levels are composed of higher people's courts, intermediate people's courts and primary people's courts. The higher level of people's court supervises the trial work of the people's court at a lower level. The people's procuratorate also has the right to exercise legal supervision over the proceedings of the people's court at the same level or at a lower level.

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The people’s courts adopt a “second instance as final” appellate system in the trail of the cases. A party to the case concerned may appeal against the judgment and ruling of the first instance by the local people’s courts to the people’s courts at the next higher level in accordance with the legal procedures. The people’s procuratorates may appeal to the people’s court at the next higher level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people’s procuratorates within the stipulated period, the judgment and ruling of the first instance by the local people’s courts shall be final and legally binding. Judgments and rulings of the second instance of the intermediate people’s courts, the higher people’s courts and Supreme People’s Court and the judgments and rulings of the first instance of the Supreme People’s Court shall be the final judgments and rulings. If, however, the people’s courts at a higher level finds any definite errors in a legally effective final judgment or ruling of the people’s court at a lower level, it may order retrial by the people’s court at a lower level. If the chief judge of a people’s court at any level finds any definite errors in a legally effective final judgment or ruling of such court, he/she shall submit the case to the judicial committee for discussion and determination on retrial. The death penalty shall be reported to the Supreme People’s Court for approval unless it is otherwise adjudged by the Supreme People’s Court.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the “*Civil Procedure Law*”) promulgated on April 9, 1991 and effective therefrom, last amended on December 24, 2021 and effective from January 1, 2022, provided for matters including the jurisdiction of the people’s courts, instituting a civil case, the procedures for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the *Civil Procedure Law*. Generally speaking, civil cases are heard by the court located in the defendant’s place of domicile; where the domicile and habitual residence of the defendant are different, the people’s court at the location of habitual residence shall have jurisdiction; with respect to a civil lawsuit filed by a legal person or an organization, the people’s court at the location of the defendant’s domicile shall have jurisdiction. The parties to disputes involving contracts or other property rights may, by a written agreement, choose a people’s court of jurisdiction located at the places directly connected with the disputes, such as the defendant’s place of domicile, the place where the contract is executed or signed, the plaintiff’s place of domicile or the place where the object is located, however, such selection shall not violate the provisions of the *Civil Procedure Law* on level jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality, a foreign enterprise or a foreign organization that institute or respond to proceedings in a people’s court is given the same litigation rights and obligations as a citizen, legal person and other organization of the PRC. Shall a foreign court limit the civil litigation rights of PRC citizens, legal persons and other organizations, the PRC people’s court shall apply the same limitations to the civil litigation rights of the citizens, legal persons and organizations of such foreign country.

The parties concerned shall perform the civil judgment or ruling which has come into legal effect. If one party refuses to perform, the counterparty may apply to the people’s court for enforcement, or the judge may assign an enforcement officer to carry out enforcement. With respect to a mediation document and any other legal document which should be enforced by the people’s court, the parties concerned shall perform the mediation document and legal document. If one party refuses to perform, the counterparty may apply to the people’s court for enforcement. With respect to an arbitral award of an arbitration organization established pursuant to the law, where one party does not perform, the counterparty may apply to a people’s court which has jurisdiction for enforcement. There are time limits of two years imposed on the right to apply for such enforcement. If an enforcee does not perform the acts stipulated by a judgment, ruling or any other legal document pursuant to the notice of enforcement, the people’s court may carry out mandatory enforcement or entrust the relevant organization or any other person to carry out enforcement.

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A party seeking to enforce an effective judgement or ruling by 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 the judgement or ruling or the people’s court may request a foreign court with jurisdiction over the case for recognition and enforcement if the PRC has entered into or acceded to an international treaty, or if the judgement or according to the principle of reciprocity. With respect to an arbitral award made by a foreign-related arbitration organization of China which has come into legal effect for which the parties concerned request for enforcement, where the enforcer or its properties is not located in China, the parties concerned shall submit an application directly to a foreign court which has jurisdiction for ratification and enforcement.

Where a judgment or ruling made by a foreign court which has come into legal effect requires ratification and enforcement by a people’s court in China, the parties concerned may submit an application directly to an intermediate people’s court in China which has jurisdiction for ratification and enforcement, or the foreign court may, pursuant to the provisions of the international treaty concluded or participated by the country and China or in accordance with the principle of reciprocity, request for ratification and enforcement by the people’s court. Where a people’s court concludes that the basic principle of the PRC laws or the sovereignty, security or public interest of the State is not violated, the people’s court shall rule on ratification of the validity; where there is a need for enforcement, an enforcement order shall be issued and enforced pursuant to the relevant provisions of the *Civil Procedure Law*. Where the people’s court deemed that the basic principle of the PRC laws or the sovereignty, security or public interest of the State is violated, the judgment or ruling made by the foreign court shall not be ratified and enforced. Where an arbitral award of an overseas arbitration organization requires ratification and enforcement by a people’s court in China, the parties concerned shall submit an application directly to an intermediate people’s court at the location of the enforcer’s residence or the location of the enforcer’s properties, the people’s court shall handle the matter pursuant to the international treaty concluded or participated by China or in accordance with the principle of reciprocity.

The Company Law, the Special Regulations, the Mandatory Provisions and the Official Reply

A joint stock limited company which was incorporated in the PRC and seeking to be listed on the Hong Kong Stock Exchange is mainly subject to the following laws and regulations in the PRC:

- *The Company Law of the PRC* (中華人民共和國公司法) (the “**Company Law**”) promulgated by the SCNPC on December 29, 1993 and effective from July 1, 1994, and revised on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 and October 26, 2018 respectively, and the latest revision of which was implemented on October 26, 2018;
- *The Special Regulations on Share Offering and Listing Overseas by Joint-Stock Limited Companies* (關於股份有限公司境外募集股份及上市的特別規定) (the “**Special Regulations**”) issued by the State Council on August 4, 1994 pursuant to Articles 85 and 155 of the *Company Law* in force at that time, which applied to the overseas share offering and listing of joint stock limited companies;
- *The Mandatory Provisions of the Articles of Association of Companies Listing Overseas* (到境外上市公司章程必備條款) (the “**Mandatory Provisions**”) issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on September 29, 1994, which provided the mandatory provisions to be incorporated into the articles of association of a joint stock limited company seeking an overseas listing (including joint stock limited companies seeking listing in Hong Kong), and the *Letter of Opinions on Supplementary Amendments to the Articles of Association of Companies Listing in Hong Kong* (關於到香港上市公司對公

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司章程作補充修改的意見的函) issued jointly by the CSRC and the former State Economic Restructuring Commission on April 3, 1995 and effective therefrom, which further specified the application of the *Mandatory Provisions* to the joint stock limited companies seeking listing in Hong Kong; and

- *The Official Reply on Adjusting the Application of Provisions of Matters Including the Notice Period of Overseas Listed Companies for Convening Shareholders’ Meetings* (關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆) (the “*Official Reply*”) issued by the State Council on October 17, 2019 and effective therefrom, which provided that, for those joint stock limited companies incorporated in the PRC but listed overseas, the requirements for the notice period for convening shareholders’ meetings, shareholders’ proposal rights and the procedures for convening shareholders’ meetings shall be governed by the relevant provisions of the *Company Law*, and no longer be governed by the provisions of Article 20 through 22 of the *Special Regulations*.

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

GENERAL PROVISIONS

A joint stock limited company refers to a corporate legal person established in the PRC under the *Company Law* with independent legal person properties and entitlements to such legal person properties. The liability of the Company for its own debts is limited to all the properties it owns and the liability of its shareholders for the Company is limited to the extent of the shares they subscribe for.

A company engaging in business activities shall comply with the provisions of laws and administrative regulations, uphold social morality, business ethics, honesty and trustworthiness, accept supervision of the government and social public and bear social responsibility. A company may invest in other enterprises. However, unless otherwise provided by the law, a company shall not act as a contributory which bears joint liability of an investee enterprise.

INCORPORATION

A joint stock limited company may be incorporated by promotion or public subscription. Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe part of the shares of a company (not less than 35% of the total number of shares), and the remaining shares can be offered to the public or specific persons.

For a company incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. It shall not raise capital from others before the promoters fully pay the capital subscribed by them; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the company registration authority.

A joint stock limited company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC.

The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing at least half of the shares in the company. At the inaugural meeting, matters including the review of the report on organization of the company by the promoters, the adoption of articles of association and the election of members

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of the board of directors and members of the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established and has the qualification of a legal person once the registration has been approved by the relevant administration for market regulation and a business license has been issued. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

Promoters of a joint stock limited company who fail to make full capital contribution in accordance with the provisions of the articles of association of the company shall make up for the payment; other promoters shall bear joint liability. Where it is discovered after the incorporation of a joint stock limited company that the actual value of non-cash assets used for capital contribution for the incorporation is significantly lower than the amount stated in the articles of association of the company, the promoter who made the capital contribution shall make up for the difference; other promoters shall bear joint liability.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated, (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated, and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

SHARE CAPITAL

The promoters may make capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. Non-monetary assets used for capital contribution shall be valued and verified; and shall not be overvalued or undervalued. Where there are provisions in the laws and administrative regulations on valuation, such provisions shall prevail.

The capital of a joint stock limited company is divided into shares of equal par value. Shares shall be issued in a fair and equitable manner. The same class of shares must carry equal rights. Shares of the same class issued at the same time must be issued on the same conditions and at the same price. The same price per share shall be paid by any entity or individual, and shall be equal to or greater than the nominal value of the share and shall not be less than the nominal value.

According to the *Special Regulations*, subject to approval by the Securities Committee of the State Council, a joint stock limited company may issue shares to designated or non-designated investors overseas and its shares may be listed overseas (shares issued to overseas investor by the joint stock company are circulated and transferred on offshore public securities exchanges). Pursuant to the *Special Regulations* and the *Mandatory Provisions*, shares issued to foreign investors (including foreign investors, investors from Hong Kong, Macau Special Administrative Region and Taiwan) and subscribed in foreign currencies are defined as foreign shares. Foreign shares listed overseas are defined as overseas listed foreign shares, overseas listed foreign shares shall be in the form of registered share certificates, with the face value indicated in renminbi and subscription in foreign currencies. The shares issued to investors within the PRC (other than foreign countries, Hong Kong, Macau Special Administrative Region and Taiwan) and subscribed for in Renminbi are referred to as domestic shares. According to the *Special Regulations*, where issuing overseas listed foreign shares within the total amount of shares fixed in the share issue

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plan, a company may, subject to approval by the Securities Committee of the State Council, agree with the underwriters in the underwriting agreement to retain not more than 15% of the intended total amount of overseas listed foreign shares, after accounting for the amount of shares underwritten. The issue of shares retained by a company shall be regarded as part of the total shares issued under the original issue plan.

A company issuing registered share certificates shall maintain a shareholder registry which sets forth the following matters: (i) the name and domicile of each shareholder, (ii) the number of shares held by each shareholder, (iii) the serial number of share certificates held by each shareholder, and (iv) the date on which each shareholder acquired the shares.

INCREASE OF SHARE CAPITAL

Where a joint stock limited company plans to issue new shares, resolutions on the following matters shall be adopted by the shareholders' meeting: (i) type and number of new shares, (ii) issue price of new shares, (iii) date of commencement and cut-off date for issue of new shares, and (iv) type and number of new shares issued to existing shareholders. When the company launches a public issuance of new shares with the approval of the securities regulatory authorities of the State Council, it shall publish a prospectus and financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

According to the *Securities Law of the PRC* (中華人民共和國證券法) (the "*Securities Law*"), an initial public offering of new shares by a company shall satisfy the following criteria: (i) the company has a proper and well-functioning organization structure, (ii) the company is a going concern, (iii) the auditor has issued non-qualified audit reports for the company's financial accounting documents for the past three years, (iv) the issuer and its controlling shareholders, actual controlling party do not have criminal record during the past three years for corruption, bribery, encroachment of assets, misappropriation of assets or disruption of socialist market economy order, and (v) other criteria stipulated by the securities regulatory authorities of the State Council and approved by the State Council. Offering of new shares by listed companies shall satisfy the criteria stipulated by the securities regulatory authorities of the State Council and approved by the State Council, and the detailed administrative measures shall be formulated by the securities regulatory authorities of the State Council.

REDUCTION OF SHARE CAPITAL

A company reducing its registered capital shall prepare a balance sheet and a list of properties. The company shall notify its creditors within ten days after the decision of reducing registered capital, and publish an announcement in respect of the reduction on a newspaper within thirty days. The creditors may demand, within 30 days from receipt of the notice (or within 45 days for those creditors who did not receive the notice), that the company settles the debts or provide the corresponding guarantee. Where a company reduces its registered capital, the company shall apply to the company registration authority for registration of the change in accordance with the law.

REPURCHASE OF SHARES

A company shall not purchase its own shares other than under the following circumstances: (i) to reduce its registered capital, (ii) to merge with other companies which hold its shares, (iii) to use shares for employees stock ownership plan or equity incentives, (iv) to purchase its shares from shareholders who vote against any resolution adopted at a shareholders' general meeting on the merger or demerger of the company upon their request, (v) to use shares for converting convertible corporate bonds issued by the listed company, or (vi) for the purpose of protecting the corporate value and the rights and interests of shareholders of a listed company when necessary.

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A company purchasing its own shares under any of the circumstances set forth in items (i) and (ii) shall be subject to a resolution of the shareholders' meeting. A company purchasing its own shares under any of the circumstances set forth in items (iii), (v) and (vi) may, pursuant to its articles of association or the authorization of the shareholders' general meeting, be subject to approval by resolution of a board meeting at which more than two-thirds of directors are present.

After purchasing its own shares in accordance with these requirements, a company shall, under the circumstance set forth in item (i), cancel them within ten days after the purchase; while under the circumstance set forth in either item (ii) or (iv), transfer or cancel them within six months; and while under the circumstance set forth in item (iii), (v) or (vi), aggregately hold not more than 10% of the total shares issued by the company, and transfer or cancel them within three years.

A listed company purchasing its own shares shall perform the obligation of information disclosure as required by the *Securities Law* and, under any of the circumstances set forth in items (iii), (v) and (vi), shall carry out trading in a public and centralized manner.

A company shall not accept its own shares as the subject matter of pledge.

TRANSFER OF SHARES

Shares may be transferred in accordance with the relevant laws and regulations. Transfer of shares by shareholders shall be carried out at a legally established stock exchange or in other ways stipulated by the State Council. Registered shares shall be transferred by means of endorsement by shareholders or by such other means as provided for by laws or administrative regulations; the company shall record the name and address of the transferee in the register of shareholders upon the transfer. No registration of changes in the register of members as stipulated by the preceding paragraph shall be made within 20 days prior to the convening of a shareholders' general meeting or within 5 days prior to the record date on which the company decides to distribute dividends. Where the law provides otherwise for alteration of records in the register of shareholders of listed companies, such provisions shall prevail. Transfer of bearer shares shall become effective immediately after a shareholder delivers such share certificates to a transferee.

Shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. They shall not transfer the shares they hold within one year of the date of the company's listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

SHAREHOLDERS

Pursuant to the *Company Law* and the *Mandatory Provisions*, the holder of ordinary shares of a company shall have the following rights: (i) to receive dividends and beneficial distributions in other forms according to the quantity of shares held, (ii) to attend or entrust an agent to attend shareholders' meetings and to execute voting rights, (iii) to supervise and manage business operations of the company and to raise proposals or address inquiries accordingly, (iv) to assign shares pursuant to the provisions of laws, statutory regulations and the company's articles of association, (v) to inspect the articles of association, shareholder register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory committee and financial and accounting reports, and to make suggestions or inquiries

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in respect of the company's operations, (vi) to participate in, upon the company's termination or liquidation, the distribution of the company's remaining assets according to the quantity of shares held, (vii) to apply to a people's court within 60 days from the date of resolution for rescission of the resolution where the convening procedures and voting method of a shareholders' general meeting or board meeting violates the provisions of laws and administrative regulations or the articles of association of the company or the contents of the resolution violate the articles of association of the company, and (viii) other rights as stipulated in laws, statutory regulations and the company's articles of association.

Pursuant to the *Mandatory Provisions*, the holder of ordinary shares of a company shall assume the following obligations: (i) to abide by the company's articles of association, (ii) to pay funds pursuant to the quantity of subscribed shares and the method of subscription, and (iii) other obligations as stipulated in laws, statutory regulations and the company's articles of association. Apart from the conditions accepted at the time of subscribing to shares, a shareholder shall not bear liability for any additional share capital.

SHAREHOLDERS' GENERAL MEETINGS

The shareholders' general meeting of a joint stock limited company shall consist of all shareholders. The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the *Company Law*. The shareholders' general meeting may exercise the following powers: (i) to decide on the company's operational objectives and investment plans, (ii) to elect and remove the directors and supervisors (not being representatives of employees) and to decide on the matters relating to the remuneration of directors and supervisors, (iii) to review and approve the reports of the board of directors, (iv) to review and approve the reports of the supervisory committee or supervisors, (v) to review and approve the company's annual financial budgets and final accounts, (vi) to review and approve the company's profit distribution proposals and loss recovery proposals, (vii) to decide on any increase or reduction of the company's registered capital, (viii) to decide on the issue of corporate bonds, (ix) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form, (x) to amend the company's articles of association, and (xi) to exercise any other authority stipulated in the articles of association.

A shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months of the occurrence of any of the following circumstances: (i) the number of directors is less than the number stipulated by the *Company Law* or less than two-thirds of the number specified in the articles of association, (ii) the outstanding losses of the company amounted to one-third of the company's total paid-in share capital, (iii) shareholders individually or in aggregate holding 10% or more of the company's shares request that an extraordinary shareholders' general meeting be convened, (iv) the board deems necessary, (v) the supervisory committee so requests, or (vi) any other circumstances as provided for in the articles of association.

A shareholders' general meeting 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 is 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 is not performing his duties, a director nominated by half or more of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties to convene the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. If the supervisory committee fails to convene and preside over such meeting, shareholders individually or in aggregate holding 10% or more of the company's shares for 90 days or more consecutively may unilaterally convene and preside over such meeting.

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All the shareholders shall be informed in writing 20 days in advance of a shareholders' general meeting of the date and venue of meeting and the agenda. All the shareholders shall be informed 15 days in advance of an extraordinary shareholders' general meeting; where the agenda includes an issue of bearer shares, a notice of the meeting stating the date and venue of the meeting and the agenda shall be given 30 days in advance.

A shareholder who holds 3% or more of the shares of the company or several shareholders who hold 3% or more of the shares of the company jointly may submit a written proposal of an agenda item ten days before a shareholders' general meeting to the board of directors; the board of directors shall inform other shareholders of the proposal within two days from receipt of the proposal and table the proposal at the shareholders' general meeting for review. The contents of the proposed agenda item shall be within the scope of duties and powers of the shareholders' general meeting and shall contain a specific topic and specific resolution. The shareholders' general meeting shall not resolve on matters which are not set out in the notice of meeting. Holders of bearer shares attending a shareholders' general meeting shall deposit their share certificates with the company from five days before the meeting to the conclusion of the shareholders' general meeting.

There is no specific provision in the *Company Law* regarding the number of shareholders constituting a quorum in a shareholders' meeting.

When a shareholder attends a shareholders' general meeting, he/she shall have one vote for each share he/she holds. However, the company has no voting right for its own shares it holds. Pursuant to the *Company Law* and the *Mandatory Provisions*, resolutions of the shareholders' general meetings shall be divided into ordinary and special resolutions. An ordinary resolution at a shareholders' general meeting shall require the approval of a majority of the voting rights of shareholders (including their agents) who are present at the meeting in order to be valid. A special resolution at a shareholders' general meeting shall require the approval of a two-thirds majority of the voting rights of shareholders (including their agents) who are present at the meeting in order to be valid. Ordinary resolutions shall be proposed on the following matters at a shareholders' general meeting: (i) work reports of the board of directors and supervisory committee, (ii) profit distribution plan and loss recovery plan prepared by the board of directors, (iii) dismissal of members of the board of directors and supervisory committee and forms of their remuneration and payment methods, (iv) the company's annual budget and financial accounting reports, balance sheets, profit and loss statements and other financial statements, and (v) matters other than those on which special resolutions shall be proposed as stipulated in laws, statutory regulations or the company's articles of association. Special resolutions shall be proposed on the following matters at a shareholders' meeting: (i) company share capital expansion and reduction, and the issue of any types of share, share certificate subscription and other similar securities, (ii) the issue of corporate bonds, (iii) company division, merger, dissolution and liquidation, (iv) amendments to the company's articles of association, and (v) other matters which are deemed by the shareholders' general meeting to have a major impact on the company and where it is passed by ordinary resolution at the shareholders' meeting that the matter be resolved by special resolution. In addition, the *Company Law* and the articles of association of the company require a resolution of the shareholders' general meeting for the transfer of major assets to others or vice versa or provision of guarantee to external parties etc., the board of directors shall convene a shareholders' general meeting promptly for the passing of a resolution on the aforesaid matter.

An accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting. Under the accumulative voting system, when the shareholders' general meeting electing directors and supervisors, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the shareholders' general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

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Meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. The chair of the meeting and the directors in presence shall affix their signatures to the minutes, which shall be preserved together with the book of signatures of the shareholders in presence as well as the power of attorney thereof.

Pursuant to the *Mandatory Provisions*, if a company intends to vary or abrogate the class rights, a class shareholders' meeting shall be held. As such, the holders of domestic shares and holders of overseas listed foreign shares shall be deemed as different classes of shareholders.

BOARD OF DIRECTORS

The board of directors of a joint stock limited company shall comprise 5 to 19 members. The term of appointment of a director shall be stipulated by the articles of association of the company, but each term shall not exceed three years. Upon expiry of the term of appointment, a director may be re-elected. Where no new appointment is made upon expiry of the term of appointment of a director or a director has resigned during his/her term of appointment and causes the number of directors that constitutes the board of directors to fall below the quorum, the original director shall, prior to the new director taking office, continue to perform his/her duties as a director in accordance with the provisions of laws and administrative regulations and the articles of association of the company.

Pursuant to the *Company Law* and the *Mandatory Provisions*, the board of directors shall be responsible to the shareholders' general meeting and exercise the following functions: (i) to convene shareholders' general meetings and presenting reports to the shareholders, (ii) to implement the resolutions made at the shareholders' general meetings, (iii) to decide on the company's business and investment plans, (iv) to prepare the company's annual financial budget plans and final account plans, (v) to prepare the company's profit distribution plans and loss recovery plans, (vi) to prepare the company's plans on the increase or reduction of registered capital, as well as on the issuance of corporate bonds, (vii) to prepare the company's plans on merger, split-up, liquidation or change of the company form, etc., (viii) to make decisions on the company's internal management structure, (ix) to appoint or dismiss the company's general manager, and according to the recommendation of the general manager, to decide the appointment or dismissal of deputy manager and financial officer as well as their salaries and remunerations, (x) to prepare the company's basic management system, (xi) to prepare the amendments to the articles of association, and (xii) other functions as specified in the articles of association.

BOARD MEETINGS

Meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the supervisory committee. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. The board of directors may determine the method and period of notice in the case of an interim meeting convened by the board of directors. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf. Minutes of meetings of the board of directors shall be recorded and signed by the directors who attended the meeting.

Where a resolution of the board of directors is in violation of any law, administrative regulation, the articles of association or the shareholders' general meeting resolution and causes any material loss to the company, the directors who participate in adopting the resolution shall

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make compensation to the company. However, if a director is proven to have expressed his objection to the vote on such resolution and his objection was recorded in the minutes, such director may be exempted from liability.

CHAIRMAN OF THE BOARD

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman or 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 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 more than half of the directors shall perform his duties.

QUALIFICATION OF DIRECTORS

The following persons may not serve as a director: (i) a person who is unable or has limited ability to undertake any civil liabilities, (ii) a person who has been convicted of an offense of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence, (iii) a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise, (iv) a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation, or (v) a person who is liable for a relatively large amount of debts that are overdue.

Where the election or appointment of a director is in violation of the aforesaid provisions, such election or appointment shall be void. In the event of any circumstances occurs during the term of appointment of a director, the company shall remove such director.

In addition, pursuant to the *Mandatory Provisions*, a person shall not hold the position of director under any of the following circumstances: (i) the person has been involved in illegal activities which are subject to investigation by the judicial authorities and the case has yet to be settled, (ii) provisions of laws and statutory regulations stipulate that the person is not permitted to assume the position of leader of an enterprise, (iii) the person is not a natural person, or (iv) a period of less than five years has elapsed since the date the person was found to be in violation of the provisions of relevant securities regulations and was involved in deceitful or dishonest activities as ruled by the competent authority.

SUPERVISORY COMMITTEE

A joint stock limited company shall have a supervisory committee composed of not less than three members. The supervisory committee consists of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory committee shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. Directors and senior management shall not act concurrently as supervisors.

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Pursuant to the *Company Law*, the supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee shall be elected by more than half of the supervisors. However, pursuant to the *Letter of Opinions on Supplementary Amendments to the Articles of Association of Companies Listing in Hong Kong*, the chairman of the supervisory committee shall be appointed or removed by more than two-thirds of the supervisors.

The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. Where the chairman of the supervisory committee is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. Where the vice chairman of the supervisory committee is incapable of performing or is not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory committee meetings.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if reelected. A supervisor shall continue to perform his/her duties as a supervisor 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/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory committee exercises the following powers: (i) to review the company's financial position, (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated any laws, regulations, the articles of association or shareholders' resolutions, (iii) when the acts of a director or member of senior management are detrimental to the company's interests, to require the director and senior management to correct these acts, (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the *Company Law*, (v) to submit proposals to the shareholders' general meetings, (vi) to bring actions against directors or senior management pursuant to the relevant provisions of the *Company Law*, and (vii) to exercise any other authority stipulated in the articles of association.

Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. The supervisory committee may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

The supervisory committee shall convene at least one meeting every six months. A supervisor may propose to convene an interim meeting. The rules of procedure and voting procedures of the supervisory committee shall be stipulated by the articles of association of the company, unless otherwise provided in the *Company Law*. Resolutions of the supervisory committee shall be passed by a simple majority. However, pursuant to the *Letter of Opinions on Supplementary Amendments to the Articles of Association of Companies Listing in Hong Kong*, the resolution of the supervisory committee shall be passed by more than two-thirds of the supervisors.

Minutes of meetings of the supervisory committee shall be recorded and signed by the supervisors who attended the meeting.

The qualification restrictions for directors also apply to supervisors.

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MANAGER AND THE SENIOR MANAGEMENT PERSONNEL

A joint stock limited company shall have a manager who shall be appointed or removed by the board of directors. The manager, who reports to the board of directors, exercises the following powers: (i) to manage the production, operation and administration of the company and arrange for the implementation of the resolutions of the board of directors, (ii) to arrange for the implementation of the company's annual business plans and investment proposals, (iii) to draft proposals for the establishment of the company's internal management organs, (iv) to draft the fundamental management system of the company, (v) to formulate the company's specific rules and regulations, (vi) to recommend the appointment or dismissal of deputy manager and financial officer of the company, (vii) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors), and (viii) to exercise any other authority granted by the board of directors. Other provisions in the articles of association on the manager's powers shall also be complied with. The manager shall be present at meetings of the board of directors.

The board of directors may appoint a director to take the post of manager concurrently.

Senior management refers to the manager, deputy manager, financial officer, secretary to the board of listed company and other personnel as stipulated in the articles of association.

The qualification restrictions for directors also apply to senior management personnel.

DUTIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors, supervisors and senior management of the company are required to comply with the relevant laws, regulations and the articles of association, and have fiduciary and diligent duties to the company. Directors, supervisors and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties.

Directors and senior management are prohibited from: (i) misappropriation of the company's capital, (ii) depositing the company's capital into accounts under his own name or the name of other individuals, (iii) loaning company funds to others or providing guarantees in favor of others supported by the company's assets in violation of the articles of association or without prior 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 their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting, (vi) accept and possess commissions paid by a third party for transactions conducted with the company, (vii) unauthorized divulgence of confidential business information of the company, or (viii) other acts in violation of their duty of loyalty to the company. Income received by directors and senior management in violation of the aforesaid provisions shall belong to the company.

A director, supervisor or senior management who violates the provisions of laws and administrative regulations or the articles of association of the company in his/her performance of duties and powers and causing the company to suffer damages shall bear compensation liability.

Where a shareholders' general meeting requires a director, supervisor or senior management to attend a meeting, the director, supervisor or senior management shall attend the meeting and answer the queries of the shareholders. Directors or senior management shall provide the relevant information and data truthfully to the supervisory committee and shall not obstruct the exercising of powers and performance of duties by the supervisory committee.

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Where a director or senior management contravenes laws, administrative regulations or the articles of association in the performance of his/her duties resulting in any loss to the company, shareholders of the joint stock limited company holding individually or in aggregate more than 1% of the company's shares consecutively for more than 180 days may request in writing that the supervisory board institute litigation at the people's court. Where the supervisor violates the laws or administrative regulations or the articles of association in the discharge of its duties resulting in any loss to the company, shareholders of the joint stock limited company holding individually or in aggregate more than 1% of the company's shares consecutively for more than 180 days may request in writing that the board of directors institute litigation at the people's court on its behalf. If the supervisory board or the board of directors refuses to institute litigation after receiving this written request from the shareholders, or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, such shareholders shall have the power to institute litigation directly at the people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, shareholders of the joint stock limited company holding individually or in aggregate more than 1% of the company's shares consecutively for more than 180 days may institute litigation at the people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at the people's court.

Pursuant to the *Special Regulations*, a company's directors, supervisors, manager and other senior management shall have duty of good faith to the company. They are required to comply with the articles of association, to faithfully perform their duties, to protect the interests of the company and not to use their positions in the company for their own benefits.

Pursuant to the *Mandatory Provisions*, apart from obligations as stipulated in laws, statutory regulations or the listing rules of stock exchanges where the company's shares are listed, when exercising the powers granted by the company, the directors, supervisors, manager and other senior management personnel shall also assume the following obligations towards each shareholder: (i) shall not allow the company to exceed the scope of its business operations as stipulated in its business license, (ii) shall sincerely take the best interests of the company as fundamental when conducting business activities, (iii) shall not be permitted to expropriate the company's property using any means, including (but not limited to) when this involves opportunities beneficial to the company, and (iv) shall not infringe upon the individual rights and interests of shareholders, including (but not limited to) distribution rights and voting rights; however, this shall not include the situation where a company restructure is proposed for adoption by the shareholders' meeting in accordance with the company's articles of association.

Directors, supervisors, manager and other senior management of the company shall all have responsibility, when exercising their rights and performing their obligations, to adopt the prudence, diligence and skill which would be displayed by a reasonably prudent person in similar circumstances.

When performing their duties, the directors, supervisors, manager and other senior management of the company must abide by the principle of sincerity and shall not place themselves in unfavorable situations in which their interests may conflict with their obligations. This principle shall include (but not limited to) performing the following obligations: (i) to sincerely take the best interests of the company as fundamental in their actions, (ii) to exercise authority within their powers of office and not exceed that power of authority, (iii) to personally exercise the authorized right to handle matters according to one's own judgement and not to be manipulated by others; the right to handle matters according to one's own judgement shall not be passed on to others without the authority of laws and statutory regulations or without the informed consent of the shareholders' meeting, (iv) to treat the same categories of shareholders equally and

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to treat different categories of shareholders fairly, (v) the entering into contacts, deals or arrangements with the company unless it is stipulated otherwise in the company's articles of association or without the informed approval of the shareholders' meeting shall be prohibited, (vi) the use of the company's property to seek personal gains through any means without the informed consent of the shareholders' meeting shall be prohibited, (vii) the use of powers of office to receive bribes or other illicit gains and the embezzlement of the company's property through any means, including (but not limited to) opportunities which are beneficial to the company shall be prohibited, (viii) the receiving of commissions from company transactions without the informed consent of the shareholders' meeting shall be prohibited, (ix) to honor the company's articles of association, to faithfully perform one's duties and to safeguard the company's interests, and it shall be prohibited to use the position and powers of office to seek personal gain, (x) without the informed consent of the shareholders' meeting, it shall be prohibited to engage in any activities which are in competition with the company, (xi) it shall be prohibited to embezzle company funds or to lend company funds to others, and it shall be prohibited to use company funds to open bank accounts in one's own name or using another's name or to use company assets to provide guarantees for debts of company shareholders or other persons, and (xii) without the informed consent of the shareholders' meeting, it shall be prohibited to disclose confidential information concerning the company which became known in the course of holding the position; unless it be in the company's interests, such information shall not be used; however, such information may be disclosed to the court or other competent government organs under the following circumstances: (x) where it is so provided in the law; (y) where the public interest so requires; or (z) where the interests of such director, supervisor, manager or other senior management themselves so require.

Where a company director, supervisor, manager or other senior management is found to have violated obligations to the company, apart from the various rights and remedial measures stipulated in laws and statutory regulations, the company has the right to adopt the following measures: (i) to request that the director, supervisor, manager and other senior management compensate for losses incurred by the company due to their negligence in the performance of their duties, (ii) to cancel any contract or deal concluded between the company and that director, supervisor, manager and other senior management, and cancel any contract or deal concluded between the company and a third party (if the third party knew or should have known that the director, supervisor, manager and other senior management was representing the company in violation of obligations to the company), (iii) to request that the director, supervisor, manager and other senior management hand over any gains derived in violation of his/her obligations, (iv) to recover funds including (but not limited to) commissions received by that director, supervisor, manager and other senior management which should have been collected by the company, or (v) to request that the director, supervisor, manager and other senior management return any interests gained or which may be gained from any funds which should be handed over to the company.

FINANCE AND ACCOUNTING

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments under the State Council. At the end of each accounting year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with laws. The financial and accounting reports shall be prepared in accordance with laws, administrative regulations and the regulations of the financial departments under the State Council. The joint stock limited company's financial and accounting reports shall be made available for shareholders' inspection at the company within 20 days before the convening of an annual shareholders' general meeting. A joint stock limited company that makes public stock offerings shall announce its financial and accounting reports.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached more than 50% of the company's registered capital. When the company's statutory common

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reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund.

After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders of the joint stock limited company, except for those which are not distributed in a proportionate manner as provided by the articles of association. Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board of directors before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of its own shares held by it.

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

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

APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

The appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by shareholders' general meeting or board of directors in accordance with provisions of articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm it employs without any refusal, withholding and misrepresentation.

Pursuant to the *Special Regulations* and the *Mandatory Provisions*, the company shall appoint a State qualified independent accounting firm to audit the company's annual financial reports and to examine and verify other financial reports. The company shall provide relevant information to the appointed accounting firm and shall answer its inquiries. The period of appointment of an accounting firm shall commence from the date of conclusion of the current annual shareholders' general meeting and end at the conclusion of the subsequent annual shareholders' general meeting. The company's first accounting firm may be appointed by the founding meeting before the first shareholders' general meeting. The term of appointment of the first accounting firm shall terminate at the conclusion of the first shareholders' general meeting.

The accounting firm appointed by the company shall have the following rights: (i) to consult, at any time, the company's account books, records or vouchers, and shall have the right to request company directors, manager or other senior management to provide relevant data and explanations, (ii) to request that the company adopt all reasonable measures to obtain from its subsidiaries data and statements which the accounting firm requires for the performance of its duties, and (iii) to attend shareholders' general meetings and to obtain information which is available to any

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shareholder who has the right to receive notice of a meeting or on other matters related to the meeting, and to speak at any shareholders' general meeting about matters related to its functions as accounting firm to the company.

Decisions on matters relating to the appointment, removal or non-reappointment of an accounting firm shall be taken at shareholders' general meetings and such decisions shall be reported to the competent securities department of the State Council for the record.

DISTRIBUTION OF PROFITS

After making up its losses and accrued reserves, a joint stock limited company may make distribution based on the proportion of shares held by shareholders unless the articles of association of a joint stock limited company stipulate that distribution is not based on the proportion of shares held.

Pursuant to the *Special Regulations*, dividends or other payments which are to be made by the company to shareholders of the company's overseas listed foreign shares shall be calculated and declared in renminbi and paid in foreign currency.

Pursuant to the *Mandatory Provisions*, a company may distribute the dividends in (i) cash; or (ii) shares. The company shall appoint a collecting agent for holders of overseas listed foreign shares. The collecting agent shall collect dividends on overseas listed foreign shares and other payable items from the company on behalf or relevant shareholders. The collecting agent appointed by the company shall meet the requirements of the law in the place where the company is listed or relevant regulations of the stock exchange.

DISSOLUTION AND LIQUIDATION

A company shall be dissolved for any of the following reasons: (i) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred, (ii) the shareholders have resolved at a shareholders' general meeting to dissolve the company, (iii) the company is dissolved by reason of its merger or division, (iv) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws, or (v) shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company has request a people's court to dissolve the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering on-going existence of the company a cause for significant losses to the shareholders.

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

Where the company is dissolved under the circumstances described in subparagraphs (i), (ii), (iv), or (v) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution. The members of the joint stock limited company's liquidation group shall be composed of its directors or the personnel appointed by the shareholders' general meeting. If a liquidation group is not established within the stipulated period, creditors may apply to the people's court and request the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct liquidation in a timely manner.

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The liquidation group shall exercise the following powers during the liquidation period: (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets, (ii) to notify creditors through notice or public announcement, (iii) to deal with the company's outstanding businesses related to liquidation, (iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation, (v) to claim credits and pay off debts, (vi) to handle the company's remaining assets after its debts have been paid off, and (vii) to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within 10 days after its establishment and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the shareholders' general meeting or people's court for confirmation. The joint stock limited company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debts shall be distributed to shareholders according to their shareholding proportion. The company shall continue to exist during the liquidation period, although it cannot engage in any operating activities that are not related to the liquidation. The company's properties shall not be distributed to the shareholders before repayments are made in accordance with the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the people's court for a declaration for bankruptcy. Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the people's court. Upon completion of the liquidation, the liquidation group 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 registration authority of the company in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation group shall perform their duties diligently and perform liquidation obligations in accordance with the relevant laws. Members of the liquidation group shall not abuse their duties and rights to accept bribes or other illegal income and shall not misappropriate company assets. Members of the liquidation group shall bear compensation liability towards the company or its creditors for damages suffered by the company or its creditors due to an intentional or serious mistake of the members of the liquidation group.

Where a company is declared bankrupt in accordance with the provisions of the law, bankruptcy liquidation shall be conducted in accordance with the provisions of enterprise bankruptcy laws.

OVERSEAS LISTING

Pursuant to the *Special Regulations*, subject to approval by the Securities Committee of the State Council, a joint stock limited company may issue shares to designated or non-designated investors overseas and its shares may be listed overseas (which refers to shares being issued to investors overseas by joint stock limited companies and such shares being freely transferable on overseas public stock exchanges). A joint stock limited company wishing to issue shares to

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overseas investors and to list those shares overseas shall, in accordance with the requirements of the Securities Committee of the State Council, lodge a written application, together with relevant documents, to the Securities Committee of the State Council for approval.

According to the *Overseas Listing Trial Measures* which will become effective on March 31, 2023, a domestic company seeking direct overseas offering and listing shall file with the CSRC, submit the filing report, legal opinions and other relevant materials as required under the *Overseas Listing Trial Measures*, and state the shareholders' information and other matters in a truthful, accurate and complete manner. Where a domestic company submits an application for initial public offering to the competent overseas regulators, such domestic company shall file with the CSRC within three business days after such application is submitted. The *Overseas Listing Trial Measures* and the *Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies* further clarified that, a domestic company that has already obtained the approval document from the CSRC for overseas public offering and listing may proceed with the overseas listing within the validity period of the approval document. Where the overseas listing has not been completed upon the expiration of the approval document, filing procedures specified in the *Overseas Listing Trial Measures* shall be made as required.

Pursuant to the *Regulatory Guidelines for the Application Documents and Examination Procedures for the Overseas Share Offering and Listing by Joint Stock Limited Companies* (關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引) issued by the CSRC on December 20, 2012 and effective from January 1, 2013, the approval documents for overseas share offering and listing by the company granted by the CSRC shall be valid for a period of 12 months.

LOSS OF SHARE CERTIFICATES

In the event share certificates in registered form are either stolen, lost or damaged, shareholder may, in accordance with the relevant provisions set out in the *Civil Procedure Law*, apply to a people's court for a declaration that such certificates are no longer valid by way of announcement. Upon such declaration, the shareholder may apply to the company for the issue of replacement certificates.

Pursuant to the *Mandatory Provisions*, if a holder of overseas listed foreign shares losing its share certificate and applying for supplementary issue of a replacement certificate, this shall be handled in accordance with the law of the place where the original shareholder ledger of overseas listed foreign shares is kept with the rules of the stock exchange or other relevant regulations. If a holder of overseas listed foreign shares listed in Hong Kong has lost its share certificate and applies for supplementary issue of a replacement certificate, the supplementary issue of a replacement certificate shall be in compliance with the following requirements: (i) The applicant shall lodge an application according to the standard format designated by the company and shall attach a notarial certificate or document of legal declaration. The contents of the notarial certificate or legal declaration shall include reasons for the application, details and evidence of the loss of the share certificate and a declaration that no other party can request the registration of such shares as a shareholder. (ii) No declaration has been made by any party other than the applicant requesting the registration of those shares as a shareholder before the company makes a decision on supplementary issue of a replacement certificate. (iii) Where the company decides to make supplementary issue of a replacement certificate, a public announcement of the intended supplementary issue of the replacement certificate shall be published in the newspapers designated by the board of directors; the period for a public announcement shall be 90 days and the public announcement shall be published at least once every 30 days. (iv) Before publication of a public announcement of the intended supplementary issue of a replacement share certificate, a duplicate copy of the public announcement to be published shall be submitted to the stock exchange which lists the company's shares. The public announcement may then be published after receipt of a reply from the stock exchange confirming the display of the public announcement in the stock exchange has occurred. The period for display of a public announcement in the stock exchange

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shall be 90 days. If an application for the supplementary issue of a replacement share certificate is made without the consent of a shareholder registered in the share ledger who holds the relevant shares, the company shall post a copy of the public announcement to be published to the shareholder concerned. (v) Upon the expiration of the 90-day period for a public announcement or display as stipulated in (iii) and (iv) and where no objection against supplementary issue of a replacement share certificate has been raised by any party, the replacement share certificate may be issued pursuant to the application. (vi) When making supplementary issue of a replacement share certificate pursuant to the provisions of this article, the company shall promptly cancel the original share certificate and shall record such cancellation and supplementary issue of the replacement share certificate on the share ledger. (vii) All expenses incurred by the company in the cancellation of the original share certificate and the supplementary issue of the replacement share certificate shall be borne by the applicant. The company shall have the right to refuse to undertake any action before an applicant provides a reasonable guarantee.

SECURITIES LAWS AND REGULATIONS

In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm under the Securities Committee and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the Securities Committee and the CSRC and adjust the functions and powers of the CSRC.

The Provisional Regulations for the Administration of Issuing and Trading of Shares (股票發行與交易管理暫行條例) issued by the State Council on April 22, 1993 and implemented therefrom, regulated the issuance of shares, trading of shares, taking over of listed companies, custody of shares, clearing and transfer of shares, disclosure of information by listed companies, investigations and penalties, and disputes resolution, etc.

The Regulations on Domestic Listed Foreign Shares of Joint Stock Limited Companies (關於股份有限公司境內上市外資股的規定) issued by the State Council on December 25, 1995 and implemented therefrom, regulated the issuance and trading of domestic listed foreign shares of joint stock limited companies, including matters such as the issuance, subscription, trading, application procedures, underwriting, dividend payment of domestic listed foreign shares, and the information disclosure of companies issuing domestic listed foreign shares.

The Securities Law was promulgated on December 29, 1998, took effect on July 1, 1999, and was last amended on December 28, 2019. The last amended *Securities Law* became effective on March 1, 2020. *The Securities Law* is divided into 14 chapters and 226 articles, which set forth provisions on the issuance, trading and listing of securities, prohibited trading activities, acquisition of listed companies, information disclosure, protection of investors, securities trading places, securities companies, securities registration and settlement institutions, securities service institutions, securities associations, securities regulatory authorities, legal liabilities, etc. According to *the Securities Law*, domestic enterprises directly or indirectly issuing securities overseas or listing and trading their securities overseas shall comply with the relevant provisions of the State Council.

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“FULL CIRCULATION” OF H SHARES

Pursuant to the *Guidelines on the Application of “Full Circulation” of Domestic Unlisted Shares by H-share Companies* (H股公司境內未上市股份申請“全流通”業務指引) issued by the CSRC on November 14, 2019, provided that the requirements set out in the relevant laws and regulations and in the policies for state-owned assets management, foreign investments and industry regulation are satisfied, the shareholders of domestic unlisted shares of domestic joint stock limited companies listed on the Stock Exchange of Hong Kong Limited (including unlisted domestic shares held by domestic shareholders prior to overseas listing, unlisted domestic shares additionally issued after overseas listing, and unlisted shares held by foreign shareholders) may decide at their own discretion through negotiation the amount and proportion of the domestic unlisted shares applying for circulation on the Stock Exchange of Hong Kong Limited, and entrust the company to submit the application for “full circulation”

The company shall apply to the CSRC for “full circulation” in accordance with the administrative licensing procedures required for the “examination and approval of overseas public offering and listing of shares (including additional issuance) by joint stock companies”. The company may put forward the application of “full circulation” separately, or simultaneously with the application for overseas refinancing. The unlisted domestic joint stock limited companies may put forward the application of “Full Circulation” simultaneously with the application for overseas initial public offering and listing.

According to the *Overseas Listing Trial Measures* which will become effective on March 31, 2023, for a domestic company seeking direct overseas listing, the shareholders holding the domestic unlisted shares of such domestic company who apply for the conversion of the domestic unlisted shares into overseas listed shares shall comply with the relevant provisions of the CSRC and entrust such domestic company to file with the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

Under the *Arbitration Law of the PRC* (中華人民共和國仲裁法) (the “*Arbitration Law*”) promulgated on August 31, 1994, effective on September 1, 1995, last amended on September 1, 2017 and effective from January 1, 2018, contract disputes and other property disputes between natural persons, legal persons and other organizations can be arbitrated. The arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the *Arbitration Law* and the *Civil Procedure Law*. Where the disputing parties choose arbitration as a method for dispute resolution, both parties shall do so voluntarily and shall reach an arbitration agreement. Where the disputing parties have reached an arbitration agreement and one party applies to the people’s court to have the case heard, the people’s court shall not deal with the case, unless the arbitration agreement is invalid.

Pursuant to the *Mandatory Provisions*, in relation to disputes and claims relating to the company’s affairs between the holders of overseas listed foreign shares and the company, between the holders of overseas listed foreign shares and the company’s directors, supervisors, managers and other senior management, or between the holders of overseas listed foreign shares and the holders of domestic capital shares arising out of rights and obligations provided for in the company’s articles of association, the *Company Law* or other laws and statutory regulations, the parties concerned shall refer the dispute to arbitration for settlement. When referring the aforesaid dispute or claim to arbitration, it shall be the whole dispute or entire claim which is so referred; where those persons who have a cause of action arising out of the same facts or those persons required to participate in the resolution of a dispute or claim are the company’s shareholders, directors, supervisors or other senior management or such person is the company itself, such person shall be subject to arbitration. Disputes over shareholder status and the share ledger may be resolved through means other than arbitration.

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An applicant for arbitration may select the China International Economic and Foreign Trade Arbitration Commission to undertake arbitration according to its rules or, alternatively, may choose the Hong Kong International Arbitration Centre to undertake arbitration according to its rules on securities arbitration. After the applicant refers the dispute or claim for arbitration, the opposing party shall participate in the arbitration at the arbitral body chosen by the applicant. If an applicant chooses the Hong Kong International Arbitration Centre, any party concerned may, in accordance with the rules of the Hong Kong International Arbitration Centre on securities arbitration, request the arbitration to be undertaken in Shenzhen.

In resolving disputes or claims as mentioned above through arbitration, the PRC laws shall apply unless the laws and statutory regulations stipulate otherwise. An award made by the arbitral body shall be final and have binding force on the parties concerned.

Pursuant to the *Civil Procedure Law* and the *Arbitration Law*, arbitral awards shall be final. Where an arbitral award is made and a party reapplies for arbitration or initiates an action before the people’s court in respect of the same dispute, the arbitration commission or the people’s court shall not accept the action. The parties concerned shall implement the arbitral award. With respect to an arbitral award of an arbitration organization established pursuant to the law, where one party does not perform, the counterparty may apply to a people’s court which has jurisdiction for enforcement. The people’s court accepting the application shall carry out enforcement. Where the respondent presents evidence to prove that the arbitral award falls under any of the following circumstances, upon examination and verification by the collegiate bench formed by the people’s court, a ruling of non-enforcement shall be made: (i) the parties concerned have not included an arbitration clause in the contract or have not entered into a written arbitration agreement subsequently, (ii) the arbitration matter does not fall under the scope of the arbitration agreement or the arbitration organization has no right to carry out arbitration, (iii) the composition of the arbitral tribunal or the arbitration procedures is in violation of statutory procedures, (iv) the evidence on which the arbitral award is based is forged, (v) the counterparty has concealed evidence which has an impact on making a fair arbitral award from the arbitration organization, or (vi) the arbitrators have committed bribery or favoritism or perverted the law in making the arbitral award when carrying out arbitration of the case. Where the people’s court rules that enforcement of the arbitral award is against the public interest, a ruling of non-enforcement shall be made. Where non-enforcement of an arbitral award is ruled by a people’s court, the parties concerned may apply for arbitration again based on the written arbitration agreement between both parties or file a lawsuit with a people’s court.

Pursuant to the *Civil Procedure Law*, with respect to an arbitral award made by a PRC foreign-related arbitration organization which has come into legal effect for which the parties concerned request for enforcement, where the enforcee or its properties is not located in the PRC, the parties concerned shall submit an application directly to a foreign court which has jurisdiction for ratification and enforcement. Where an arbitral award of an overseas arbitration organization requires ratification and enforcement by a people’s court of the PRC, the parties concerned shall submit an application directly to an intermediate people’s court at the location of the enforcee’s residence or the location of the enforcee’s properties, the people’s court shall handle the matter pursuant to the international treaty concluded or participated by the PRC or in accordance with the principle of reciprocity.

The SCNPC decided on December 2, 1986 that the PRC accedes the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (承認及執行外國仲裁裁決公約) (concluded in New York on June 10, 1958, the “*New York Convention*”), with the following statements made simultaneously: (i) the PRC applies the Convention only on the basis of reciprocity for the recognition and enforcement of arbitral awards made in the territory of any State party, and (ii) the PRC applies the Convention only for disputes arising out of the contractual and non-contractual commercial legal relationship identifies by the PRC laws. According to the *New York Convention*, each State party shall recognize the binding effect of an arbitral award and

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enforce it in accordance with the rules of procedure of the place of arbitration and the conditions set forth below. However, under certain circumstances, including the competent authority of the country with which the application for recognition and enforcement is filed recognizing or enforcing the arbitral award is in violation of the public policy of the country, such competent authority may refuse to recognize and implement an arbitral award.

Pursuant to *the Arrangements on the Reciprocal Enforcement of Arbitral Awards by Mainland China and the Hong Kong Special Administrative Region* (關於內地與香港特別行政區相互執行仲裁裁決的安排) (the “*Arrangement*”) issued by the Supreme People’s Court on January 24, 2000 and implemented from February 1, 2000 and *the Supplementary Arrangements on Reciprocal Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region* (關於內地與香港特別行政區相互執行仲裁裁決的補充安排) issued by the Supreme People’s Court on November 26, 2020 and implemented from November 27, 2020, the *Arrangement* shall apply to the enforcement of arbitral awards made in accordance with *the Arbitration Ordinance of the Hong Kong Special Administrative Region* by the people’s courts and the enforcement of arbitral awards made in accordance with the *Arbitration Law* by the courts of Hong Kong Special Administrative Region.

JUDICIAL JUDGEMENT AND ITS ENFORCEMENT

The Arrangements of the Supreme People’s Court and the Government of Hong Kong Special Administrative Region for Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Cases between Courts of the Mainland and Hong Kong Special Administrative Region (最高人民法院、香港特別行政區政府關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) concluded on January 18, 2019 apply to the reciprocal recognition and enforcement of effective judgments in civil and commercial cases between courts of the Mainland and Hong Kong Special Administrative Region, and the reciprocal recognition and enforcement of effective judgments on civil compensation in criminal cases.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong laws applicable to a company incorporated in Hong Kong are the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and are supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Stock Exchange, our Company is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

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

Corporate Incorporation

Under Hong Kong company law, a company with share capital, shall be incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions that restrict a member’s right to transfer shares. A public company’s articles of association do not contain such provisions.

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Under the PRC Company Law, a joint stock limited company may be established by promotion or subscription. The latest amended PRC Company Law which came into effect on October 26, 2018 has no provision on the minimum registered capital of joint stock companies, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital of joint stock companies, in which case the company should follow such provisions.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law provides that any increase in our registered capital must be approved and resolved by the shareholders present at the shareholders’ general meeting representing two-thirds or more of their voting rights and be registered with the companies registration authorities in accordance with the laws. There are no such minimum capital requirements on a Hong Kong company under Hong Kong law.

Under the PRC Securities Law, any application for the listing and trading of securities shall comply with the listing requirements stipulated in the listing rules of the stock exchange. There is no such restriction on companies incorporated in Hong Kong under Hong Kong law.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets which can be valued in currency and transferred in accordance with the laws (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, it shall be valued and verified, and shall not be overvalued or undervalued (if there are provisions of laws or administrative regulations in respect of evaluation, such provisions shall prevail), and the transfer procedures of property rights must be carried out. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Generally, overseas listed foreign shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. If the H Shares are target securities under the Southbound Trading Link, they are also available to be subscribed for and traded by PRC investors in accordance with the rules and restrictions under Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect. Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to a public offering of the company cannot be transferred within one year from the listing and trading date of the shares on a stock exchange. Shares in a joint stock limited liability 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 held in a company, and the shares they held in a company cannot be transferred within one year from the listing and trading date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of a company’s shares held by its directors, supervisors and senior management. There are no restrictions on shareholdings and transfers of shares under Hong Kong law apart from (i) the restriction on the company to issue additional Shares within six months, and (ii) 12-month lockup on controlling shareholders’ disposal of Shares, after the [REDACTED].

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Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict 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. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance to the parties who purchase or intend to purchase the company's shares, similar to those under Hong Kong company law.

Variation of Class Shareholders' Rights

The PRC Company Law has no special provision relating to the variation of class shareholders' rights. However, the PRC Company Law states that the State Council can promulgate separate regulations relating to a company's issuance of classes of shares other than provided under the PRC Company Law. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class shareholders' rights and the relevant procedures. These provisions have been incorporated in the Articles of Association.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the total voting rights of holders of the relevant class of shares, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Directors, Senior Management and Supervisors

The PRC Company Law, unlike Hong Kong Company Law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on interested contracts, transactions and arrangements and specify the circumstances under which a director may receive compensation for loss of office.

Supervisory Board

Under the PRC Company Law, a joint stock limited company's directors and members of the senior management are subject to the supervision of supervisory board. There is no mandatory requirement for the establishment of supervisory board 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 in comparable circumstances.

Derivative Action by Minority Shareholders

According to Hong Kong law, as permitted by court, shareholders may initiate a derivative action on behalf of the company against directors who have any misconduct to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name.

The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event any director or senior management violates the provisions of the laws, administrative regulations or the articles of association of the company in performing his or her duties and causes damages to a company, the shareholders individually or jointly holding more than 1% of the shares in the company for more than 180 consecutive days may request in writing

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the supervisory board to initiate proceedings in the people's court. In the event any supervisor violates the provisions of the laws, administrative regulations or the articles of association of the company in performing his or her duties and causes damages to company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of aforesaid written request from the shareholders, if the supervisory board or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days from the date of receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company's interests, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the people's court in their own name. In the event any other person infringes upon the lawful rights and interests of the company and causes damages to the company, the above said shareholders may initiate proceedings in the people's court in accordance with the above said laws and regulations. In the event any director or senior management violates the provisions of the laws, administrative regulations or the articles of association of the company and causes damages to the shareholders' interests, the shareholders may initiate proceedings in the people's court.

The Mandatory Provisions also provide further remedies against the directors, supervisors and senior management who breach their obligations to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the shareholders acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors of the company in default.

Protection of Minority Shareholders

Under Hong Kong law, a shareholder who complains that the business of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the Court to make an appropriate order to give relief to the unfairly prejudicial conduct. Alternatively, pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, a shareholder may seek to wind up the company on the just and equitable ground. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated or registered in Hong Kong.

According to the PRC Company Law, in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss to the interest of its shareholders, and where this cannot be resolved through other means, the shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the People's Court for the dissolution of the company. The Mandatory Provisions, however, contains provisions that a controlling shareholder may not exercise its voting rights in a prejudicial manner to the interests of the entire or part of 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 of the company's assets (including without limitation any opportunity that is beneficial to the company) or the individual rights of other shareholders (including without limitation distribution rights or voting rights) by a director or supervisor (for his own interests or other person's interests).

Notice of Shareholders' Meetings

Under the PRC Company Law, notice of a shareholders' annual general meeting and an extraordinary shareholders meeting must be given to each shareholder at least 20 days and 15 days before the meeting, respectively. Where bearer shares are issued, an announcement shall be made 30 days prior to the convention of such meeting.

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For a company incorporated in Hong Kong, the minimum period of notice is 14 days in the case of an annual general meeting. Further, where a meeting involves consideration of a resolution requiring special notice, the company must also give its shareholders notice of the resolution at least 14 days before the meeting. The notice period for the annual shareholders' general meeting is 21 days.

Quorum for Shareholders' Meetings

Under the Companies Ordinance, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provided. For companies with only one shareholder, the quorum must be one shareholder. The PRC Company Law does not specify the quorum for a shareholders' general meeting. Pursuant to the Mandatory Provisions, a shareholders' meeting may be convened if the shareholders intending to attend the meeting represent more than half of the company's shares with voting rights; otherwise, the company shall, within five days, notify the shareholders again the matters to be discussed at the meeting, and the date and venue of the meeting by making announcement. The company may convene the shareholders' meeting upon the announcement.

Voting at Shareholders' Meetings

Under the Companies Ordinance, an ordinary resolution is passed by a simple majority of affirmative votes cast by shareholders present in person, or by proxy, at a general meeting, and a special resolution is passed by not less than three-fourths of affirmative votes casted by shareholders present in person, or by proxy, at a general meeting.

Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes held by our shareholders present at a shareholders' meeting except in cases such as proposed amendments to our articles of association, increase or decrease of registered capital, merger, division, dissolution or transformation, which require two-thirds of the affirmative votes cast by shareholders present at a shareholders' general meeting.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly issued must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company's annual general meeting, not less than 21 days before such meeting. Pursuant to the Mandatory Provisions, a company must, in addition to preparing financial statements according to the PRC GAAP, laws and regulations, have its financial statements prepared in accordance with international accounting standards or the accounting standards of the overseas place where the shares of the company are listed, and the notes attached to the financial statements must also contain a statement of the material differences (if any) between the financial statements prepared in accordance with two accounting standards respectively. The lower of the after-tax profits of a specific fiscal year stated in the above said two financial statements shall prevail in the allocation of such profits. The company shall publish its financial reports twice in each accounting year. An interim financial report shall be published within 60 days after the end of the first six months of each accounting year, while an annual financial report shall be published within 120 days after the end of each accounting year.

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

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the articles of association, minutes of the shareholders' general meetings, share register, counterfoil of company debentures, resolutions of board meetings, resolutions of the supervisory committee meetings and financial and accounting reports, which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the Hong Kong law, dividends once declared are debts payable to shareholders, and the limitation period for debt recovery action is six years. Pursuant to the Mandatory Provisions and the Letter of Opinions on Supplementary Amendments to the Articles of Associate by Companies to be Listed in Hong Kong, a company shall appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of overseas listed foreign shares listed in Hong Kong dividends distributed and other payments due by the company.

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 voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its shareholders under Section 237 and Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. In addition, subject to the shareholders' approval, an intra-group wholly-owned subsidiary company may also be amalgamated horizontally or vertically under the Companies Ordinance.

Under PRC law, merger, division, dissolution or change the form of a joint stock limited company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other hand, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that disputes between shareholders of overseas listed foreign shares and the company, shareholders of overseas listed foreign shares and the directors, supervisors and senior management personnel of the company, shareholders of overseas listed foreign shares and shareholders of domestic shares, except under certain exceptional situations, should be submitted to arbitration at either the HKIAC or the China International Economic and Trade Arbitration Commission, at the claimant's choice. An award made by the arbitral tribunal shall be final and have binding force on the parties concerned.

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Statutory Reserve Fund Withdrawal

Under the PRC Company Law, when a joint stock limited company allocating the after-tax profits of the current year, the company shall allocate (10) ten percent of its profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or senior management 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 senior management should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles of association to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances 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 three years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, directors owe fiduciary duties to the company, including the duty not to act in conflict with the company's interests. Furthermore, the Companies Ordinance has codified the directors' statutory duty of care.

Under the PRC Company Law, the directors, supervisors and senior management should be loyal and diligent to the company. Under the Mandatory Provisions, the directors, supervisors and senior management, when performing their duties, must abide by the principle of sincerity and shall not place themselves in the situations where their interests may conflict with their obligations, and shall perform certain obligations including but not limited to, not engaging in any activities which compete with or damage the interests of the company without the knowledge and approval of the 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 under certain circumstances) in a year, whereas, as required by the Mandatory Provisions, changes in the register of members as a result of share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the base date set for the purpose of distribution of dividends.