ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China is governed by the PRC Company Law, which was promulgated by the Standing Committee of the NPC (全國人民代表大會常務委員會) (the "**Standing Committee**") on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The PRC Company Law generally governs two types of companies – limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed. The PRC Company Law shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, restrictions on foreign ownership, accounting practices, taxation and labour matters of a wholly foreign owned enterprise are governed by the Wholly Foreign Owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the "**Wholly Foreign Owned Enterprise Law**"), which was promulgated on 12 April 1986 and amended on 31 October 2000, and Implementation Regulation under the Wholly Foreign Owned Enterprise Law , which was promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC conducted by foreign investors and foreign investment enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the "**Catalogue**"), which was amended and promulgated by the Ministry of Commerce and the National Development and Reform Commission (國家發展和改革委員會) on 24 December 2011. The Catalogue, as amended, became effective on 30 January 2012 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry.

PROCESSING TRADE

According to Administration of the Examination and Approval of Processing Trade Tentative Procedures (加工貿易審批管理暫行辦法) (promulgated by Ministry of Foreign Trade and Economic Cooperation (later renamed as "**Ministry of Commerce**") on 27 May 1999 and effective as from 1 June 1999), the import and export enterprises, foreign investment enterprises, and export processing and assembling service companies (collectively "**operating enterprises**") which have been approved of processing with supplied materials can engage in processing business (including processing of supplied or purchased materials) upon approval of relevant competent authority of foreign trade and economy. The state classifies processing trade import merchandise into prohibited category, restricted category and permitted category and prohibits processing trade business involving imported materials and parts belonging to the

prohibited merchandise category. An operating enterprise must process and export in accordance with Processing Trade Business Approval Certificate (加工貿易業務批准證). If it is necessary to change some of the particulars of the project due to objective factors, the operating enterprise must report to the original examination and approval authority for its approval before the deadline specified in Processing Trade Business Approval Certificate and go through change-related formalities with the relevant customs authorities.

According to the Instruction to Processing Enterprise for Transformation with Constantly Operation In Situ (省外經貿廳等十一個部門關於來料加工企業原地不停產轉型的操作指引) promulgated on 5 August 2008 by the Foreign Trade and Economic Cooperation Department of Guang Dong Province and the Instruction to Shenzhen Processing Enterprise for Transformation with Constantly Operation In Situ (關於深圳市來料加工企業原地不停產轉型外商投資企業操作意見) (collectively, the "**Transformation Instructions**") promulgated on 28 August 2008, Guangdong province support and encourage the processing enterprises and plants which are not qualified as legal person to transform in situ into foreign investment enterprise (or other types) with independent legal person status and continue their processing business. For the enterprise maintain same registered address after transformation, the foreign enterprise and their precursor may share one address and engaged in import and export customs clearance operations for six months. After the transformation, newly established enterprises shall go through the cancellation formalities within six months since the day when it was approved to be set up.

FOREIGN EXCHANGE REGULATION

Pursuant to the Foreign Exchange Administration Regulations of the PRC (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996 as amended on 14 January 1997 and 1 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by PBOC on 20 June 1996 and became effective on 1 July 1996 and other PRC rules and regulations on currency conversion, foreign invested enterprises are permitted to convert their after tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. If foreign invested enterprises require foreign exchange for transactions relating to current account items, they may, without approval of SAFE, effect payment from their exchange account or convert and pay at the designated foreign exchange banks, upon provision of valid receipts and proof. However, convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contributions, is still subject to restriction, and prior approval from SAFE or its relevant branches must be sought.

On 28 March 2007, SAFE promulgated the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and Share Option Schemes of Overseas Listed Companies (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程), or the Circular 78. On 15 February 2012, the Circular 78 was amended and substituted by the Notice on Several Issues Relating to Domestic Individuals Participating in Share Incentive Plan of Overseas Listed Company (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) or the

Circular 7. The purpose of the Circular 78 and the Circular 7 are to regulate the foreign exchange administration of PRC domestic individuals who participate in employee stock ownership plans and stock option plans of overseas listed companies. The Circular 7 aims to clarify and simplify the foreign exchange procedures involved in the implementation of the share incentive plan. Under the Circular 7, PRC citizens who are granted shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or other qualified agents, i.e. the PRC agent, to register with SAFE or its local branches and complete certain other procedures related to the share option or other share incentive plan. The PRC agents shall apply to the local branches of SAFE to make the foreign exchange registration for the participants in the share incentive plan. If the participants need to use RMB to participate the share incentive plan, the PRC agent shall open a special account to hold the funds required in connection with the stock purchase or option exercise, any returned principal or profits upon sales of stock, any dividends issued upon the stock and any other income or expenditures approved by SAFE or its local branches. An overseas custodian agency should also be retained by the PRC agent to handle matters in connection with the exercise or sale of stock options for the stock option plan participants.

TAXATION

Income tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (the "**FIE Tax Law**") which was promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local income tax at the rate of 3% unless a lower rate was provided by law or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempt from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a fifty percent reduction in the following three consecutive years.

According to the EIT Law, which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises were at the same rate of 25% effective from 1 January 2008. However, there is a transition period for enterprises that previously receive preferential tax treatments under the FIE Tax Law. Foreign-invested enterprises that are subject

to an enterprise income rate lower than 25% may continue to enjoy the lower rate and gradually transit to the new tax rate after the effective date of the EIT Law. Foreign-invested enterprises which enjoy a fixed period of exemptions or reductions under the existing applicable rules and regulations may continue to enjoy such treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment commence from the effective date of the EIT Law.

On 26 December 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the Enterprise Income Tax Law of the PRC (國務院關於實施企業所得稅法過渡優惠政策的通知) (the "**Transition Circular**"), which became effective simultaneously with the EIT Law. Under the EIT Law and the Transition Circular, enterprises that were established before 16 March 2007 and already enjoyed preferential tax treatments continue to enjoy them (i) Foreign-invested enterprises that enjoy a tax rate of 24% will have their tax rate increased to 25% in 2008; (ii) in the case of preferential tax rates: the tax rate will gradually increase from 15% to 25% for a period of five years from 1 January 2008; (iii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. The EIT Law and its implementing rule permit certain high and new technology enterprises strongly supported by the State which hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the implementation rules, to enjoy the preferential enterprise income tax.

According to the Circular on Issues concerning the Implementation of Preferential Enterprise Income Tax Treatment for High and New Technology Enterprise (國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知), promulgated by the State Administration of Taxation on 22 April 2009 and effective retrospectively as at 1 January 2008, upon the accreditation/reexamination of qualified high and new enterprise, such high and new enterprise can apply to enjoy the preferential enterprise income tax as at the current year beginning from the valid period approved by the accreditation/re-examination. The enterprises, upon obtaining the Certificate of High and New Technology Enterprise issued by the administrative departments for accreditation of high and new technology enterprises of province, autonomous region, municipality or municipality with independent planning status, can apply to the competent tax authorities for tax reduction and exemption; upon the fulfilment of those procedures, the high and new technology enterprise can make advance enterprise income tax declaration at a rate of 15% or enjoy a transitional preferential tax treatment.

On 14 April 2008, the State Administration of Taxation, the Ministry of Science and Technology and the Ministry of Finance jointly issued the Measures for Administration of the Accreditation of High and New Technology Enterprises (高新技術企業認定管理辦法) delineating the specific criteria and procedures for the accreditation of high and new technology enterprises.

The EIT Law also provides that an enterprise outside of the PRC whose "de facto management bodies" are located in the PRC is considered a "resident enterprise" and will be subject to a uniform 25% enterprise income tax rate on its global income. On 6 December 2007,

the State Council of the PRC issued the Regulation on the Implementation of PRC Enterprise Income Tax Law, effective as of 1 January 2008, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises". The State Administration of Taxation of the PRC issued the Circular regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), or the Circular 82, on 22 April 2009. The Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in the PRC, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. The State Administration of Taxation of the PRC further issued the Bulletin regarding the Administrative Measures on the Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Interim) (境外注冊中資控股居民企業所得稅管理辦法(試行)) on 27 July 2011, which became effective on 1 September 2011, providing more guidance on the implementation of Circular 82. This bulletin clarifies matters including resident status determination, post-determination administration and competent tax authorities. Although both Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises, not companies like us, the determining criteria set forth in Circular 82 and the bulletin may reflect the State Administration of Taxation's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. Although there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves), it is uncertain that the tax authority will make its decision by reference to the rules for foreign enterprises controlled by PRC companies. Since some of our management is currently based in the PRC and is expected to remain in the PRC in the future, we cannot give any assurance that we will not be considered a "resident enterprise" under the EIT Law and not be subject to the enterprise income tax rate of 25% on our global income.

Withholding tax on dividend distribution

Before the promulgation of the EIT Law, the principal regulations governing distribution of dividends paid by wholly foreign owned enterprises include the FIE Tax Law together with its implementation rules.

Under these regulations, wholly foreign owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this provision has been revoked by the EIT Law. The EIT Law

prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. However, the implementation rules reduced the rate from 20% to 10%, effective from 1 January 2008.

According to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) effective on 1 January 2007, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is no more than 5%, if the Hong Kong enterprise owns at least 25% of the PRC enterprise. According to the Notice of the State Administration of Taxation on the Issues relating to the Administration of the Dividend Provision in Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知) promulgated on 20 February 2009, the corporate recipients of dividends distributed by Chinese enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends.

Value added tax

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax (中華人民共和國增值稅暫行條例) promulgated by the State Council which was subsequently amended and took effect on 1 January 2009 and its implementation rules, all entities or individuals in the PRC engaged in the sale of goods, the supply of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax ("**VAT**"). VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17% or in certain limited circumstances, 13%, depending on the product type.

Business tax

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax (中華人民共和國營業稅暫行條例) promulgated by the State Council which was subsequently amended and took effect on 1 January 2009 and its implementation rules, business that provide services including entertainment business, assign intangible assets or sell immovable property became liable to business tax at a rate ranging from 3% to 20% of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

ENVIRONMENTAL PROTECTION

All entities and individuals shall abide by state and local laws and regulations of PRC concerning environmental protection, mainly including: Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the "**Environmental Protection Law**"), Appraising of Environment Impacts Law of the PRC (中華人民共和國環境影響評價法) (the "**Appraising of Environmental Impacts Law**"), Regulations on Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法) (the "**Atmospheric Pollution and Prevention Law**"), Prevention and Control of the Water Pollution Law of the

PRC (中華人民共和國水污染防治法) (the "**Water Pollution and Prevention Law**"), Prevention and Control of the Noise Pollution Law of the PRC (中華人民共和國環境噪聲污染防治法) (the "**Noise Pollution and Prevention Law**"), and Prevention and Control of the Solid Waste Pollution Law of the PRC (中華人民共和國固體廢物污染環境防治法) (the "**Solid Pollution and Prevention Law**").

The Environmental Protection Law (promulgated by the Standing Committee and effective as from 26 December 1989) specifies that any polluting construction project shall comply with state regulations on administration of construction project environmental protection. Enterprises and public institutions discharging pollutants shall report and register pollutants according to provisions of competent authority of environmental protection under the State Council and discharge pollutants in accordance with relevant pollutant discharge standard formulated by the competent authority of environmental protection under the State Council and local people's governments. Enterprises and public institutions discharging pollutants in excess of the specified national or local discharge standards shall pay fees for excess discharge according to state provisions and be responsible for pollution elimination and control. For enterprises and public institutions causing serious environmental pollution, relevant competent authorities of environmental protection shall have the right to require them to eliminate and control the pollution within a specified deadline, and for enterprises and public institutions failing to complete the pollution elimination and control within the specified deadline, the relevant authority of environmental protection may impose a fine thereon or issue an order of business suspension and shutdown according to the resulting pollution in addition to charging fees for excess discharge pursuant to state provisions. In respect of enterprises violating the Environmental Protection Law, the relevant competent authority of environmental protection may impose administrative penalty thereon including fines and orders of business suspension and shutdown according to the extent of violation and circumstances thereof. Meanwhile, any enterprise causing environmental pollution hazard shall be liable for eliminating the hazard and compensating the entities or individuals directly damaged. If violation of the said provision leads to severe environmental pollution accident and therefore significant property losses or personal injury, the persons who are directly responsible shall be charged for criminal liability according to laws.

In accordance with the Appraising of Environmental Impacts Law promulgated by the Standing Committee on 28 October 2002 and effective as from 1 September 2003 and Regulations on Administration of Construction Project Environmental Protection promulgated by the State Council and effective as from 29 November 1998, the State exercises the system of assessing the environmental impacts of construction projects. According to the environmental impacts of construction projects, the State exercises classified administration over construction project environmental protection as per the following provisions: (1) for construction projects likely to cause significant impact on the environment, an environmental impact report shall be worked out, containing comprehensive and detailed assessment of the pollution arising from construction projects and the environmental impacts thereof; (2) for construction projects which may slightly affect the environment, an environmental impact statement shall be worked out, containing an analysis or project-specific assessment of the pollution arising from construction projects and the environmental impacts thereof; (3) where the impact of any construction project on the environment is insignificant so that it is

unnecessary to carry out environmental impact assessment (EIA), an environmental impact registration form shall be completed. Construction project environmental impact report, statement or registration form shall be reported by the construction entity to the competent authority of environmental protection for approval; if the construction project is in the charge of the industry competent authority, the environmental impact report or statement thereof shall be reported to the competent authority of environmental protection for approval after preliminary approval by the industry competent authority. Construction shall not commence unless the EIA documents are approved. In the event of any circumstance that is inconsistent with the approved EIA documents during the construction, the construction entity shall organise a post-assessment of the environmental impacts, take measures for improvement and report to the original examination and approval authority of the EIA documents and the original examination and approval authority of the construction project for archiving; the original examination and approval authority of the EIA documents may order the construction entity to conduct the post-assessment of the environmental impacts and take measures for improvement. In the event of significant changes in the nature, scale, site or production techniques adopted of a construction project after approval of EIA documents, the construction entity shall also reapply for approval of EIA documents of the construction project. Moreover, the facilities for the prevention and control of pollution of a construction project shall be designed, constructed and put into operation or use simultaneously with the principal part of the project. After completion of the project, the construction entity shall also apply to the environmental protection authority for final acceptance of construction. The said construction project may be put into operation or use only after it is checked and accepted as satisfactory.

The PRC Government has promulgated a series of laws on discharge of atmospheric pollutants, waste water, solid wastes and noise to the environment, including the Atmospheric Pollution and Prevention Law (promulgated by the Standing Committee on 5 September 1987, amended on 29 August 1995 and 29 April 2000, and effective as from 1 September 2000), the Water Pollution and Prevention Law (promulgated by the Standing Committee on 11 May 1984, amended on 15 May 1996 and 28 February 2008, and effective as from 1 June 2008), the Noise Pollution and Prevention Law (promulgated by the Standing Committee on 29 October 1996 and effective as from 1 March 1997) and the Solid Pollution and Prevention Law (promulgated by the Standing Committee on 30 October 1995, amended on 29 December 2004 and effective as from 1 April 2005), which have respectively specified the prevention and control and supervision and administration of atmospheric pollution, water pollution and pollution from noise and solid wastes. Pursuant to the aforesaid laws, in case of new construction, expansion and reconstruction of projects that discharge pollutants to the atmosphere or water body, and/or produce noise or solid wastes, the relevant enterprise shall observe the state regulations concerning administration of construction project environmental protection and make pollutant discharge declaration according to law and discharge pollutants in accordance with regulations.

With regard to enterprises violating the aforesaid laws, the relevant competent authorities of environmental protection may impose administrative penalties on them in accordance with laws and regulations. Any enterprises that have caused an environmental pollution hazard shall be responsible for eliminating it and compensating the entities or individuals directly damaged.

LABOUR

The Labor Law of the PRC (中華人民共和國勞動法) promulgated by the Standing Committee came into effect on 1 January 1995 (the "**Labor Law**") and other relevant laws provides for the working time, holiday. According to the Labor Law, the policy of the wages shall be paid according to the performance, equal pay for equal work, lowest wage protection and special labor protection for female worker and juvenile workers shall be implemented. The Labor Law also requires the employer to establish and perfect a safety and healthy system, and enter into employ agreement with its employees.

According to the Labor Contract Law of the PRC (中華人民共和國勞動合同法) promulgated by the Standing Committee on 29 June 2007 and came into effect on 1 January 2008 (the "**Labor Contract Law**") and its regulations for the implementation, enterprises established in PRC shall enter into employment agreements with its employees to provide for the term, job duties, work time, holidays, payments by laws. Both employer and employee shall duly perform their duties. Meanwhile, the Labor Contract Law also provides for the scenario of rescission and termination, except the situation explicitly stipulated in the Labor Contract Law which will not subject to economic compensation, the economic compensation shall be paid to the employee by the employer for the illegally rescission or termination of the employment agreement.

Further, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day.

According to the the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 by the State Council and other relevant regulations, employing entities shall participate in social insurance schemes and shall make contribution to social insurance for its employees. In case an enterprise fails to made full contributions to social insurance for its employees, the relevant PRC authorities may order the enterprise to rectify the non-compliance within a prescribed time limit. If the Company still fails to make the payment within the time limit, in addition to the unpaid social insurance premiums, a surcharge for overdue payment equal to 0.2% per day of the overdue payment counting from the date when the amount becomes overdue will be imposed. If the enterprise refuses to pay the social insurance premiums and the surcharge within the time limit, the relevant PRC authorities may apply to people's courts for mandatory enforcement of the collection.

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法) promulgated by the Standing Committee on 28 October 2010 which became effective on 1 July 2011, the State establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State

and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth. Employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance. If an employing entity does not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period. If an employing entity does not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment.

Pursuant to the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例) promulgated by the State Council on 3 April 1999 which became effective on 3 April 1999 and as amended on 24 March 2002, the PRC companies shall go through housing provident funds registration with the local housing fund administration center and open housing fund accounts for its employees in the bank. Failure to abovementioned registration and accounts opening, a company may be subject to order to handling within a time limit. If the company fails to handle within prescribed time limit, it shall be imposed the penalty ranging from RMB10,000 to RMB50,000. Where a company fails to pay up housing provident funds within time limit, the housing fund administration center shall order it to make payment in certain period of time, if the company still fails to do so, the housing fund administration center may apply to the court for enforcement of the unpaid amount.

Pursuant to the Interim Provisions of Shenzhen Housing Fund (深圳市住房公積金管理暫行辦法) promulgated on 24 November 2010 and came into effect on 20 December 2010 and Interim Provisions of Deposit of Shenzhen Housing Fund (on trial) (深圳市住房公積金繳存管理暫行規定 (試行)) promulgated on 16 December 2010, enterprises established before 20 December 2010 shall register the housing fund deposit within 6 months from 20 December 2010 in accordance with the Interim Provisions of Shenzhen Housing Fund. Failed to finish the registration within the aforesaid limited period, or has not register the housing fund deposit, a prescribed time limit will be ordered by the Shenzhen Housing Provident Fund Management Center (深圳市住房公積金管理中心).

According to the relevant regulations (關於 2008年度上海市住房公積金繳存基數和比例的通知) promulgated by Shanghai Housing Provident Fund Management Committee (上海市住房公積金管理委員會) on 23 June 2008, enterprises in Shanghai are required to make housing provident fund contributions for their employees who are urban hukou (城鎮戶口) holders of Shanghai and other cities, and however enterprises in Shanghai may make housing provident fund contributions for their employees who are rural hukou (農業戶口) holders. Our PRC Legal Advisers had made enquiry with Shanghai Housing Provident Fund Management Centre (上海市公積金管理中心) and was verbally indicated that the said provisions shall still be applicable to enterprises in Shanghai and it is not mandatory for enterprises in Shanghai to make housing provident fund contribution for employees who are rural hukou (農業戶口) holders.

SAFE PRODUCTION

According to Production Safety Law of the PRC (中華人民共和國安全生產法) promulgated by the Standing Committee on 29 June 2002 and become effective on 1 November 2002, and amended on 27 August 2009 (the "**Production Safety Law**"), any production and business operation entity with more than 300 employees shall establish an independent administrative body of safe production or have full-time personnel for the administration of safe production; if the enterprise has fewer than 300 employees, it shall have full-time or part-time personnel for the administration of safe production. Production and business operation entities shall provide labour protection articles that meet the national standards or industrial standards for the employees thereof, supervise and educate them to wear or use these articles according to the prescribed rules. Production and business operation entities shall arrange funds for buying labour protection articles and organizing trainings on production safety. Production and business operation entities shall buy insurance for work-related injuries according to law and pay insurance premiums for the employees thereof. The department responsible for the supervision and administration of safe production shall have the right to supervise and inspect how production and business operation entities implement the relevant laws and regulations and national or industrial standards for safe production. For any acts violating the laws concerning safe production being found in the inspection, the said department may require correction on the spot, or require correction before a prescribed deadline or impose administrative penalties. In the event of violation of the Production Safety Law, the entity concerned is liable to a fine up to RMB100,000. According to Regulations on Reporting, Investigation and Disposition of Work Safety Accidents (生產安全事故報告和調查處理條例) which was promulgated on 9 April 2007 and effective on 1 June 2007, in the event of any serious accident, the enterprise liable for the said accident shall be subject to the highest fine of RMB5,000,000. According to the Production Safety Law where any production and business entity fails to set up an administrative department of safe production or appoint full-time personnel for the administration of safe production as stipulated, the relevant authority may issue an order of correction before a specified deadline; the entity which fails to make correction before the specified deadline shall be ordered to suspend business for rectification and liable to a fine of no more than RMB20,000.

PRODUCT QUALITY

According to the Product Quality Law of PRC (中華人民共和國產品質量法) (the "**Product Quality Law**"), which was promulgated by the Standing Committee on 22 February 1993 and as amended on 8 July 2000. Pursuant to the Product Quality Law, a producer shall have the following obligations:

- Products shall be free from any irrational dangers threatening the safety of people and property. If there are State standards or trade standards for ensuring the health of the human body and safety of lives and property, the products shall conform to such standards. Products shall have the property they are due to have, except cases in which there are explanations about the defects of the property of the products. Products shall tally with the standards prescribed or specified on the packages and with the quality specified in the instructions for use or shown in the providing samples;

- The marks on the products or the package of products shall be true to the fact and satisfy the relevant requirements;

- For products which are easily broken, inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the package thereof shall meet the corresponding requirements, carry warning marks or warnings written in Chinese or points of attention in handling in accordance with the relevant provisions of the state;

- Producers are forbidden to produce products eliminated according to State laws or decrees;

- Producers are not allowed to fake the place of origin or fake or use the names and addresses of other producers;

- Producers are not allowed to fake or use the quality marks such as certification marks and fine quality product marks; and

- Producers shall not adulterate their products or pose fake products as genuine or shoddy products as good or non-standard products as standard.

Violation of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations and its business licence will be revoked. Criminal liability may be incurred in serious cases.

INTELLECTUAL PROPERTY RIGHTS

Trademark Law

The Trademark Law of PRC (中華人民共和國商標法) (the "**Trademark Law**") was promulgated by the Standing Committee on 23 August 1982 which became effective on 1 March 1983 and amended on 22 February 1993 and 27 October 2001. The Trademark Law seeks to improve the administration of trademarks, protect the right to exclusive use of trademarks and encourage producers and operators to guarantee the quality of their goods and services and maintain the reputation of their trademarks, so as to protect the interests of consumers and of producers and operators. Protection is further enhanced by the Anti Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法).

Under the Trademark Law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

- Using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of that trademark;

- Selling the commodities that infringe upon the right to exclusive use of a registered trademark;
- Forging, manufacturing without authorization the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorization;
- Changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and
- Causing other damage to the right to exclusive use of a registered trademark of another person.

In the event of any of the abovementioned acts which infringe upon the right to the exclusive use of a registered trademark, the infringer would be imposed a fine, ordered to stop the infringement acts immediately, and in appropriate cases, subject to criminal prosecution and imprisonment sentence and give the infringed party compensation. Also, under this law, a trademark registrant may, by concluding a trademark licensing contract, authorise another person to use its registered trademark. The licensor shall supervise the quality of the commodities on which the licencee uses the licensor's registered trademark, and the licencee shall guarantee the quality of the commodities on which the registered trademark is to be used.

Patent Law

The Patent Law of the PRC (中華人民共和國專利法) (the "**Patent Law**") was promulgated by the Standing Committee on 12 March 1984 which became effective on 1 April 1985 and amended on 4 September 1992, 25 August 2000 and 27 December 2008. The purpose of the Patent Law is to protect and encourage invention, foster applications of invention and promote the development of science and technology. A patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a term of 20 years in the case of an invention and a term of ten years in the case of a utility model and design, starting from the application date. A third-party user must obtain consent or a proper licence from the patent owner to use the patent expect for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights.

Absence of a trademark or patent application or registration does not prevent use or protection of the trademark or invention. Further, copyright protection comes into existence on creation of copyrighted works such as drawings, prototypes and moulds without any registration pre-requisition.