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## REGULATIONS

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Our business includes developing and publishing webgames and mobile games. Our business is subject to extensive supervision and regulation by the PRC authorities. This section sets out a summary of the main laws, regulations and policies that govern our business operations.

### **Regulations Relating to Value-Added Telecommunication Business**

#### ***Restrictions on Foreign Investment***

*The Telecommunications Regulations of the PRC* (《中華人民共和國電信條例》) (the “Telecommunications Regulations”) implemented on September 25, 2000 provide a regulatory framework for telecommunications services providers in China. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business attached to the Telecommunications Regulations as amended in 2003, information services provided via fixed network, mobile network and Internet fall within the category of value-added telecommunications services.

Foreign direct investment in telecommunications companies in China is governed by the *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises* (revised in 2008) (《外商投資電信企業管理規定（2008年修訂）》), which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008. The regulations require foreign-invested value-added telecommunications enterprises in China to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the foreign investor who invests in a value-added telecommunications business in China must demonstrate a good track record and experience in operating a value-added telecommunications business. Moreover, foreign investors that meet these requirements must obtain approvals from the MIIT and MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for its commencement of value-added telecommunication business in China.

In July 2006, the MIIT publicly released the *Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business* (《信息產業部關於加強外商投資經營增值電信業務管理的通知》), (the “MIIT Notice”), pursuant to which, if any foreign investor intends to invest in telecommunications business in China, a foreign-invested telecommunications enterprise must be established and such enterprise must apply for the relevant telecommunications business operation licenses. Furthermore, under the MIIT Notice, domestic telecommunications enterprises may not rent, transfer or sell a telecommunications business operation license to foreign investors in any form, nor may they provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in China. In addition, under the MIIT Notice, the Internet domain names and trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

On September 25, 2000, the State Council promulgated the *Administrative Measures on Internet Information Services* (《互聯網信息服務管理辦法》) (the “Internet Measures”). According to the Internet Measures, it classified internet information services into commercial Internet information services and non-commercial Internet information services, and the commercial operators of Internet information services in China must obtain a value-added telecommunications license, (the “ICP License”), from the relevant government authorities. The MIIT also promulgated the *Internet Electronic Bulletin Service Administrative Measures* in 2000 (《互聯網電子公告服務管理規定》) (the “BBS Measures”). The BBS Measures require Internet content providers to obtain specific approvals before they provide BBS services, which include electronic bulletin boards, electronic forums, message boards and chat rooms.

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## REGULATIONS

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Investment activities in the PRC by foreign investors are mainly governed by the *Guidance Catalog of Industries for Foreign Investment (revised in 2011)* 《外商投資產業指導目錄（2011年修訂）》 (the “Catalog”), which was promulgated and is amended from time to time jointly by MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, which are “encouraged,” “restricted,” “prohibited” and all industries not listed under one of these categories are deemed to be “permitted.” According to the Catalog, the webpage business that the Company currently operates falls under value-added telecommunications services and Internet cultural businesses, which are under “restricted” and “prohibited” categories, respectively.

### ***Regulation of Licenses***

Online game operators are required to hold a variety of permits and licenses, which, among others, include:

- **ICP License** (《中華人民共和國增值電信業務經營許可證》). Under current PRC laws and regulations, including the Telecommunications Regulations and the Internet Measures, a commercial operator of Internet content provision services must obtain a value-added telecommunications business operating license for Internet content provision from the appropriate telecommunications authorities in order to carry on any commercial Internet content provision operations in China. All online game publishing platforms in the PRC are required to obtain such licenses.
- **Network Cultural Business Permit** (《網絡文化經營許可證》). With respect to the online gaming industry in China, since online games fall within the definition of “Internet culture products” under the *Provisional Regulations for the Administration of Online Culture* (《互聯網文化管理暫行規定》) (the “Online Culture Regulations”), which were issued by the MOC and took effect on April 1, 2011 and replaced the *Provisional Regulations for the Administration of Online Culture* which had been in effect since 2003, a commercial operator of online games must, in addition to the ICP License, obtain an Internet culture operation license from the appropriate culture administrative authorities for its operation of online games. All online game publishing platforms in the PRC are required to obtain such licenses.
- **Internet Publication License** (《互聯網出版許可證》). GAPP and the MIIT jointly impose a license requirement for any company that intends to engage in Internet publication. Internet publication is defined as any act by an Internet content provider to select, edit and process content or programs and to make such content or programs publicly available on the Internet. According to *The Tentative Measures for Internet Publication Administration* (《互聯網出版管理暫行規定》) (the “Internet Publication Measures”), which were jointly promulgated by the GAPP and the MIIT and took effect in 2002 and other relevant regulations, provision of online games is deemed to be an Internet publication activity. Therefore, an Internet content provider, such as an online game developer, needs to obtain an Internet publication license in order to engage in Internet publication.

### **Regulations Relating to Online Games and Cultural Products**

#### ***Operating Permits for Online Games***

The Online Culture Regulations which were issued by the MOC and took effect on April 1, 2011 and replaced the Provisional Regulations for the Administration of Online Culture which had been in effect since 2003, apply to entities engaging in activities related to “online cultural products,” which include cultural products that are produced specifically for Internet use, such as online music and entertainment, online games, online plays, online performances, online works of art and web animation, and other online cultural products that through technical means, produce or reproduce music, entertainment, games, plays and other art works for Internet dissemination. Under the Online Culture Regulations, commercial entities are required to apply to the relevant local branch of the MOC for an Online Culture Operating Permit if they engage in the production, duplication, importation, release or broadcasting of online cultural products; the dissemination of online cultural products on the Internet or the transmission of such products via Internet or mobile phone networks to player terminals, such as computers, phones, television sets and gaming consoles, or Internet surfing service sites such as Internet cafés; or the holding of exhibition or contests related to online cultural products.

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## REGULATIONS

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*The Interim Measures for the Administration of Online Games* (《網絡遊戲管理暫行辦法》) (the “Online Game Measures”), issued by the MOC and which took effect on August 1, 2010, regulate a broad range of activities related to the online games business, including the development and production of online games, the operation of online games, the issuance of virtual currencies used for online games, and virtual currency trading services. The Online Game Measures provide that any entity that is engaged in online game operations must obtain an Online Culture Operating Permit, and require the content of an imported online game to be examined and approved by the MOC prior to the launch of the game and the content of a domestic online game must be filed within 30 days of its launch with the MOC. The Online Game Measures also request online game operators to protect the interests of online players and specify certain terms that must be included in the service agreements between online game operators and the players of their online games. *The Notice of the Ministry of Culture on the Implementation of the Interim Measures for the Administration of Online Games* (《文化部關於貫徹實施〈網絡遊戲管理暫行辦法〉的通知》) issued by the MOC and which took effect in August 2010 specify entities regulated by the Online Game Measures and procedures related to the MOC’s review of the content of online games, and emphasizes the protection of minors playing online games and requests online game operators to promote real-name registration by their players.

*The Rules for the Administration of Electronic Publications* (《電子出版物出版管理規定》) (the “Electronic Publication Rules”), promulgated in February 2008 by the GAPP, regulate the production, publication and importation of electronic publications in the PRC and outline a licensing system for business operations involving electronic publication.

The Internet Publication Measures impose a license requirement for any company that intends to engage in Internet publication, which is defined as any act by an Internet content provider to select, edit and process content or programs and to make such content or programs publicly available on the Internet. As the provision of web-based games is deemed to be an Internet publication activity, a web-based game operator must obtain an Internet Publication License and a publication number for each of its web-based games in operation in order to make those games directly and publicly available in the PRC.

*The Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the ‘Three Provisions’ jointly promulgated by the MOC, the State Administration of Radio Film and Television, or the SARFT, and the GAPP* (《關於印發〈中央編辦對文化部、廣電總局、新聞出版總署〈“三定”規定〉中有關動漫、網路遊戲和文化市場綜合執法的部分條文的解釋〉的通知》), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) which became effective on September 7, 2009, provides that the GAPP will have responsibility for the examination and approval of online games to be uploaded on the Internet and that, after such upload, online games will be administered by the MOC.

*The Notice Regarding the Consistent Implementation of the “Regulation on Three Provisions” of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games* (《關於貫徹落實國務院〈“三定”規定〉和中央編辦有關解釋，進一步加強網路遊戲前置審批和進口網路遊戲審批管理的通知》), (the “GAPP Notice”), promulgated by the GAPP, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

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## REGULATIONS

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### *Examination of Online Game Content*

*The Notice Regarding Improving and Strengthening the Administration of Online Game Content* (《文化部關於改進和加強網路遊戲內容管理工作的通知》) (the “Online Game Content Notice”), issued by the MOC in November 2009, requests online game operators to improve and adapt their game models by (i) mitigating the predominance of the “upgrade by monster fighting” model, (ii) limiting the use of the “player killing” model (where one player’s character attempts to kill another player’s character), (iii) limiting in-game marriages among players, and (iv) improving their compliance with legal requirements for the registration of minors and game time limits.

*The Notice Regarding the Strengthening of Online Game Content Censorship* (《文化部關於加強網路遊戲產品內容審查工作的通知》), issued by the MOC in 2004, mandates the establishment of a committee under the MOC to screen the content of imported online games and requires that the content of all imported online games be approved by the MOC. *The Notice Regarding Purifying Online Games* (《關於淨化網路遊戲工作的通知》), further promulgated by the MOC, the MIIT and other governmental authorities in June 2005, emphasize the prevention of online game products and relevant operations which contain illegal content such as obscenity, gambling, superstition, illegal transactions and information that threatens state security.

### *Virtual Currency and Virtual Items*

*The Notice on the Reinforcement of the Administration of Internet Cafés and Online Games* (《關於進一步加強網吧及網路遊戲管理工作的通知》) (the “Internet Cafés Notice”) jointly issued by the MOC, the PBOC and other governmental authorities in February 2007 with the goal of strengthening the administration of virtual currency in online games and to avoid any adverse impact on the PRC economy and financial system, places strict limits on the total amount of virtual currency issued by online game operators and the amount purchased by individual players and requires a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Internet Cafés Notice further provides that virtual currency should only be used to purchase virtual items and prohibits any resale of virtual currency.

*The Notice on Strengthening the Administration of Online Game Virtual Currency* (the “Virtual Currency Notice”) (《關於加強網路遊戲虛擬貨幣管理工作的通知》) jointly issued by the MOC and the MOFCOM in June 2009, defines the meaning of the term “virtual currency” and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are not allowed to give out virtual items or virtual currency through lottery-base activities, such as lucky draws, betting or random computer sampling, in exchange for players’ cash or virtual money. *The Filing Guidelines on Online Game Virtual Currency Issuing Enterprise and Online Game Virtual Currency Trading Enterprise* (《“網路遊戲虛擬貨幣發行企業”、“網路遊戲虛擬貨幣交易企業”申報指南》) issued by the MOC in July 2009, defines the meanings of “online game virtual currency issuing enterprise” and “online game virtual currency trading enterprise” and stipulates that a single company may not be engaged in being an “issuing enterprise” and a “trading enterprise” at the same time.

## **Regulations Relating to Intellectual Property**

### *Patent Law*

According to the *Patent Law of the PRC (Revised in 2008)* (《中華人民共和國專利法（2008年修正）》), the State Intellectual Property Office is responsible for administering patents in the PRC. The patent administration departments of provincial, autonomous region or municipal governments are responsible for administering patents within their respective jurisdictions. The Chinese patent system adopts a “first come, first file” principle, which means, where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A patent is valid for twenty years in the case of an invention

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## REGULATIONS

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and ten years in the case of utility models and designs. A third-party player must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

### ***Trademark Law***

Trademarks are protected by the *Trademark Law of the PRC (Revised in 2001)* (《中華人民共和國商標法（2001年修正）》) which was adopted in 1982 and subsequently amended in 1993 and 2001 respectively as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council in 2002. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for a consecutive ten-year period upon request by the trademark owner. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office for record. As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where a trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

### ***Copyright Law***

The *Copyright Law of the PRC (Revised in 2010)* (《中華人民共和國著作權法（2010年修訂）》) (the “Copyright Law”) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The copyright owner enjoys various kinds of rights, including right of publication, right of authorship and right of reproduction.

*The Computer Software Copyright Registration Measures* (《計算機軟件著作權登記辦法》) (the “Software Copyright Measures”) regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the “CPCC”), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyright applicants which conform to the provisions of both the Software Copyright Measures and *the Computer Software Protection Regulations* (《計算機軟件保護條例》).

*Provisions of the Supreme People’s Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks* (《最高人民法院關於審理侵害信息網絡傳播權民事糾紛案件適用法律若干問題的規定》) provide that web players or web service providers who create works, performances or audio-video products, for which others have the right of dissemination through information networks or are available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

### ***Domain Names***

The MIIT promulgated its *Administrative Measures on China Internet Domain Name* (《中國互聯網域名管理辦法》) (the “Domain Name Measures”) in 2004. According to the Domain Name Measures, the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain



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## REGULATIONS

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name registration service institutions. The applicants will become the holder of such domain names upon the completion of the registration procedure.

### ***Software Products***

*The Measures Concerning Software Products Administration* (《軟件產品管理辦法》) issued by the MIIT (the “Software Measures”) which became effective in April 2009 and replaced measures which had been in effect since 2000, permit software developers and producers to sell or license their software products independently or through agents, and software products developed in the PRC can be registered with the local provincial government authorities in charge of the software industry and filed with the MIIT. Upon registration, the software products are granted registration certificates which are valid for five years and may be renewed upon expiration. Under policies promulgated by the State Council, software products developed in the PRC which satisfy the requirements of the Software Measures and have been registered and filed in accordance with the Software Measures may enjoy certain types of preferential treatment. State Council policies provide that the MIIT and other relevant departments may supervise and inspect the development, production, sale, import and export of software products in the PRC.

### **Regulations Relating to Wholly Foreign-Owned Enterprises**

Under the *Wholly Foreign-Owned Enterprise Law of the PRC* (《中華人民共和國外資企業法》) promulgated and which took effect on October 31, 2000 and the *Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People’s Republic China* (《中華人民共和國外資企業法實施細則》) promulgated and which took effect on April 12, 2001, an application for establishing a wholly foreign-owned enterprise (“WFOE”), shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the PRC (“MOFTEC”) before the approval certificate is issued. Within 90 days of the date of receipt of an application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a WFOE is approved by the Examination and Approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to and collect the business license from the administrative authority for industry and commerce.

### **Regulation Relating to Foreign Currency Exchange**

#### ***Foreign Currency Exchange Control***

Under the *PRC Foreign Currency Administration Rules* (《中華人民共和國外匯管理條例》) promulgated in 1996 and revised in 1997 and further amended in 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the State.

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## REGULATIONS

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### ***Offshore Investment by PRC Residents***

Under the *Circular of the State Administration of Foreign Exchange on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Return Investments by Domestic Residents through Offshore Special Purpose Vehicles* (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) issued by the SAFE and effective in 2005, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore special purpose vehicle (“SPV”) which is defined as offshore enterprises directly established or indirectly controlled by PRC residents for offshore equity financing driven purposes with the enterprise assets or interests they hold in China. An amendment to registration or subsequent filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise into the SPV or the offshore equity financing of the SPV, or any other material change involving a change in the capital of the offshore company. Since May 2007, the SAFE has issued guidance to its local branches from time to time with respect to the procedures for SAFE registration under Circular 75. Such guidance included the Notice of SAFE on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investments (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》), or Circular 59, which was effective commencing December 17, 2012.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control the Company from time to time are required to register with the SAFE in connection with their investments in the Company.

### **Regulation on Taxation**

#### ***Enterprise Income Tax***

On March 16, 2007, the National People’s Congress promulgated *The Law of the PRC on Enterprise Income Tax* (《中華人民共和國企業所得稅法》) and on December 6, 2007, the State Council enacted *The Regulations for the Implementation of the Law on Enterprise Income Tax* (《中華人民共和國企業所得稅法實施條例》) (collectively, the “EIT Law”). The EIT Law came into effect on January 1, 2008. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% for their income sourced from inside the PRC.

The EIT Law provides that certain high and new technology enterprises are entitled to a reduced enterprise income tax rate of 15%. According to the *Administrative Measures for the Determination of High and New Tech Enterprises* (No. 172 [2008] of the Ministry of Science and Technology) (《高新技術企業認定管理辦法》(國科發火[2008] 172號)), a high and new tech enterprise may apply for the tax benefits under the EIT Law, the RIEITL, the *Law of the People’s Republic of China on the Administration of Tax Collection* and the *Detailed Rules on the Implementation of the Law of the People’s Republic of China on the Administration of Tax Collection*. Once an enterprise obtains the high and new tech enterprise qualification, it may apply for the tax reduction or exemption to the competent tax authorities.

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## REGULATIONS

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*The Circular on Taxation Policies for Further Encouraging the Development of the Software and Integrated Circuit Industries (No.27 [2012] of the Ministry of Finance and the State Administration of Taxation)* (《關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》(財稅[2012]27號)), which was promulgated by the Ministry of Finance and the State Administration of Taxation and became effective on January 1, 2011, provides that newly established integrated circuit design enterprises and eligible software enterprises, upon certification, shall be exempt from the enterprise income tax for the first two years of the preferential period, and shall be levied thereon at half of the statutory rate of 25% for the next three years until the expiration of the preferential period. The preferential period starts from the first profitable year before December 31, 2017.

### ***Value-added Tax and Business Tax***

*The Provisional Regulations of the PRC on Value-added Tax* (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 10, 2008 and came into effect on January 1, 2009. *The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011)* (《中華人民共和國增值稅暫行條例實施細則(2011年修訂)》) were promulgated by the Ministry of Finance and State Administration of Taxation on December 15, 2008 which were subsequently amended and came into effect on November 1, 2011 (collectively, the “VAT Law”). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%.

Pursuant to *The Provisional Regulations of the PRC on Business Tax* (《中華人民共和國營業稅暫行條例》), which became effective on January 1, 1994 and were subsequently amended on November 10, 2008 and became effective on January 1, 2009, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

On January 1, 2012, the Chinese State Council officially launched a pilot VAT reform program (the “Pilot Program”), applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Program initially applied only to transportation industry and “modern service industries” (the “Pilot Industries”) in Shanghai. The research and development and technical services, information technology services included in the Pilot Industries are subject to the VAT tax rate of 6%. Subsequently, the Pilot Program has been expanded to eight additional regions, including, among others, Beijing and Guangdong province, and nationwide to the designated pilot industry.

### **Regulations on Employment and Social Security**

#### ***Employment Laws***

*The Labor Contract Law of the PRC* (《中華人民共和國勞動合同法》) (“Labor Contract Law”), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/ employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers timely. In addition, according to the Labor Contract Law, (i) employers must pay laborers double income in circumstances where within one year an employer fails to enter into an employment contract that is more than a month but less than a year from the date



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## REGULATIONS

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of employment. Where such period exceeds one year, the parties are deemed to have entered into a labor contract with an “unfixed term”; (ii) employees who fulfill certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labor contract with them with an unfixed term; (iii) employees must adhere to regulations in the labor contracts concerning commercial confidentiality and non-competition; (iv) an upper limit not exceeding the cost of training supplied to the employee has been set as the amount of compensation an employer may seek for an employee’s breach of the provisions concerning term of services in the labor contract; (v) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the law; (vi) employers who demand money or property from employees as guarantee or otherwise may be subject to a fine of RMB2,000 per employee as maximum penalty; and (vii) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay such employees compensation ranging from 50% to 100% of the amount of salary so deprived if they fail to pay the salary deprived within a certain period by the labor administration authorities.

According to the *Labor Law of the PRC* (《中華人民共和國勞動法》) promulgated on July 5, 1994 and effective on January 1, 1995, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

### ***Social Insurance and Housing Funds***

As required under *The Regulation of Insurance for Labor Injury* (《工傷保險條例》) implemented on January 1, 2004, *The Provisional Measures for Maternity Insurance of Employees of Corporations* (《企業生育保險試行辦法》) implemented on January 1, 1995, *The Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council* (《國務院關於建立統一的企業職工養老保險制度的決定》) issued on July 16, 1997, *The Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council* (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on December 14, 1998, *The Unemployment Insurance Measures* (《失業保險條例》) promulgated on January 22, 1999 and *The Social Insurance Law of the PRC* (《中華人民共和國社會保險法》) implemented on July 1, 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance.

In accordance with *The Regulations on the Management of Housing Funds* (《住房公積金管理條例》) which was promulgated by the State in 1999 and amended in 2002, enterprises must register at the competent managing centre for housing funds and upon the examination by such managing centre of housing funds, complete procedures for opening an account at the relevant bank for the deposit of employees’ housing funds. Enterprises are also required to pay and deposit housing funds in full and on time.