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THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Our Group carries out its operations primarily through four dairy farms located in China. The current business operations of our Group mainly include feeding, breeding, and milking of dairy cows, and sale of raw milk. All these activities are subject to relevant laws, regulations, rules and government policies of the PRC. We summarize the main relevant laws, regulations, rules and industrial policies as follows:

Establishment, Operation and Management of a Wholly Foreign-owned Enterprise

The establishment, operation and management of corporate entities in China are governed by the *Company Law of the PRC* (中華人民共和國公司法) (the “Company Law”), which was adopted by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) on 29 December 1993 and with effect from 1 July 1994. It was last amended on 27 October 2005 and with effect from 1 January 2006. Under the *Company Law*, companies are generally classified into two categories — limited liability companies and companies limited by shares. The *Company Law* also applies to foreign-invested limited liability companies. According to the *Company Law*, where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are regulated 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 the *Implementation Rules to the Wholly Foreign-owned Enterprise Law* (中華人民共和國外資企業法實施細則), which were promulgated on 12 December 1990 and amended on 12 April 2001.

Policies relating to Foreign Investment in Dairy Farming and Production of Dairy Products

Guidance on foreign investment in different industries in the PRC can be found in the *Foreign Investment Industrial Guidance Catalog* (外商投資產業指導目錄) (the “Catalog”), jointly issued by the NDRC and MOFCOM. The *Catalog* will be amended and re-promulgated from time to time by these two government authorities. Industries generally fall into four categories for the purposes of guiding foreign investment: encouraged, permitted, restricted and prohibited. The *Catalog* only lists out specific industries falling under the encouraged, restricted and prohibited categories, and what is not listed there would be considered to be under the permitted category. The current effective version of the *Catalog* was issued on 24 December 2011 and became effective on 30 January 2012. According to the 2011 *Catalog*, dairy farming and production of dairy products should both belong to the permitted category.

Policies Relating to Modern Husbandry and Dairy Industry

Modern husbandry is an important component of modern agriculture and the dairy industry is an important symbol of the modernization of agriculture. Since 2006, State Council of the PRC (中華人民共和國國務院) (the “State Council”), the Ministry of Agriculture of the PRC (中華人民共和國農業部) and the NDRC have promulgated a series of policies aiming at promoting the development of modern husbandry and the healthy and sustainable development of the dairy industry. These policies include the *Opinions of the State Council on Promoting the Sustainable and Healthy Development of Husbandry* (國務院關於促進畜牧業持續健康發展的意見), which was promulgated by the State Council in January

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2007, the *Opinions of the State Council on Promoting the Sustainable and Healthy Development of the Dairy Industry*, which was promulgated by the State Council in September 2007, the *Circular of the General Office of the State Council Regarding the Transmittal of the Outlines of the Restructuring and Revitalization Plan for the Dairy Industry issued by NDRC and Other Ministries* (國務院辦公廳關於轉發發展改革委等部門奶業整頓和振興規劃綱要的通知), which was issued by the General Office of the State Council in November 2008, the *Development Plan of Major Dairy Cow Farming Regions (2008-2015)* (全國奶牛優勢區域佈局規劃 (2008–2015)), which was promulgated by Ministry of Agriculture in January 2009 and the *Opinions of the Ministry of Agriculture Concerning the Acceleration of the Work of Promoting Standardized Large-Scale Raising and Breeding of Livestock and Poultry* (農業部關於加快推進畜禽標準化規模養殖的意見), which was issued by the Ministry of Agriculture in March 2010. These governmental documents call for the consolidation, improving industrialization and specialization level of the husbandry industry, acceleration of the breeding and promotion of fine breeds of livestock and poultry, increasing the milk yield of dairy cows and transformation of breeding and raising pattern of livestock and poultry; moreover, these government documents also set forth various governmental preferential policies and incentives provided to the enterprises in the husbandry and farming industry.

The specific policies and incentives stipulated in the above governmental documents include increasing the fiscal subsidy and support for the raising of dairy cows, expanding the applicable scope of fiscal subsidy for agriculture machinery and equipment to include animal husbandry equipment and milking equipment, establishing a governmental insurance system for dairy cows, supporting the construction of standardized cow raising and breeding farms and strengthening the credit support to cow raising farmers and enterprises, such as providing subsidized loans.

New or Revised Laws and Regulations Issued after the Melamine Incident in 2008 Aimed at Strengthening Regulation on Food Safety for the Dairy Industry

In 2008, China experienced a nationwide melamine incident where infant formula milk powder, liquid milk, yogurt and other dairy products sold on the market were found to be contaminated by melamine. The melamine incident led to a loss of trust by the public in most major brands of dairy products sold on the market as to their safety. The PRC Government quickly reacted to the incident by introducing a series of new laws, regulations and policies aimed at strengthening regulation on food safety of dairy products and restoring the public's confidence in the safety and quality of dairy products.

The Outlines of the Restructuring and Revitalization Plan for the Dairy Industry (奶業整頓和振興規劃綱要) (the “Outlines”)

The captioned *Outlines* calls for, among other things, (i) comprehensive inspections and rectification of problems at each stage along the chain of the dairy industry, from dairy farming, procurement of raw milk, processing and production to sales and marketing; (ii) improving and complementing relevant laws and regulations, perfecting product quality standards for dairy products, promoting the technology standardization for the production of fresh milk products, strengthening regulation of milk collection stations, promoting the implementation of the Good Manufacturing Practice for dairy products manufacturers; (iii) encouraging large-scale breeding and farming, integration of production and sale of raw milk, optimizing the location of dairy products manufacturers, promoting the standardization and improving quality control of the dairy farming industry.

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With respect to improving the level of dairy farming, the *Outlines* requires the implementation of various governmental preferential and support policies and continuously promoting large-scale and standardized farming.

According to the *Administrative Regulations of Raw Fresh Milk Production and Procurement* (生鮮乳生產收購管理辦法), which was promulgated by the Ministry of Agriculture on 7 November 2008 and became effective on the same date, dairy animal breeders, purchasers of raw fresh milk and transporters of raw fresh milk shall be responsible for the safety and quality of the raw fresh milk that is produced, purchased, transported or sold by them and are the first responsible parties for the safety and quality of the raw fresh milk handled by them. Raw fresh milk produced, purchased, stored, transported or sold shall comply with the national quality and safety standards for dairy products. No substance is permitted to be added in raw fresh milk during the processes of production, procurement, storage, transportation and marketing.

The Food Safety Law of the PRC and its Implementation Regulations

According to the *Food Safety Law of the PRC* (中華人民共和國食品安全法), which was adopted by the Standing Committee of the National People's Congress, PRC (the "NPC") on 28 February 2009 and became effective on 1 June 2009, and its implementation regulations (食品安全法實施條例), which were promulgated by the State Council on 20 July 2009 and became effective on the same date, measures and requirements have been adopted in the following aspects to improve food safety and prevent large-scale food safety incidents:

- (i) Strengthen the role of local government in the supervision and coordination of food safety regulation work. The People's governments at the county level or above shall be responsible to lead, organize and coordinate local food safety supervision and regulation operations on a centralized basis; establish an "all-inclusive" working mechanism for food-safety supervision and regulation, and continuously improve such mechanism; guide and direct the handling of food-safety accidents; implement the "accountability system" for food-safety administration and supervision, and appraise the performance of food-safety supervisory/regulatory departments.
- (ii) Strengthen food safety risk monitoring, assessment; early intervention and quick control over food safety incidents.
- (iii) Revise the standards for the use of food additives and strengthen regulation of use of food additives.

No food additive may be used in food unless it is deemed technically necessary and has been proven safe and reliable after undergoing risk assessments. The competent health department of the State Council, on the basis of the technical requirements and the results of the food safety risk assessments, is responsible for revising the permitted varieties, scope of use and dosage standards of food additives in a timely manner. A food producer may only use food additives in accordance with the food safety standards, and may not, during the process of food production, use any chemical substances other than approved food additives or any other substances which may potentially cause harm to human health.

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When purchasing raw materials for producing food, food additives and food-related products, a producer shall inspect the license and relevant product compliance certification document of the supplier. If a supplier is unable to provide a compliance certification document, the producers are required to carry out an inspection of the raw materials in accordance with the relevant food safety standards. No raw material for food, food additive or food-related products may be purchased or used unless it complies with the relevant food safety standards. A food production enterprise must establish an inspection record system for the purchase of raw materials for producing food, food additives and food-related products which records information such as their names, specifications and quantities, the names and contact information of the suppliers and the date of purchase. Such inspection record must be true and must be retained for at least two years.

- (iv) establish a food recall system. The State shall establish a recall system for food products. Where food producers find food products they produce fail to meet the food safety standards, they should immediately suspend the production of such food products, recall affected food products that have already been released into the market, notify the relevant food producers, business operators and consumers, and record the recall and notification details properly.
- (v) abolish food safety inspection exemption system.
- (vi) clarify the fundamental principles in formulating food safety standards. Food safety standards shall be formulated for the purpose of safeguarding public health. Food safety standards are compulsory standards.

Laws and Regulations Relating to the Large-Scale Animal Raising and Breeding Industry

Recordal requirement with administrative department for animal husbandry and veterinary medicine

The *Husbandry Law of the PRC* (中華人民共和國畜牧法) (the “Husbandry Law”), which was promulgated by the Standing Committee of the NPC on 29 December 2005 and became effective on 1 July 2006, stipulates the following conditions a livestock or poultry breeding farm has to meet:

- to have production premises and supporting facilities commensurate with its scale of breeding; to have animal husbandry and veterinary technicians in its service;
- to possess the conditions for epidemic prevention, as provided for by laws and administrative regulations and prescribed by the administrative department for animal husbandry and veterinary medicine under the State Council;
- to have such facilities as methane-generating pits for comprehensive use of, or other facilities for innocuous treatment of, the feces of livestock and poultry, waste water and other solid wastes; and
- to meet other conditions provided for by laws and administrative regulations.

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The owner of a breeding farm shall submit the name of the farm, address, strains of livestock and poultry as well as scale of breeding for recording with the administrative department for animal husbandry and veterinary medicine under the people's government at the county level where the farm is located, and obtain labels and codes for the livestock and poultry. The *Husbandry Law* further provides that a livestock or poultry breeding farm shall keep files on breeding.

License for production and operation of breeding livestock and poultry

According to the *Husbandry Law* (畜牧法), which was promulgated on 29 December 2005, and became effective on 1 July 2006, and *Regulations on Administration of Breeding Livestock and Poultry* (中華人民共和國種畜禽管理條例), which was promulgated on 15 April 1994 and became effective on 1 July 1994, the entities and/or individuals engaging in the production and operations of breeding livestock and poultry or in the commercial production of new born livestock and poultry shall obtain license for production and operation of breeding livestock and poultry. Applicants applying for the license for production and operation of breeding livestock and poultry shall meet various conditions set forth in the *Husbandry Law* and *Regulations on Administration of Breeding Livestock and Poultry*. The license is issued by local animal husbandry and veterinary medicine authority at or above the county level and is valid for three years.

Certificate for meeting animal epidemic prevention conditions

The *Law on Animal Epidemic Prevention of the PRC* (中華人民共和國動物防疫法), which was amended and adopted by the Standing Committee of the NPC on 30 August 2007 and became effective on 1 January 2008, provides that animal farming operators shall meet the following conditions for prevention of animal epidemics:

- to be located at certain distance from public places, such as residential areas, sources of drinking water, schools and hospitals as prescribed by the administrative department for veterinary medicine under the State Council;
- The enclosure and isolation of the production area and the engineering design and technological process shall meet the requirements for animal epidemic prevention;
- to have necessary facilities and equipment for innocuous treatment and for cleaning and decontamination of waste water, waste materials, animals that die of diseases, and infected animal products;
- to have technicians for animal epidemic prevention;
- to have a sound system for animal epidemic prevention; and
- other conditions for animal epidemic prevention as laid down by the administrative department for veterinary medicine under the State Council.

An operator of animal breeding farm is required to apply to the administrative departments for veterinary medicine under the people's government at or above the country level for a certificate for meeting animal epidemic prevention conditions.

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Animal epidemic prevention constitutions shall monitor the arising and spreading of animal epidemic; any entities and individuals engaged in animal raising, slaughtering, isolation, transportation or operation shall report to the local administrative departments for veterinary medicine, animal health supervision institutions or animal epidemic prevention and control institutions immediately once they find the animals have got epidemics or suspect epidemics, and shall take measures to prevent the spread of such epidemics. According to the *National Management Standard of Animal Epidemic Monitoring and Reporting System (on trial)* (國家動物疫情測報體系管理規範(試行)) issued by the Ministry of Agriculture of the PRC on 10 June 2002, outbreak of certain classified diseases in large-scale of livestock rising farms shall be under regular monitoring and all the animal epidemic monitoring information is required to report to the Livestock Husbandry and Veterinary Bureau of Ministry of Agriculture (農業部畜牧獸醫局) within the prescribed time limit.

Compensation required to be paid for eradication of livestock for animal epidemic prevention purposes

Where animals are eradicated and animal products and relevant goods are destroyed through mandatory measures taken in the course of prevention, control and elimination of animal epidemics, people's governments at or above the county level shall provide compensation. The specific rates and measures for compensation shall be determined and adopted by the department of finance under the State Council together with the departments concerned. Compensation shall be made for animals that die from mandatory vaccination given in accordance with law. The specific rates and measures for compensation shall be determined and adopted by the department of finance under the State Council together with the departments concerned.

The Agricultural Products Safety Law of the PRC

The *Agricultural Products Safety Law of the PRC* (中華人民共和國農產品品質安全法), which was promulgated by the State Council on 29 April 2006 and became effective on 1 November 2006, governs the supervision and administration of the quality and safety of primary agricultural products, namely plants, animals, micro-organisms and other products obtained in the course of agricultural activities.

The *Agricultural Products Safety Law* regulates the agricultural products in the following aspects to ensure that they meet the requirements necessary to protect people's health and safety, including: (a) the quality and safety standards of agricultural products; (b) the production places of agricultural products; (c) the production of agricultural products; and (d) the packaging and labeling of agricultural products.

According to the *Agricultural Products Safety Law*, producers of agricultural products shall reasonably use chemical products in order to avoid contaminating production places of agricultural products. The agricultural producers shall also ensure that the preservatives, additives and other chemicals used in the process of production, packaging, preservation, storage and transportation of agricultural products shall be in conformity with the relevant compulsory technical specifications set by the State, otherwise, the agricultural products shall not be allowed to be sold on the market.

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Quality Safety of Dairy Products

According to the *Regulation on the Supervision and Administration of the Quality Safety of Dairy Products* (乳品質量安全監督管理條例), which was promulgated by the State Council and became effective on 9 October 2008, dairy animal breeders, raw milk purchasers, dairy products production enterprises and sellers are the first responsible persons who shall assume responsibility for the quality and safety of the dairy products which they produce, purchase, transport and sell. Fresh milk and dairy products must comply with the national safety standards governing the quality of dairy products, which are developed by the competent health department of the State Council and amended from time to time in accordance with the results of risk monitoring and risk assessments. The addition of non-edible chemical substances or other substances which may be harmful to human health during the production process of dairy products is prohibited.

Import restrictions to prevent BSE

The Ministry of Agriculture and the AQSIQ promulgated an announcement regarding Bovine Spongiform Encephalopathy (the “BSE,” usually called Mad Cow Disease) in 2001. According to the announcement, it is forbidden to import any dairy cows directly or indirectly from countries which had found BSE cases within its territories. The announcement also provides a list to show the countries which had found BSE till then, and any country which has found BSE from then on shall be listed into the above list automatically. All of our farms strictly comply with the import policy of the PRC and neither of them has imported any cow or heifer from such countries so far. We also conduct safety inspections over the dairy cows in our farms regularly. We believe that, due to the strict import policy of the PRC and our regular safety inspections, BSE would be under effective control and be prevented from our dairy cows, and any suspected case (if any) could be found in time.

Land used for agricultural facilities

According to the *Circular of Ministry of Land and Resources and Ministry of Agriculture on Relevant Issues Concerning the Management of Land Used for Agricultural Facilities* (國土資源部、農業部關於完善設施農用地管理有關問題的通知), which was promulgated and with effect from 30 September 2010, production facilities and ancillary facilities land directly used for agricultural production or service is different from non-agricultural construction land, and according to the *Category of the status of the Utilization of Land* (土地利用現狀分類) (GB/T 21010-2007), production facilities and ancillary facilities land shall be managed as land for agricultural use, and the land use and agricultural infrastructure construction shall be applied by the operator of animal breeding farm, reported by the People’s governments of townships (towns), and approved by the People’s governments at the county level.

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Taxation

Income tax

According to the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法) (the “New Tax Law”), which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25% effective from 1 January 2008. The *Implementation Rules To the New Tax Law* (中華人民共和國企業所得稅法實施條例) (the “Implementation Rules”) was promulgated on 6 December 2007 and with effect from 1 January 2008. The *New Tax Law* provides certain relief during the transition period that apply to enterprises that were established prior to 16 March 2007 (i) if foreign-invested enterprises enjoy reduced tax rates under the laws and regulations, the tax rate will be gradually increased to coincide with the new tax rate within five years starting from 2008; and (ii) if foreign-invested enterprises enjoy tax holidays for a fixed period under laws and regulations, such foreign-invested enterprises can continue the holiday until its expiry. However, if an enterprise has not started to enjoy the tax holiday due to a lack of profit, 2008 will be regarded as the first profit-making year and the enterprise starts to enjoy the tax holiday.

VAT

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) (the “Value-added Tax Provisions”) last amended on 5 November 2008 and with effect from 1 January 2009 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay VAT. The amount of VAT payable is calculated as “output VAT” minus “input VAT.” The rate of VAT is 17% for those engaging in the sale or importation of goods except as otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the *Value-added Tax Provisions* and is also 17% for those providing processing services, repairs and replacement services.

Preferential tax treatment

According to the *New Tax Law* and *Implementation Rules*, the incomes generated from the engagement in farming cattle and poultry and primary process of agricultural product shall be exempted from enterprise income tax. And according to the *Value-added Tax Provisions* and its implementation rules, self-produced primary agricultural products sold by agricultural producers shall be exempted from VAT.

Foreign Exchange Registration, Foreign Currency Exchange and Dividend Distribution

Foreign exchange registration

Pursuant to *Circular of the State Administration of Foreign Exchange on Foreign Exchange Issues Related to Equity Finance and Round-Trip 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), which was promulgated on 21 October 2005 and with effect from 1 November 2005, where domestic legal or natural person residents intend to directly establish or indirectly control an offshore enterprise (hereafter referred to as “SPV”) for the purpose of carrying out offshore equity financing (including convertible bond financing) with the assets or equity interests they hold in domestic enterprises, they are required to apply to the competent administration of foreign exchange for foreign

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exchange registrations of offshore investment prior to establishing or gaining control of an offshore SPV. Furthermore, when domestic legal or natural person residents inject assets or equity they owns in a domestic enterprise into an SPV, or carrying out offshore equity financing after injecting assets or equity into an SPV, they are required to make amendment registration of the offshore investment-related foreign exchange to reflect the net assets or equity they hold in the SPV, and the changes thereto. Besides, if an SPV becomes the subject of material changes in capital, such as capital increase or reduction, equity transfer or swap, merger or division, long-term equity or debt investment, provision of security to a third party, etc. and such changes do not involve reverse investment, the domestic legal or natural person residents shall apply for amendment registration of the offshore investment-related foreign exchange, or the filing with the competent administration of foreign exchange within 30 days of the date of the occurrence of such material changes.

25 ultimate beneficial owners of the Company (namely Mr. HL Zhao, Mr. HY Zhao, Meng Fanqing, Zhang Chaohui, Yang Hongwei, Sun Bo, Tang Xiaoyang, Liu Shuguang, Xia Xinyu, Zhang Dijun, Song Miao, Mo Liwei, Sun Xiaoyan, Xiong Han, Hu Yiyao, Zhao Siyuan, Xie Dehe, Sun Yulong, Meng Xiaobin, Ren Jie, Zhang Ye, Xu Qing, Yu Taifeng, Zhou Zhigang, and Ren Hong) fall under the definition of “domestic residents” under the SAFE Circular. All of them completed their registration with SAFE (Heilongjiang branch) as required under the SAFE Circular in respect of the acquisition of Ruixinda by Royal Dairy Farm on 25 December, 2012, and in respect of other equity transfers under the Reorganization and Pre-IPO Investments on 10 and 23 May, 2013. Our PRC Legal Advisers have advised that the above 25 ultimate beneficial shareholders have registered their foreign exchange registrations of overseas investments with the local SAFE branch as required under the SAFE Circular.

Foreign currency exchange

The principal regulation governing foreign currency exchange in China is the *Foreign Exchange Administration Rules of the PRC* (中華人民共和國外匯管理條例) (the “Foreign Exchange Administration Rules”). The *Foreign Exchange Administration Rules* were promulgated by the State Council on 29 January 1996 and with effect from 1 April 1996 and were amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the *Foreign Exchange Administration Rules*, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (such as board resolutions and tax certificates), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant governmental authorities (if necessary).

Dividend distribution

Before the promulgation of the *New Tax Law*, the principal regulations governing the distribution of dividends paid by wholly foreign-owned enterprises include the *Wholly Foreign-owned Enterprise Law*, the *FIE Tax Law* and their respective implementation regulations.

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 exemption provision has been revoked by the *New Tax Law* which prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. The *Implementation Rules* reduced the rate from 20% to 10%, effective from 1 January 2008.

The PRC and the government of Hong Kong SAR signed *Arrangement between the Mainland of the PRC and Hong Kong SAR 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) on 21 August 2006 (the “Arrangement”). According to the *Arrangement*, the withholding tax rate 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.

Furthermore, pursuant to the *Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements* (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), which was promulgated and with effect from 2 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reach a specified percentage; and (iii) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

In addition, according to the *Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial)* (非居民享受稅收協定待遇管理辦法(試行)) which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax treaties.

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Environmental Protection

According to the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法) (the “Environmental Protection Law”), which was promulgated and with effect from 26 December 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefore.

The Local branches of the Ministry of Environmental Protection of the PRC Government shall impose different penalties on persons or enterprises in violation of the *Environmental Protection Law* depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for cure, orders to suspend production, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities.

Prevention and control of various pollutions

Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), as revised on 28 February 2008 and with effect from 1 June 2008, *Law of the PRC on Prevention and Control of Atmospheric Pollution* (中華人民共和國大氣污染防治法), as revised on 29 April 2000, and with effect from 1 September 2000, *Law of the PRC on Prevention and Control of Environmental Noise Pollution* (中華人民共和國環境噪聲污染防治法), as revised on 29 October 1996 and with effect from 1 March 1997, as well as *Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes* (中華人民共和國固體廢物污染環境防治法), which was promulgated on 29 December 2004 and with effect from 1 April 2005, prescribe the details for the prevention and control of water pollution, atmospheric pollution, noise pollution and environmental pollution by solid waste, respectively.

Construction project environmental protection

According to *Regulations on the Administration of Construction Project Environmental Protection* (建設項目環境保護管理條例), which were promulgated and with effect from 29 November 1998, the PRC Government established a system that evaluates the environmental impact of a construction project. A construction unit should, in the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. For a construction project that necessitates no feasibility study pursuant to relevant state provisions, the construction unit should, prior to the commencement of construction of the construction project, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. Besides, the construction unit

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should, upon the completion of the construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.

Standards of collecting fees for discharge of pollutants

According to *Circular on the Standards of Collecting Fees for Discharge of Pollutants* (排污費徵收標準管理辦法), which was promulgated on 28 February 2003, and with effect from 1 July 2003, environmental protection authorities under the local people's government at or above the county level shall collect the fee for pollutant discharge according to the following matters: enterprises, institutions and individually-owned industrial and/or commercial businesses that directly discharge pollutants into a water body shall pay the fee for pollutant discharge according to the kinds and quantity of the water pollutants discharged and the standards for collecting the fee for pollutant discharge. Enterprises that pay fees to facilities for centralized treatment of urban sewage according to the kinds and quantity of the water pollutants discharged, shall not pay the fee for discharge of pollutants. Enterprises, institutions and individually-owned industrial and/or commercial businesses that discharge atmospheric pollutants shall pay the fee for pollutant discharge on the basis of the categories and quantities of the atmospheric pollutants discharged. If construction of facilities and sites for storing and treating industrial solid wastes haven't been built or haven't complied with state standards on environmental protection, Enterprises, institutions and individually-owned industrial and/or commercial businesses shall pay fees for solid wastes discharge according to the kinds and quantity of the solid wastes pollutants discharged. Enterprises, institutions and individually-owned industrial and/or commercial businesses that produce environmental noise pollution that impairs the living environment of the neighborhood shall pay fees for excessive emission of such pollution.

Labor Contracts

Pursuant to the *Labor Contract Law of the PRC* (中華人民共和國勞動合同法), which was adopted by the Standing Committee of the National People's Congress on 29 June 2007 and with effect from 1 January 2008, a written labor contract should be concluded to establish a labor relationship. In the event that no written labor contract is concluded at the time when a labor relationship is established, such written contract should be concluded within one month from the date when the employer employs the employee. Where the employer fail to conclude a written labor contract with the employee for more than one month but less than a year from the date it starts employing him, it shall pay the employee two times his salary for each month. In addition, if the employer fails to conclude a written labor contract with the employee within one year as of the date when it employs the employee, it shall be deemed to have concluded an open-ended contract with the employee.

Social Insurance and Housing Funds

According to the *Social Insurance Law of the PRC* (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and with effect from 1 July 2011, employees shall participate in basic pension insurance, basic medical insurance and unemployment insurance.

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Basic pension insurance, basic medical insurance and unemployment insurance contributions shall be paid by both employers and employees. Employees shall participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees.

Pursuant to the *Social Insurance Law of the PRC*, if an employer fails to pay work-related injury insurance contributions in accordance with law, it shall pay work-related injury insurance benefits in the case of a work-related injury accident. If the employer fails to make such payment, the benefits shall first be reimbursed by the work-related injury insurance fund. Work-related injury insurance benefits reimbursed by the work-related injury insurance fund shall be repaid by the employer. If the employer fails to make repayment, social insurance agencies may recover such benefits from the employer in accordance with the *Social Insurance Law of the PRC*.

Furthermore, as to the unemployment insurance, employers shall provide unemployed individuals with certification of the expiry or termination of their employment relations in a timely manner, and within 15 days of such expiry or termination, inform social insurance agencies of the list of the unemployed individuals. Unemployed individuals shall undertake the procedures for unemployment registration with the designated public employment service institutions in a timely manner by producing their former employer's certification of the expiry or termination of employment relations. The period for receiving unemployment insurance benefits shall be calculated from the date of unemployment registration.

An employer shall make registration with the local social insurance agency in accordance with the provisions of the *Social Insurance Law of the PRC*. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for mandatory exceptions such as force majeure, social insurance may not be paid late, reduced or be exempted. If an employer fails to report the social insurance premium payable in accordance with the relevant regulations, the social insurance agency shall provisionally set the amount payable at 110% of the premium paid in the previous month. Once the employer has retroactively undertaken the reporting procedures, the social insurance agency shall settle the amount in accordance with the relevant regulations. Where an employer fails to make social insurance contributions in full and on time, the social insurance agency may order rectification within a specified time limit. If the employer fails to rectify within the specified time limit, the social insurance agency may enquire with the relevant bank(s) and other financial institution(s) in which the employer has an account; and may apply with the relevant administrative department above the county level for an administrative order to allocate and transfer the unpaid social insurance contributions and notify the relevant bank or other financial institution in writing to allocate and transfer the unpaid social insurance contributions. Where the balance in the employer's bank account is less than the overdue social insurance contributions, the social insurance agency may request the employer to provide a guarantee and sign a social insurance payment agreement for the delayed payment. If the employer does not make the social insurance contributions within the specified time limit and fails to provide a guarantee with respect to the same, the social insurance agency may request the people's court to seize the property of the employer (equivalent in value to the unpaid overdue social insurance contributions), and collect the overdue social insurance contributions from the proceeds obtained from the auction of such property.

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Regulations on *Management of Housing Funds* (住房公積金管理條例), promulgated and with effect from 24 March 2002, are applicable to enterprises with foreign investment. Enterprises are required to pay housing funds for their employees. To the details, enterprises shall register with the relevant housing funds management center within 30 days from the date of establishment, and open housing funds accounts with designated bank on behalf of their employees within 20 days from the date of the registration with the verified documents of the housing funds management center. And when employing new employees, enterprises shall register with the housing funds management center within 30 days from the date of the employment of such employees, and open housing funds accounts for such employees at the designated bank with the verified documents of the housing funds management center. Furthermore, the housing funds to be paid and deposited by an employee shall be withheld from his/her salary by the enterprise, and the enterprise itself shall pay and deposit housing funds on schedule and in full, and may not be overdue in the payment and deposit or underpay the housing funds. The payment and deposit rate for housing funds (either for the employee or for the enterprise) shall not be less than five percent of the average monthly salary of the employee concerned in the previous year.

Production Safety

Pursuant to the *Production Safety Law of the PRC* (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, Special equipment that concerns the safety of life or is rather dangerous, the containers of hazardous substances, or transportation tools that any production and business operation entity uses must, according to the relevant provisions of the state, be manufactured by specialized production entities, and may only be put into use after it passes the detections and tests of those detecting and testing institutions that have been equipped with the professional qualifications for which a certificate for safe use or a mark of safety has been obtained. In addition, the production, business operation, transportation, storage, and use of any dangerous substances or the disposal of or abandonment of dangerous substances shall be subject to the examination and approval as well as the supervision and administration of the relevant administrative departments according to the provisions of the relevant laws and regulations, national standards, or industrial standards.

Pursuant to the *Regulations on Safety Supervision of Special Equipment* (特種設備安全監察條例), promulgated on 11 March 2003 and with effect from 1 June 2003 (amended on 24 January 2009 and with effect from 1 May 2009), “special equipment” used in the regulations refers to boilers, pressure vessels (including gas cylinders, same below), pressure pipelines, elevators, lifting appliances, passenger ropeways, and large amusement devices, which relate to safety of human lives or having high risks. As required by these regulations, prior to the putting-into-service of any special equipment or within 30 days after such putting-into-service, units using special equipment shall register with competent departments for safety supervision and administration of special equipment. The registration mark shall be placed or attached to a prominent position of the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators, lifting appliances, passenger ropeways and large amusement devices (referred to as the “operators of special equipment”) shall not engage in corresponding operation or management until they have passed the examination organized by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment with a nationally unified formula.

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LAWS AND REGULATIONS RELATING TO MERGERS AND ACQUISITIONS BY FOREIGN INVESTORS

The M&A Provisions were jointly promulgated by the MOFCOM, the State Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, the SAIC, CSRC and SAFE on 8 August 2006 and became effective on 8 September 2006 as amended on 22 June 2009. Under the M&A Provisions, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor:

- the foreign investor purchases by agreement the equity interests of a pure domestic enterprise without foreign investment (a “domestic enterprise”) or subscribes for the increased capital of a domestic enterprise, and thus converts the domestic enterprise into a foreign-invested enterprise;
- the foreign investor establishes a foreign-invested enterprise and use such foreign-invested enterprise to purchase by agreement the assets of a domestic enterprise and operates such assets; or
- the foreign investor purchases by agreement the assets of a domestic enterprise and then use such assets as capital contribution to establish a foreign-invested enterprise and operates such assets.

Security Review System for Mergers and Acquisitions of Domestic Enterprises

Pursuant to *Circular of the State Council on the establishment the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知), which was promulgated on 3 February 2011 and with effect from 2 March 2011 and *Provisions of the Ministry of Commerce on the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (商務部關於建立外國投資者併購境內企業安全審查制度的決定), which were promulgated on 25 August 2011 and with effect from 1 September 2011, foreign investors who initiate mergers and acquisitions of domestic military industrial enterprises and supportive military industrial enterprises, enterprises surrounding major and sensitive military facilities, and other entities relating to the national defense security; mergers and acquisitions of domestic enterprises relating to important agricultural products, important energies and resources, important infrastructural facilities, important transportation services, key technologies, manufacturing of major equipment, etc., which relate to the national security, and may obtain the actual controlling power of those acquired enterprises, shall apply to the Ministry of Commerce for the security review of the concerned mergers and acquisitions. Whether a foreign investor’ mergers and acquisitions of a domestic enterprise falls under the scope of mergers and acquisitions security review or not shall be determined in terms of the substance and actual influence of the mergers and acquisitions transaction. No foreign investors may substantially avoid the mergers and acquisitions security review by means including, but not limited to, holding on behalf of others, trust, multi-level reinvestment, leasing, loans, variable interest entities, or overseas transactions.