
LAWS AND REGULATIONS IN THE PRC

INTRODUCTION

This section sets forth a summary of the most significant laws and regulations that affect our business in the PRC. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

INDUSTRY REGULATORY AUTHORITY

In the PRC, the National Development and Reform Commission and its branches are the competent administrative departments in charge of the home textile industry. It is responsible for, among other things, making industrial policies, supervising and inspecting the implementation of industrial policies, guiding adjustment of industrial structure, implementation of industry management, reforming industry structure, improving technology, and quality management; while the China Home Textile Association and its branches as the self-regulatory organisation are responsible for industry and market research, industry management and promoting the development of home textile industry.

LAWS AND REGULATIONS IN RELATION TO FOREIGN INVESTMENT IN THE PRC

Pursuant to Provisions on Guiding the Orientation of Foreign Investment (指導外商投資方向規定) promulgated by the State Council on 11 February 2002, the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) is the basis of the application of relevant policies in examining and approving foreign investment projects and foreign-invested enterprises. The Foreign Investment Industrial Guidance Catalogue sets out “encouraged”, “restricted” and “prohibited” categories for all foreign investment projects in the PRC. For the projects which do not fall into the categories of encouraged, restricted or prohibited projects shall be deemed as permitted foreign investment projects. Permitted foreign investment projects are not listed in the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄).

Pursuant to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) (2011 Revision) issued on 24 December 2011 by the China National Development and Reform Commission and the Ministry of Commerce, and became effective as at 30 January 2012, the home textile industry does not fall into the “restricted” or “prohibited” categories. Thus, the wholly foreign owned enterprises are permitted to engage in producing and selling bedding products in the PRC, and are entitled to own 100% of the shares in an enterprise producing and selling bedding products. In addition, pursuant to the Interim Provisions on Domestic Investment by Foreign Invested Enterprises (關於外商投資企業境內投資的暫行規定) jointly promulgated by the former Ministry of Foreign Trade and Economic Cooperation of the PRC (currently Ministry of Commerce) and the State Administration for Industry and Commerce on 25 July 2000, amended on 26 May 2006, when any foreign invested enterprise engages in domestic investment, the foreign invested enterprise shall file with the original approval authority for record within 30 days from the establishment of the invested company.

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The Wholly Foreign Owned Enterprises Law of the PRC (中華人民共和國外資企業法) promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulations for the Wholly Foreign Owned Enterprises Law of the PRC (中華人民共和國外資企業法實施細則) approved on 28 October 1990 and amended on 12 April 2001, have jointly set out the relevant provisions on establishment procedures, approval procedures, enterprise structure, registered capital, foreign exchange, finance and accounting, tax and employment of a wholly foreign owned enterprise.

A wholly foreign owned enterprise shall withdraw a certain amount from its after-tax profits as reserve funds, bonuses for its employees and welfare funds. The amount withdrawn for the reserve funds shall not be less than 10% of the after-tax profits. The enterprise may cease withdrawing when the amount reaches 50% of the registered capital of the enterprise. The amount withdrawn for bonuses and welfare funds for its employees shall be determined by the foreign-invested enterprise itself.

A foreign invested enterprise shall not distribute its profits until its deficits from previous fiscal years have been made up. Undistributed profits from previous fiscal years may be distributed together with the distributable profits of the current fiscal year.

Unless otherwise provided by the laws in relation to foreign investment, the foreign invested company shall comply with the relevant provisions of the Company Law of the PRC (中華人民共和國公司法), which was last amended on 27 October 2005.

LAWS AND REGULATIONS IN RELATION TO FOREIGN EXCHANGE

The PRC has two main foreign exchange administrative regulations, namely, the Regulations of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例), promulgated by the State Council on 29 January 1996 and amended on 14 January 1997 and 1 August 2008 respectively, and the Regulation on the Administration of Foreign Exchange Settlement, Sale, and Payment (結匯、售匯及付匯管理規定), promulgated by the PBOC on 20 June 1996. In accordance with the above mentioned foreign exchange administrative regulations, upon payment of the applicable taxes, foreign invested enterprises may convert the dividends they received in Renminbi into foreign currencies and remit such amount outside the PRC through their foreign exchange bank accounts. Generally, foreign invested enterprises may convert Renminbi into foreign currencies and remit them out of the PRC without the prior approval of SAFE under the two following circumstances: (a) when an enterprise needs to settle current account items in foreign currencies; and (b) when an enterprise needs to distribute dividends to its foreign shareholders.

Under other circumstances, including the settlement of capital account items, foreign invested enterprises are subject to the above administrative regulatory restrictions on foreign exchange, and must acquire prior approval from SAFE or its branches before converting Renminbi into foreign currencies.

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FOREIGN EXCHANGE ADMINISTRATION FOR DOMESTIC INDIVIDUALS PARTICIPATION IN EQUITY INCENTIVE PLANS OF OVERSEAS LISTED COMPANIES

On 15 February 2012, SAFE issued the Notice of SAFE on Issues relating to Foreign Exchange Administration for Domestic Individuals Participation in Equity Incentive Plans of Overseas-Listed Companies (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) (the “Notice”). Pursuant to this Notice, domestic individuals, whether Chinese citizens (including citizens of Hong Kong, Macau and Taiwan) or foreign individuals (excluding foreign diplomatic personnel in the PRC and representatives of international organisations in the PRC) who have lived in the PRC continuously for more than one year, who are the directors, supervisors, senior management or other employees of overseas listed companies registered in the PRC, or domestic branches (or representative offices) of overseas listed companies, or parent companies, subsidiary companies, partnerships or other domestic institutions that directly or indirectly control or are controlled by overseas listed companies (collectively, the “domestic companies”), if they participate in equity incentive plans of the same overseas listed company, shall through the domestic companies they serve, collectively entrust a domestic agency to handle issues like foreign exchange registration, account opening, funds transfer and exchange, and entrust an overseas institution to handle issues like exercise of options, purchase and sale of related stocks or equity, and funds transfer. SAFE and its branches may take regulatory measures and impose administrative sanctions on individuals, domestic companies, domestic agencies and banks that violate the provisions of this Notice.

LAWS AND REGULATIONS IN RELATION TO MANAGEMENT OF FOREIGN DEBTS

In accordance with the Regulations of the PRC on Foreign Exchange Administration and the Interim Measures for Management of Foreign Debts (外債管理暫行辦法) jointly promulgated by the National Development and Reform Commission, the Ministry of Finance and SAFE on 8 January 2003, effective 1 March 2003, the PRC implements a scale management on foreign debts. Foreign shareholder loans to foreign invested enterprises shall be viewed as foreign debts handled in accordance with PRC laws and regulations and must be registered with the relevant foreign exchange authorities as foreign debts. The sum of the accumulative incurred amount of medium and long term foreign debts and the balance of short-term foreign debts of the foreign invested enterprise shall be limited to the balance between its total investment approved and registered capital. The foreign invested enterprise may incur foreign debts at its discretion within the balance between its total investment approved and its registered capital. When exceeding the balance, the foreign invested enterprise shall apply to the original approving authority for re-approval of the total amount of investment.

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TAX LAWS

Enterprise Income Tax

On 1 January 2008, 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) was abolished, and concurrently the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), promulgated on 16 March 2007, became effective. Pursuant to the EIT Law, the income tax rate for both domestic enterprises and foreign invested enterprises is 25%.

Pursuant to the Notice of the State Council on the Implementation of the Transitional Preferential Policies in Respect of Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知) issued by the State Council of the PRC on 26 December 2007, as at 1 January 2008, the enterprises that previously enjoyed “2-year exemption and 3-year half payment.” “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of tax deductions and exemptions within specified periods may, after the implementation of the EIT Law, continue to enjoy the relevant preferential treatments under the preferential measures and the time period prescribed in the former tax law, administrative regulations and relevant regulatory documents until the expiration of the said time period. However, if such an enterprise has not enjoyed the preferential treatment yet because of its failure to make profits, its preferential time period shall be calculated from 2008.

Furthermore, unlike the Foreign Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC, which specifically exempted withholding income tax on any dividends payable to non-PRC enterprise investors, the EIT Law provides that an income tax rate of 20% will be normally applicable to dividends payable to non-resident enterprise investors which have not established institutions in the PRC, or if they have established institutions in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions set up by them, unless there exists a preferential tax treatment between the PRC and the relevant jurisdictions in which such non-resident enterprise investors reside, the relevant tax may be reduced or exempted. However, pursuant to the Implementation Rules of the Enterprise Income Tax of the PRC (中華人民共和國企業所得稅實施條例) promulgated by the State Council on 6 December 2007, effective 1 January 2008, a reduced enterprise income tax rate of 10% will be applicable to any dividends payable to the abovementioned non-resident enterprise investors on income derived from the PRC.

Moreover, pursuant to the Arrangement between Mainland China and the 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), a PRC resident enterprise which distributes dividends to its Hong Kong shareholders should pay income tax according to PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds not less than 25% equity of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity of the aforesaid enterprise, the tax levied shall be 10% of the distributed dividends.

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In addition, pursuant to the Circular of the State Administration of Taxation on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaty (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) issued by the State Administration of Taxation on 20 February 2009, all of the following requirements should be satisfied where a tax resident of the counterparty to the tax treaty needs to be entitled to such tax treatment specified in the tax treaty for the dividends paid to it by a Chinese resident company: (a) such a tax resident who obtains dividends should be a company as provided in the tax treaty; (b) the equity interests and voting shares of the Chinese resident company directly owned by such a tax resident reach a specified percentage; (c) the capital ratio of the Chinese resident company directly owned by such a tax resident reaches the percentage specified in the tax treaty at any time within 12 months prior to acquiring the dividends.

Pursuant to the Administrative Measures for Non-residents to Enjoy Treatment under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)) which came into effect on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) wishes to enjoy the tax treatment under the tax treaty, it shall apply for approval to or file with the competent tax authority for record because the preferential tax treatment is not automatically applicable. Without approval or record filing, the non-resident enterprise shall not enjoy the tax treatment in the tax treaty.

Business Tax

Pursuant to the Provisional Regulation on Business Tax of the PRC (中華人民共和國營業稅暫行條例) promulgated on 13 December 1993 by the State Council and amended on 5 November 2008, and the Implementation Rules for Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例實施細則) promulgated on 18 December 2008 and amended on 28 October 2011, all entities and individuals that engage in provision of taxable service, transfer of intangible asset or sale of immovable property within the territory of the PRC shall pay the business tax in accordance with PRC laws and regulations. The business tax rates vary from 3 to 20 percent based on the taxable items.

Value Added Tax

Pursuant to the Provisional Regulations on Value Added Tax of the PRC (中華人民共和國增值稅暫行條例) promulgated by the State Council on 13 December 1993 and amended on 5 November 2008, and its implementation rules which were revised on 28 October 2011, all entities and individuals in the PRC engaging in the sale of goods, processing and repair and replacement services, and import of goods are required to pay value added tax for the added value derived from the process of manufacture, sale or services. Except for some limited circumstances in which the value added tax rate is 13%, the general rate of value added tax is 17% for those engaging in sale of goods, processing and repair and replacement services, and import of goods.

City Maintenance and Construction Tax and Educational Surtax

Pursuant to the Circular of the State Council on Unifying the System of City Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign Invested Enterprise and Individual (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知) promulgated on 18 October 2010, the Provisional Regulations on City Maintenance and Construction Tax of the PRC (中華人民共和國城市維護建設稅暫行條例) promulgated in 1985, the Tentative Provisions on Levy of Educational Surtax (徵收教育費附加的暫行規定) promulgated in 1986 by the State Council, and rules, regulations and policies on city maintenance and construction tax and educational surtax promulgated since 1985 by the State Council and the competent financial departments shall also be applicable to foreign invested enterprises, foreign enterprises and foreigners from 1 December 2010.

In accordance with the Provisional Regulations on City Maintenance and Construction Tax of the PRC promulgated on 8 February 1985 and amended on 8 January 2011, any enterprise or individual liable for consumption tax, value added tax and business tax shall also be required to pay city maintenance and construction tax. City maintenance and construction tax shall be based on the amount of consumption tax, value added tax and business tax actually paid by the taxpayer and shall be levied simultaneously. The rate of city maintenance and construction tax shall be 7% for the taxpayer in the city, and shall be 5% for the taxpayer in the county or town, and shall be 1% for the taxpayer not in the city, county or town.

Pursuant to the Tentative Provisions on Levy of Educational Surtax promulgated on 28 April 1986 and last amended on 8 January 2011, unless those entities pay rural educational surtax in accordance with the Circular of the State Council on Raising Education Funds for Rural School (國務院關於籌措農村學校辦學經費的通知), any other entities or individuals liable for consumption tax, value added tax and business tax shall also be required to pay educational surtax. The educational surtax rate is 3%, and the educational surtax shall be based on the amount of consumption tax, value added tax and business tax actually paid by the taxpayer and shall be levied simultaneously.

Land Use Tax

Pursuant to the Provisional Regulations Governing Land Use Tax in Cities and Towns of the PRC (中華人民共和國城鎮土地使用稅暫行條例) promulgated on 27 September 1988 and amended on 8 January 2011, entities and individuals which use land within the boundaries of cities, counties, towns operated under an organisational system and mining industrial districts must pay land use tax. Calculation of land use tax shall be based on the actual area of land used by the taxpayer and shall be levied in accordance with the stipulated tax rate.

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Stamp Tax

In accordance with the Provisional Regulations of the PRC on Stamp Tax (中華人民共和國印花稅暫行條例) promulgated on 6 August 1988 and amended on 8 January 2011, and the Detailed Rules of Implementation of the Provisional Regulations of the PRC on Stamp Tax (中華人民共和國印花稅暫行條例施行細則) promulgated on 29 September 1988, all enterprises and individuals creating and obtaining taxable documents within the PRC shall pay stamp tax.

The list of taxable documents includes purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents contractual in nature, title transfer deeds, business account books, certificates of rights, licences and other taxable documents specified by the Ministry of Finance. The items and rates of stamp tax shall be implemented in accordance with the List of Items and Rates of Stamp Tax (印花稅稅目稅率表) attached in the Provisional Regulations of the PRC on Stamp Tax.

LAWS AND REGULATIONS IN RELATION TO ENVIRONMENTAL PROTECTION

The PRC government has formulated and implemented various environmental protection laws and regulations, including the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Law on Environmental Impact Assessment (中華人民共和國環境影響評價法), the PRC Law on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the PRC Law on Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法), the PRC Law on Prevention and Control of Environment Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), the PRC Law on Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) and Regulations on the Administration of Environmental Protection of Project Construction (建設項目環境保護管理條例), etc.

Pursuant to PRC environmental laws and regulations, the PRC has established an environmental impact assessment system for project construction, and the construction, expansion and operation of bedding products manufacturing facilities are subject to the advance approval and acceptance of the completed environmental protection facility from the competent PRC environmental authorities. For failure to obtain the advance approval and acceptance of the completed environmental protection facility, the enterprise may be ordered to cease the construction or operation of facilities, or make repairs within the time limit or be fined by the competent PRC environmental authorities.

The relevant PRC environmental protection laws also impose fees for discharge of waste substances, and impose fines and indemnity for the improper discharge of waste substances and serious environmental pollution. The PRC environmental authority may, at its discretion, shut down any facility that fails to comply with the environmental protection laws and regulations.

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LAWS AND REGULATIONS IN RELATION TO LABOUR LAW AND SOCIAL SECURITY

Enterprises are mainly subject to the following PRC labour laws and regulations: the PRC Labour Law (中華人民共和國勞動法), the PRC Labour Contract Law (中華人民共和國勞動合同法), the PRC Social Insurance Law (中華人民共和國社會保險法), the Regulations of Insurance for Employment Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulations on the Collection of Social Insurance Premium (社會保險費徵繳暫行條例), Regulations on Management of Housing Provident Fund (住房公積金管理條例) and other relevant regulations, rules and circulars issued by the competent governmental authorities.

Pursuant to the PRC Labour Law (中華人民共和國勞動法) and the PRC Labour Contract Law (中華人民共和國勞動合同法), when an employer hires an employee, they should sign a written labour contract, and the employees' salary shall not be lower than the local minimum wage. The company must establish a system for labour safety and sanitation, strictly abide by the state standards, and provide relevant education and training to its employees. Employees are also entitled to work in safe and sanitary conditions conforming with the relevant rules and standards. Employers shall offer regular health examinations for employees engaging in hazardous occupations.

As required under the PRC Social Insurance Law (中華人民共和國社會保險法), the Regulations of Insurance for Employment Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulations on the Collection of Social Insurance Premium (社會保險費徵繳暫行條例), the PRC enterprise is obligated to provide employees in the PRC with social security covering pension insurance, unemployment insurance, maternity insurance, employment injury insurance and medical insurance.

In accordance with the Regulations on Management of Housing Provident Fund (住房公積金管理條例) promulgated on 3 April 1999 and amended on 24 March 2002, enterprises must register with the relevant Housing Provident Fund Management Center, open a special housing provident fund account at a commissioned bank and pay housing provident fund contributions for their employees. In addition, for both employees and employers, the payment rate for housing provident fund shall not be less than 5% of the average monthly salary of the employees in the previous year. The payment rate may be raised if the employer desires.

LAWS IN RELATION TO PRODUCTION SAFETY

Pursuant to the PRC Production Safety Law (中華人民共和國安全生產法) which was promulgated on 29 June 2002 and amended on 27 August 2009, the State Administration of Work Safety (國家安全生產監督管理總局) is in charge of the overall administration of

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production safety. The PRC Production Safety Law (中華人民共和國安全生產法) provides that any entity engaging in manufacturing must meet national or industry standards regarding safety production and provide qualified working conditions required by laws, administrative rules and national or industry standards. The entity engaging in manufacturing must install prominent warning signs at or on the relevant dangerous operation site, facility and equipment. The design, production, installation, use, testing, maintenance, upgrade and disposal of safety equipment must comply with national and industry standards.

LAWS AND REGULATIONS IN RELATION TO PRODUCT LIABILITY

Pursuant to the General Principles of the Civil Law of the PRC (中華人民共和國民法通則), promulgated on 12 April 1986 and amended on 27 August 2009, a defective product which causes property damage or physical injury to any person could subject the manufacturer or seller of such product to civil liability for such damage or injury. In the event that the carrier or warehouseman is responsible for the damage or injury, the manufacturer or seller is entitled to demand compensation for its losses.

Furthermore, the General Principles of the Civil Laws of the PRC (中華人民共和國民法通則) was supplemented by the Product Quality Law of the PRC (中華人民共和國產品質量法) promulgated on 22 February 1993 and amended on 8 July 2000 and 27 August 2009 respectively, and the Law of the PRC on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法) promulgated on 31 October 1993 and amended on 27 August 2009 to protect the legitimate rights and interests of end-users and strengthen the supervision and control of the quality of products. If the product sold is sub-standard but not defective, the retailer will be responsible for the repair, exchange, or refund of the sub-standard product and for the compensation to the consumer for its losses (if any). In addition, the manufacturer is liable for the sub-standard product. The retailer is entitled to claim reimbursement from the manufacturer for the compensation paid by the retailer to the consumer. If the product is defective and has caused personal injury or damage to assets, the consumer has the option to claim compensation from either the manufacturer, or the distributor or the retailer. A retailer or distributor who has already compensated the consumer is entitled to claim reimbursement from the liable manufacturer.

Moreover, the Tort Law of the PRC (中華人民共和國侵權責任法) promulgated on 26 December 2009 and effective on 1 July 2010, further provides that where a defective product causes damage or physical injury to any person, the victim may claim compensation from either the manufacturer or the seller. If the defect of the product is caused by the manufacturer and the seller has made the compensation for the defect, the retailer shall be entitled to claim reimbursement from the manufacturer. If the product defect is caused by the fault of the seller and the manufacturer has made the compensation for the defect, the manufacturer shall be entitled to claim reimbursement from the seller.

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TRADEMARK LAW OF THE PRC

Pursuant to the Trademark Law of the PRC (中華人民共和國商標法) promulgated on 23 August 1982 and amended on 27 October 2001, the right to exclusive use of a registered trademark shall be limited to the trademark which has been registered and to commodities on which the use of a trademark has been approved. The period of validity of a registered trademark shall be ten years commencing from the day the registration is approved. If a registrant needs to continue to use the registered trademark after the period of validity, an application for renewal of registration shall be made within six months before the expiration. The period of validity for each renewal of registration shall be ten years. Any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark: (a) using a trademark which is identical or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of the registered trademark; (b) selling commodities that infringe upon the right to exclusive use of a registered trademark; (c) forging, manufacturing without authorisation, or selling a registered trademark forged or manufactured without authorisation; (d) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of the registered trademark; and (e) causing other damage to the right to exclusive use of a holder of a registered trademark.

Where a dispute arises from infringing upon the exclusive rights of the registrant of a registered trademark, the parties involved shall settle the dispute through negotiation. If any party refuses to negotiate or the negotiation has failed, the registrant of the registered trademark or the interested parties may bring a suit before a people's court or request the Administration for Industry and Commerce to handle the issue.

The registrant of a registered trademark may licence others to use its registered trademark through the trademark licence agreement. The licensor shall supervise the quality of the goods in respect of which the licensee uses his registered trademark, and the licensee shall assure the quality of the goods in respect of which he uses the registered trademark. Where the registered trademark is licensed, the name of the licensee and manufacturing location shall be indicated on the product with the licensed registered trademark. The trademark licence agreement shall be filed with the State Trademark Office for record.

PATENT LAW

Pursuant to the Patent Law of the PRC (中華人民共和國專利法) promulgated on 12 March 1984 and amended on 27 December 2008, patent protection is divided into three categories: invention patent, utility model patent and design patent. Specifically, "invention patent" refers to new technical solutions for a product, method or its improvement; "utility model patent" refers to new technical solutions for a product's shape, structure or the combination of both shape and structure, which are applicable for practical use; "design patent" refers to new designs of the shape, pattern or the combination of shape and pattern, or the combination of the colour, the shape and pattern of a product with aesthetic feeling and industrial application value.

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Invention Patent

Products seeking invention patent protection must possess novel and innovative characteristics, and the grant of an invention patent is subject to disclosure and publication.

After receiving an application for invention patent, if the State Intellectual Property Office of the PRC (國家知識產權局) (“SIPO”) finds, upon preliminary examination, that the application is in conformity with the requirements of Patent Law of the PRC, it will publish the application after 18 months from the date of application. Upon the request of the applicant, SIPO may publish the application earlier. Upon the request of the invention patent applicant made at any time within three years from the date of application, the patent administrative department under the State Council may make a substantive examination of the application. If, after the substantive examination, no reason is found to reject the patent invention application, the patent administrative department under the State Council shall grant a patent for the invention, issue an invention patent certificate, register and announce it. The protection period on the invention patent shall be 20 years from the date of application.

Once an invention patent is granted, unless otherwise described by laws, no individuals or entities are permitted to engage in the manufacture, use or import of the products protected by such patent or otherwise engage in the manufacture, use, sale or import of the products directly derived from applying the production skills or methods protected by such patent without consent of the patent holder.

Utility Model Patent

Products seeking utility model patent protection must possess both novel and innovative characteristics. Utility model patents will be granted and registered upon application unless there are reasons for SIPO to reject the application after preliminary review. Utility model patents are also subject to disclosure and publication upon application. The protection period for a utility model patent is ten years from the date of application.

Once a utility model patent is granted, unless otherwise described by laws, no individuals or entities are permitted to engage in the manufacture, use or import of the products protected by such patent or otherwise engage in the manufacture, use, sale or import of the products directly derived from applying the production skills or methods protected by such patent without consent of the patent holder.

Design Patent

The products seeking design patent protection must not (i) be the same as or similar to those previously known domestically or abroad, or (ii) infringe upon a third party’s legal rights. The application procedure and protection period are the same as utility model patents. The protection period for a design patent is ten years from the date of application.

Once a design patent is granted, without the consent of the patent holder, no individuals or entities are permitted to engage in the manufacture, use or import of the products protected by such patent for the purposes of production and business.

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COPYRIGHT LAW

In accordance with the PRC Copyright Law (中華人民共和國著作權法) promulgated on 7 September 1990 and amended on 26 February 2010, copyrights include personal rights such as the right of publication and the right of authorship, as well as property rights such as the right of production and the right of distribution. Unless otherwise provided by the PRC Copyright Law (中華人民共和國著作權法), reproducing, distributing, performing, projecting, broadcasting or compiling a work or broadcasting via the internet without the permission of the owner of the copyright shall constitute infringement of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, eliminate the adverse effects, offer a public apology or pay compensation for damages. Where the infringer jeopardises public interests at the same time, the competent copyright administration may order him to cease the act of tort, confiscate his illegal gains, confiscate and destroy the infringing duplicate, and impose a fine on the infringer. In severe circumstances, the copyright administration may also confiscate the materials, instruments and equipment used to make the infringing duplicate. If the act has constituted a crime, the infringer shall be prosecuted for criminal liability.

ANTI-UNFAIR COMPETITION LAW

Pursuant to the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) promulgated on 2 September 1993, when trading on the market, operators shall abide by the principles of voluntariness, equality, fairness, honesty and good faith, and observe generally recognised business ethics. Acts of operators which contravene the provisions of the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法), which damage the legitimate rights and interests of other operators, and disrupt the socio-economic order, shall constitute unfair competition.

In accordance with the Anti-Unfair Competition Law of the PRC, operators should not use the following unfair methods in their business transactions which can damage other competitors: (a) to counterfeit the registered trademark of others; (b) to use the specific name, package, decoration of the well-known commodities, or use a similar name, package, decoration of the well-known commodities, which may confuse consumers distinguishing the commodities to the well-known commodities; (c) to use the name of other enterprises or person and make people confuse its commodities to the other's commodities; (d) to counterfeit or falsely use authentication marks, famous-and-excellent-product mark or other product marks, to use the name and address of a factory of another producer, to provide misleading information on the quality of products.

Where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) and causes damage to another operator, it or he/she shall bear the responsibility for compensation. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement by virtue of the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in

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investigating the acts of unfair competition committed by the operator suspected of infringing its or his legitimate rights and interests. Where the legitimate rights and interests of an operator are damaged by the acts of unfair competition, the injured operator may institute proceeding in a people's court.

Where an operator uses the same or similar name, package or decoration as those of well-known commodities, which may confuse consumers in distinguishing the operator's commodities from such well-known commodities, the supervision and inspection department shall order the infringer to stop the illegal activities, confiscate the illegal earnings and may, in light of the circumstances, impose a fine ranging from one to three times the illegal earnings. If the circumstances are serious, the infringer's business licence may be revoked, and if the commodities sold are fake and inferior, and such case constitutes a crime, the infringer shall be investigated for criminal responsibility according to law.

LAWS AND REGULATIONS IN RELATION TO IMPORT AND EXPORT OF GOODS

Pursuant to the Regulations of the PRC on the Administration of Import and Export of Goods (中華人民共和國貨物進出口管理條例) promulgated on 10 December 2001, the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) amended on 6 April 2004, the Customs Law of the PRC (中華人民共和國海關法) amended on 8 July 2000, the Measures for Record Filing and Registration by Foreign Trade Dealer (對外貿易經營者備案登記辦法) promulgated on 25 June 2004 by the Ministry of Commerce of the PRC, the Administrative Provisions of the PRC Customs Authority on the Registration of Customs Declaration Agent (中華人民共和國海關對報關單位註冊登記管理規定) promulgated on 31 March 2005 by General Administration of Customs of the PRC (中華人民共和國海關總署), any foreign trade business operators engaging in the import or export of goods or technology shall go through the record filing and registration formalities with the Ministry of Commerce of the PRC or the agency entrusted by the Ministry of Commerce.

The consignor and consignee refer to the legal person, any other organisation or individual who directly engage in import or export of goods within the territory of the PRC. They shall register with the local customs authority. Unless otherwise provided, all imported and exported goods shall be declared, and the tariff arrangements shall be followed, by the consignor or consignee, or by a customs declaration enterprise entrusted by the consignor or consignee and approved by and registered with the customs authority. No enterprise or person can make declarations without registering with the customs or obtaining the relevant qualification for declaration in accordance with the laws. Currently, the main administrative measures that the PRC adopts to control export of goods include export quota, export licence, state-operated trade management and designated trade.

Pursuant to the Catalogue of Goods subject to State-operated Export Trade Management (出口國營貿易管理貨物目錄) and the Catalogue of Goods subject to Designated Export Trade Management (出口指定經營管理貨物目錄), the PRC no longer implements state-operated trade control and designated trading on the export of textile products. In accordance with the Circular on Issue concerning Textile Export Licence in 2009 (關於簽發2009年紡織品出口許可證件的通知), the PRC no longer implements export quota and export licences control on the export of textile products.