
SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

PRC REGULATIONS

Incorporation, Operation and Management of 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 promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “**Standing Committee of the NPC**”) on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. Pursuant to the Company Law, companies are classified into categories, namely limited liability companies and companies limited by shares. The Company Law shall also apply to foreign-invested limited liability companies and companies limited by shares. According to the Company Law, where laws on foreign investment have other stipulations, such other stipulations shall apply.

The establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour 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 Regulations of the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) (the “**Implementation Regulations**”), which was promulgated on 12 December 1990 and amended on 12 April 2001.

Any investments conducted by the foreign investors and foreign enterprises in the PRC shall be subject to the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (the “**Guidance Catalogue**”), the latest version of which was promulgated by the Ministry of Commerce and the National Development and Reform Commission on 24 December 2011 and came into effect since 30 January 2012. The Guidance Catalogue was divided into the Encouraged Foreign Investment Industries, the Restricted Foreign Investment Industries and the Prohibited Foreign Investment Industries. Industries which are not listed in the Guidance Catalogue shall be classified as the Permitted Foreign Investment Industries. According to the Guidance Catalogue, the core business of our PRC Subsidiaries which include production and sale of electric fireplace, creative furnishing, gardening decoration and indoor crafts fall within the permitted category for foreign investments on a wholly-owned basis.

Laws and Regulations Relating to PRC Taxation

Enterprise Income Tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (the “**FIE Income Tax Law**”) promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Income Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by laws or administrative regulations. The income tax on foreign-invested enterprises established in special economic zones, foreign enterprises which have establishments or places in special economic zones engaged in production or business operations, and on foreign invested enterprises of a production nature in economic and technological development zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

nature established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a fifty percent reduction in the following three consecutive years. For the foreign-invested enterprises which export products, after the expiry for exempting from taxation or reducing income tax in accordance with the provisions of the tax law, those enterprises with export sales value in a year of more than 70% of its total sales will enjoy a 50% deduction of the enterprise income tax.

According to the newly promulgated Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “**New Tax Law**”) promulgated on 16 March 2007 and effective on 1 January 2008 and the Implementation Rules of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) (the “**Implementation Rules**”) effective on 1 January 2008, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008. The New Tax Law and the Implementation Rules provides that 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.

Value-added Tax

All entities and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC shall pay value-added tax (VAT) in accordance with 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 “**Provisional Regulations on VAT**”) and its implementation rules. The Provisional Regulations on VAT was promulgated by the State Council of the PRC (國務院) which became effective on 1 January 1994 and amended on 5 November 2008. Pursuant to the Provisional Regulations on VAT and its implementation rules, VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% or 13% in certain limited circumstances depending on the product type.

Business Tax

According to Interim Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) which was promulgated on 13 December 1993 and amended on 10 November 2008, businesses or individuals that provide services (including entertainment businesses), transfer intangible assets or sell immovable property are liable to business tax at a rate ranging from 3% to 20%. The amount of tax payable is calculated by multiplying the turnover with the aforesaid tax rate.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange

The principal regulation governing foreign currency exchange in the PRC 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**”). It was promulgated by the State Council of the PRC on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008. Pursuant to the Foreign Exchange Administration Rules, the payment in and transfer of foreign exchange for current international transactions shall not be subject to the government control or restriction. Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments. Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of State Administration of Foreign Exchange (國家外匯管理局, SAFE) for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions.

While convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan are subject to registration with SAFE and approval or file with the relevant governmental authorities (if necessary).

Dividend Distribution

Before the promulgation of the New Tax Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-Owned Enterprise Law, the Implementation Regulation and the FIE Income Tax Law. Under Wholly Foreign-Owned Enterprise Law and the Implementation Regulation, wholly foreign owned enterprises in the PRC may only pay dividends from accumulated after-tax profit, if any, determined in accordance with the PRC accounting standards and regulations. In addition, reserve funds and bonus and welfare funds for workers and staff members shall be withdrawn in accordance with the provisions of the Chinese tax law. The proportion of reverse funds to be withdrawn shall not be lower than 10% of the total amount of profits after payment of tax; the withdrawal of reserve funds may be stopped when the total cumulative reserve has reached 50% of the registered capital. The proportion of bonus and welfare funds for workers and staff members to be withdrawn shall be determined by wholly foreign-owned enterprises of its own accord. These reserves are not distributable as cash dividends. Pursuant to FIE Income Tax Law, dividends paid to its foreign investors are exempt from income tax.

After the New Tax Law was promulgated, non-resident enterprises, which have not set up institutions or establishments in the PRC or institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments, shall pay enterprise income tax in relation to the income originating from China at the tax rate of 20%. However, the Implementation Rules reduced the rate from 20% to 10%. Pursuant to Notice on some Preferential Policies on Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) promulgated by the Ministry of Finance and the State Administration of Taxation on 22 February 2008, accumulative undistributed profits of foreign invested enterprises, generated before 1 January 2008 and distributed to foreign investors after year 2008, shall be exempt from enterprise income tax.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The PRC and the government of Hong Kong signed Arrangement between the Mainland of the PRC and Hong Kong 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稅避免雙重徵稅和防止偷漏稅的安排) (the “**Arrangement**”) on 21 August 2006. According to the Arrangement, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The Notice on Issues relating to the Administration of the Dividend Provision in Tax Treaties (關於執行稅收協定股息條款有關問題的通知) (the “**Notice 81**”) was promulgated on 20 February 2009 by the State Administration of Taxation. The Notice 81 reaffirms the qualification for dividend recipient to enjoy tax preferential of being levied at 5% rate as following: (1) the recipient of the dividend must be a corporation; (2) the recipient’s ownership in the Chinese company must meet the prescribed direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; (3) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential.

Overseas Investment by Domestic Residents

According to the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicles (the “**SPV**”) (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) (the “**Circular No.75**”), which was issued by SAFE on 21 October 2005, and effective on 1 November 2005:

- domestic residents who plan to establish or control an overseas SPV must conduct foreign exchange registration with the local foreign exchange authority;
- domestic residents who have contributed their assets or shares of a domestic enterprise into an overseas SPV, or have raised funds overseas after such contribution, must conduct foreign exchange registration for the modification of the record concerning the overseas SPV with the local foreign exchange authority; and
- domestic residents who are the shareholder of an overseas SPV are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no round-trip investment is involved.

On 19 November 2012, the SAFE issued the Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investment (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) (the “**Circular No.59**”), with effect from 17 December 2012. Circular No.59 further clarifies issues concerning the implementation and application of Circular No.75 and simplifies the operational procedures for Circular No.75.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular No.75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject the relevant domestic resident to penalties under PRC foreign exchange administration regulations.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Product Quality

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (中華人民共和國產品質量法) (the “**Product Quality Law**”), which was promulgated on 22 February 1993, became effective on 1 September 1993 and amended on 8 July 2000. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law. Business in production and sale of our PRC subsidiary should comply with the Product Quality Law and they shall be liable to product quality.

According to Regulations of the People’s Republic of China on Certification and Accreditation (中華人民共和國認證認可條例), which was promulgated by the State Council on 3 September 2003 and became effective on 1 November 2003, the State will promote certification on products, services and management systems conforming to the requirements of the economic and social development; and the term “certification” as mentioned refers to the assessment activities carried out by the certification bodies to testify whether the products, services, and management systems are in conformity with the relevant technical norms and their compulsive requirements or standards, and the term “accreditation” as mentioned refers to the assessment activities carried out by the accreditation bodies to recognise the capabilities and qualifications of the certification bodies, inspection organisations and laboratories, and practising personnel engaging in such certification activities as appraisal and examination, etc.

According to Administrative Regulations for Compulsory Product Certification (強制性產品認證管理規定), which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine on 3 July 2009 and became effective on 1 September 2009, compulsory product certification means that, products specified by the State may not be delivered, sold, imported or used in other business activities until they are certified, and labelled with certification mark. For products that are subject to compulsory product certification, the State implements unified product catalogues, unified compulsory requirements, standards and compliance assessment procedures in technical specification, unified certification marks and unified charging standards. Producers or sellers or importers of products included in the catalogues shall entrust certification bodies designated by the Certification and Accreditation Administration to certify the products produced, sold or imported thereby.

Consumer Protection

The rights and interests of consumers in purchasing and using commodities or receiving services for daily consumption, or business activities of business operators in their supply of commodities produced and sold by them or services to consumers are governed by the Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) (the “**Consumer Protection Law**”), which was promulgated on 31 October 1993 and became effective on 1 January 1994.

According to the Consumer Protection Law, consumers whose legitimate rights and interests are infringed upon in their purchasing or using commodities may demand compensation from the sellers concerned. In case the liability is on the manufacturers or other sellers who supply the commodities to the said sellers, the said sellers shall have the right to recover the compensations from the manufacturers or the other sellers after paying the compensation. Consumers or other victims suffering personal injuries or property damage resulting from defects of commodities may demand compensations either from the sellers or from the manufacturers. If the liability is on the manufacturers, the sellers shall have the right

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

to recover the compensations from the manufacturers after paying the compensations; if the liability is on the sellers, the manufacturers shall have the right to recover the compensations from the sellers after paying the compensations. As producers and sellers, our PRC subsidiary shall be liable to consumers for their products in accordance with the Consumer Protection Law.

According to the Tort Law of the PRC (中華人民共和國侵權責任法) (the “**Tort Law**”) which was promulgated by the Standing Committee of the NPC on 26 December 2009 and became effective since 1 July 2010, manufacturers shall be responsible to compensate the damages of the person or property caused by the defect of products. Sellers shall be responsible for compensation if the damages of the property or person are caused by defects resulting from the fault of sellers. If the seller is unable to name the producer or supplier of the defective product, the seller shall bear tort liability. The injured person may demand indemnification from the producer of the product or from the seller of the product. If the defect in the product was caused by the producer, the seller shall have the right, after paying indemnification, to recover the same from the producer. If the defect in the product is caused by the fault of the seller, the producer shall have the right, after paying indemnification, to recover the same from the seller.

Environmental Protection

Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”) was promulgated and became effective on 26 December 1989. Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) (the “**Administration Regulations**”) was promulgated and became effective on 29 November 1998. According to the Environmental Protection Law and the Administration Regulations:

- (a) any entity that might cause environmental pollution and harm public health shall establish environmental protection rules and adopt effective measures to prevent and control the pollution and harm to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces during the process of production and other activities;
- (b) any entity that discharges pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council. A statement on environmental impact should be compiled for a construction project that may cause light impact on the environment, giving analysis or special-purpose evaluation of the pollution generated and environmental impact caused by the construction project; and a registration form should be filled out and submitted for a construction project that has slight impact on the environment and necessitates no environmental impact evaluation; and
- (c) any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee for excessive discharge according to state provisions and shall assume responsibility for eliminating and controlling the pollution.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The competent department of environmental protection administration under the State Council shall conduct unified supervision and management of the environmental protection work throughout the country and establish the national standards for the discharge of pollutants. The competent departments of environmental protection administration of the local people's governments at or above the county level shall conduct unified supervision and management of the environmental protection work within areas under their jurisdiction. Different penalties shall be imposed against persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include fines, the suspension of operations or shut-down or orders to close down or criminal responsibility.

Our operations are also subject to Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the PRC on the Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法) and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. Business operations of our PRC subsidiary should comply with laws and regulations concerning the environment protection, such as the Environmental Protection Law and the Administration Regulations, and environmental impact assessment should be done and approval shall be obtained before the project was constructed. Operations of companies shall also be under the supervisor of the environment protection bureau.

Construction Procedures

According to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法) (the “Urban and Rural Law”) which was promulgated by the Standing Committee of the NPC on 28 October 2007 and came into effect on 1 January 2008, where a construction entity without the land use permit is approved to use land, the people's government at or above the county level shall cancel the approval document; if any land has been occupied, such land shall be returned promptly; and if any damage has been caused to a party concerned, compensation shall be made according to law. If a construction project is proceed without obtaining the planning permit on construction project or by violating the provisions of the planning permit on construction project, the competent department of the urban and rural planning of the local people's government at or above the county level shall order it to stop the construction. If it is still possible for the construction entity or individual to take measures to eliminate the impact on the implementation of urban and rural planning, the department shall order it or him to correct within a certain time limit and impose a fine of not less than 5% the construction cost but not more than 10% the cost; if it is impossible to take measures to eliminate the impact, the department shall order the construction entity or individual to dismantle the building or structure within a certain time limit and confiscate the real objects or the illegal gain, and may also impose a fine not more than 10% the construction cost.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

According to the Construction Law of the PRC (中華人民共和國建築法) (the “**Construction Law**”) which was promulgated on 1 November 1997 and amended by the Standing Committee of the NPC on 22 April 2011, before the start of construction projects, construction units shall apply to the competent construction administrative departments for construction licences. Construction enterprises, which act in violation of above mentioned stipulations of the Construction Law to start construction operation without construction permit or at the time when the application for construction operation has not yet been approved, shall be ordered to correct themselves. Construction enterprises of which construction projects cannot meet the requirement for starting operation shall be ordered to stop construction operation and may be imposed fine penalties.

Provisions for Import and Export Goods

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) which was promulgated by the Standing Committee of the NPC on 12 May 1994 and amended on 6 April 2004, and Measures for the Archival Filing and Registration of Foreign Trade Business Operators (對外貿易經營者備案登記辦法) which was promulgated by the Ministry of Commerce on 25 June 2004 and became effective on 1 July 2004, the PRC adopted a filing and registration system for foreign trade operators engaged in imports and exports of goods, implemented by the Foreign Trade authority under the State Council or its entrusted agencies. Foreign trade operators that have not filed for registration in accordance with the provisions will be declined by the Customs to carry out the customs clearance and inspection procedures for import and export of goods.

Pursuant to the Customs Law of the PRC (中華人民共和國海關法) promulgated by the Standing Committee of the NPC on 22 January 1987 and amended on 8 July 2000 and related regulations, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the law. Principal regulations on the inspection of import and export commodities are set out in the Law of the People’s Republic of China on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) promulgated by the Standing Committee of the NPC on 21 February 1989 and amended on 28 April 2002 and its implementation rules. According to the aforesaid relevant laws and regulations, the import and export commodities that are subject to compulsory inspection listed in the catalogue compiled by the State administration shall be inspected by the commodity inspection authorities, and the import and export commodities that are not subject to statutory inspection shall be subject to random inspection. Consignees and consignors themselves or its entrusted agent may apply for inspection to the commodity inspection authorities.

Labour and Safety

According to the PRC Labour Law (中華人民共和國勞動法) promulgated on 5 July 1994 and became effective on 1 January 1995, workers are entitled to fair employment, choice of occupation, labour remuneration, leave, a safe workplace, a sanitation system, social insurance and welfare and certain other rights. The working time for workers may not exceed eight hours a day and no more than 44 hours a week on average. Employers shall establish and improve their work safety and sanitation system, educate employees on safety and sanitation and provide employees with a working environment that meets the national work safety and sanitation standards.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The PRC Labour Contract Law (中華人民共和國勞動合同法) was promulgated on 29 June 2007 and amended on 28 December 2012, and its implementation regulations were implemented on 18 September 2008. According to the Labour Contract Law, labour contracts must be executed in writing to establish labour relationships between employers and employees. Employees who fulfil certain criteria, including having worked for the same employer for 10 years or more, may demand that the employer execute a permanent labour contract. Wages paid by employers may not be lower than the local minimum wage. Both employers and employees must perform their respective obligations stipulated in the labour contracts. Where workers are provided by a staffing company, the staffing company is the employer and performs the legal obligations of an employer toward the dispatched workers, including, among others, entering into a labour contract with a fixed term of more than two years with the workers and paying remuneration for their labour. The staffing company must conclude a labour dispatch agreement with the entities that receive labour services. In the event of a violation of any legal provisions of the Labour Contract Law, administrative penalties may be imposed on employers by the competent PRC government authority in charge of labour administration, including warnings, rectification orders, fines, orders for payment of wages and compensation to employees, revocation of business licences and other penalties. An entity receiving workers from a staffing company may be held jointly and severally liable together with the staffing company in case harm is done to workers as a result of the staffing company's violation of the Labour Contract Law.

The PRC Employment Promotion Law (中華人民共和國就業促進法), which became effective on 1 January 2008, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

Pursuant to the PRC Social Insurance Law (中華人民共和國社會保險法) promulgated on 28 October 2010, which became effective on 1 July 2011, employers in the PRC must register with the relevant social insurance authority and make contributions to the pension insurance fund, basic medical insurance fund, unemployment insurance fund, maternity insurance fund and work-related injury insurance fund. Pursuant to the PRC Social Insurance Law, pension insurance, basic medical insurance and unemployment insurance contributions must be paid by both employers and employees, while work-related injury insurance and maternity insurance contributions must be paid solely by employers. An employer must declare and make social insurance contributions in full and on time. The social insurance contributions payable by employees must be withheld and paid by employers on behalf of the employees. Employers who fail to register with the social insurance authority may be ordered to rectify the failure within a specific time period. If the employer fails to rectify the failure to register within a specified time period, a fine of one to three times the actual premium may be imposed. If the employer fails to make social insurance contributions on time and in full, the social insurance collecting agency shall order the employer to make up the shortfall within the prescribed time period and impose a late payment fee amounting to 0.05% of the unpaid amount for each day overdue. If the non-compliance continues, the employer may be subject to a fine ranging from one to three times the unpaid amount owed to the relevant administrative agency.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Pursuant to the Regulations on the Administration of Housing Accumulation Fund (住房公積金管理條例) effective on 3 April 1999, as amended on 24 March 2002, a unit (including a foreign investment enterprise) shall undertake the registration with the administrative centre of housing provident funds and pay the funds for their staff. If an employer, in violation of the aforesaid regulations, fails to undertake registration or to open the housing provident funds account for its employees, the administrative centre of housing provident funds will impose an order for completion within prescribed time limit, if such employer further fails to process within the aforesaid time limit, a fine ranging from RMB10,000 to RMB50,000 will be imposed. On the other hand, if a unit, in violation of the aforesaid regulations, fails to pay or to fully pay the housing provident funds, the administrative centre of housing provident funds will impose an order for payment within a prescribed time limit if such unit further fails to make payment within the aforesaid time limit, the centre shall have the right to apply for compulsory enforcement in court.

We are also subject to safety laws and regulations in the PRC including the PRC Production Safety Law (中華人民共和國安全生產法) (the “**PRC Production Safety Law**”). The PRC Production Safety Law requires us to maintain safe production conditions as provided in it and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities. We are required to offer education and training programmes to our employees regarding production safety. In order to comply with applicable national or industrial standards, the design, manufacture, installation, use, checking and maintenance of our safety equipment is required. In addition, we are required to provide our employees with labour protection equipments that meet the national or industrial standards and to supervise and educate them to wear or use such equipments according to the prescribed rules.

Intellectual Property

The products in the PRC shall be subject to intellectual property laws, which mainly include the Copyright Law of the PRC (中華人民共和國著作權法), the Patent Law of the PRC (中華人民共和國專利法) (the “**Patent Law**”) and the Trademark Law of the PRC (中華人民共和國商標法) (the “**Trademark Law**”). China is also a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, Madrid Agreement on the International Registration of Marks and Madrid Protocol, Patent Cooperation Treaty, Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

According to the Trademark Law, which was promulgated by the Standing Committee of the NPC on 23 August 1982 and amended on 22 February 1993 and 27 October 2001, the following acts shall be regarded as an infringement upon the right to exclusive use of a registered trademark: (i) 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 that trademark; (ii) selling commodities that infringe the right to exclusive use of a registered trademark; (iii) forging, manufacturing without authorisation the marks of a registered trademark of others, or selling commodities with forged trademarks or manufactured with registered trademarks without authorisation; (iv) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and (v) causing other damages to the right to exclusive use of a registered trademark of another person.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

According to the Patent Law promulgated on 12 March 1984 and became effective on 1 April 1985 and was amended on 4 September 1992, 25 August 2000 and 27 December 2008 and which became effective on 1 October 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for 20 years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the “first to file” principle, which means when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China.

According to the Patent Law of the PRC, the patent owner shall pay amount fees commencing from the year when the patent right is granted. If the annual fee is not paid as specified, the patent right shall be terminated before the expiration of duration.

Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system. Although patent rights are national rights, the Patent Cooperation Treaty to which China is a signatory, allows applicants in one country to seek patent protection for an invention that may simultaneously exist in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

U.S. LAWS AND REGULATIONS RELATING TO THE GROUP’S BUSINESS

Product Liability

With respect to product liability, products sold in the U.S. are generally subject to both statutory and common law liability.

Common law claims are generally made under three categories: (i) negligence claims; (ii) strict liability claims; and (iii) breach of warranty claims. Negligence claims are based on the notion that a product supplier has a duty of care to ensure the safety of its products but breaches that duty. Strict liabilities claims are related to the notion that certain products are inherently dangerous and their suppliers should be liable for an injury caused by a defective product without regard to duty or fault. Breach of warranty claims, to the extent not disclaimed, would be based upon goods not being as should be expected at the time the sale occurs, whether or not the defect is apparent. Statutory claims would likely come in the form of claims brought under relevant consumer protection laws.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Quality and safety standards

CPSC

The Consumer Product Safety Act (“**CPSA**”) defines a “consumer product” as any article or component part (except certain products subject to other federal regulations, including products regulated by the U.S. Food and Drug Administration (“**FDA**”)), produced or distributed (i) for sale to a consumer for use, or (ii) for the personal use, consumption or enjoyment of a consumer, in or around home, school or recreation area.

The U.S. Consumer Product Safety Commission (“**CPSC**”) has jurisdiction over the safety of “consumer products” under the CPSA and the safety and labelling of “hazardous substances” under the Federal Hazardous Substances Act (“**FHSA**”). Products regulated by the FDA are specifically excluded from CPSC jurisdiction under these two statutes. However, under the Poison Prevention Packaging Act (“**PPPA**”), the CPSC has jurisdiction over the safety of packaging of all household substances. In 2008, the Consumer Product Safety Improvement Act (“**CPSIA**”) was enacted. It increased the CPSC’s budget, introduced new product testing and documentation requirements and established new acceptable levels for certain substances, including lead. The CPSIA also contains provisions intended to protect whistle-blowers who report violations of consumer product safety laws. It also increased penalties for consumer production safety violations.

The CPSA requires manufacturers, importers, distributors and retailer to submit reports to the CPSC when products they manufacture, import, distribute or sell pose an unreasonable risk to consumer safety, contains a defect that would create a substantial hazard, or fails to comply with applicable regulations. The CPSIA requires that manufacturers, including importers and labellers of products, certify that their products comply with all applicable CPSA consumer product safety rules, standards, regulations and prohibitions under any laws administered by the CPSC by issuing a certificate to accompany the product. The CPSC may seek an injunction against the distribution of any product that it deems to be an “imminent hazard”, seek corrective action (including voluntary or mandatory recalls) with regard to any product that it deems to present a “substantial hazard” and impose civil or criminal penalties for violations of the statute.

CPSC addresses product hazard and promote safety by providing technical support for voluntary standards activities for a wide range of consumer products. The 1981 amendments to the CPSA require CPSC to rely on a voluntary standard if CPSC determines that the voluntary standard adequately addresses the hazard and there is likely to be substantial compliance with the voluntary standard. Compliance with voluntary standards is not required by law and voluntary standards do not have the force of law. However, non-compliance with voluntary standards can inform a determination of a substantial product hazard by the CPSC that in turn can lead to CPSC enforcement actions. CPSC may exercise its expanded authority to place a product on the substantial products hazards list.

Electric fireplaces and electric heaters sold in the U.S. may be submitted for testing by independent safety organisations such as UL and Intertek ETL. These bodies test a range of consumer products, including electric fireplaces, to ensure that they are safe for public use. Electric fireplaces and electric heaters may be submitted for testing by these independent safety organisations to ensure compliance with the requirements of the “Standard(s) for Moveable and Wall- or Ceiling-Hung Electric Room Heaters” set forth under UL1278.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Under the FHSA, the CPSC regulates the safety warnings for “hazardous substances”. A hazardous substance is defined as any substances or mixtures of substances that (1) is toxic; (2) is corrosive; (3) is an irritant; (4) is a strong sensitizer; (5) is flammable or combustible; or (6) generates pressure through decomposition, heat or other means. The FHSA specifically excludes from this definition products regulated by the FDA. Under the FHSA, the CPSC has the authority to deem products banned or misbranded hazardous substances under certain circumstances and to seek civil and criminal penalties for the unlawful distribution of such products.

The PPPA authorises the CPSC to develop “special packaging” requirements (child-resistant packaging) for household substances. The CPSC may require special packaging for a product if such packaging is (1) necessary to protect children from serious personal injury or illness and (2) technically feasible, practicable and appropriate. Violations of the PPPA may render the product a misbranded hazardous substance under the FHSA and subject the violator to penalties under that statute.

THE EU REGULATORY FRAMEWORKS FOR PRODUCT LIABILITY/SAFETY AND CONSUMER PROTECTION

Background

In the European Union (“EU”), the regulatory frameworks relating to product liability and safety, and consumer protection comprise a complex body of directives. The directives seek to harmonise the law within these areas in the EU and must be transposed by each Member State through the adoption of national implementing legislation.

Most importantly, enforcement of the rules is the exclusive competence of national authorities in the various EU Member States. Thus, whilst the directives set out minimum common standards of product liability and consumer protection in the EU, the enforcement of their rules may (and, indeed, does) vary throughout the EU. Therefore, national laws and other measures which implement these directives should be researched separately to obtain a complete picture of the recourse avenues that are available to consumers in each EU Member State.

Product liability/safety directives

Product Liability Directive (1985/374/EEC) (“PLD”)

- (a) The PLD provides that a producer is liable for damage caused by a defect in his product. A ‘producer’ is defined as being:
 - (i) the producer of the product;
 - (ii) any person who, by putting his name on the product or using a trade mark or other distinguishing mark in relation to the product, has held himself out to be the producer of the product; or
 - (iii) any person who has imported the product into the EU.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- (b) A product will be treated as defective where it does not provide the safety that a person is entitled to expect, taking all the circumstances into account.
- (c) Where there is more than one producer, each may be jointly and severally liable.
- (d) Although liability under the directive is strict, there are several defences available to a producer:
 - (i) that the producer/distributor/own brander did not supply the product;
 - (ii) the state of scientific and technical knowledge at the time he supplied the product was not such that a producer might be expected to have discovered the defect;
 - (iii) the defect was caused by complying with the law;
 - (iv) the defect was not in the product at the time it was supplied;
 - (v) the product was not supplied in the course for business; and
 - (vi) in relation to components, the defect was due to the design of the finished product, or to perfect the exact specifications, given to the component manufacturer by the producer of the finished product.
- (e) 'Damage' in the context of the directive is limited to personal injury or damage to property and claims must be brought within three years from the date on which the consumer becomes aware, or should reasonably become aware, of the damage, the defect and the identity of the producer.

General Product Safety Directive (2001/95/EC) (the "GPSD").

- (a) The key duties under the GPSD are:
 - (i) for producers:
 - (A) to place only safe products on the market; and
 - (B) to provide consumers with appropriate information (for example, to enable them to assess the risks inherent in a product and to take precautions against those risks, monitor the safety of products placed on the market and, if necessary take appropriate action to avoid safety problems);

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

- (ii) for distributors:
 - (A) not to supply products which they know or ought to know are not safe; and
 - (B) to monitor product safety, pass on information on product risks and co-operate in this regard with others.
- (iii) for producers and distributors:
 - (A) where they know or ought to know that it has placed on the market or distributed an unsafe product, a duty to immediately advise the competent national authority; and
 - (B) a duty to cooperate with the competent authorities on action taken to avoid the risks posed by products which they have supplied or distributed.
- (b) A 'producer' is defined widely under the GPSD as meaning:
 - (i) the manufacturer of the product, when he is established in the EU, and any other person presenting himself as the manufacturer by affixing to the product his name, trade mark or other distinctive mark, or the person who reconditions the product;
 - (ii) the manufacturer's representative, when the manufacturer is not established in the Community or, if there is no representative established in the EU, the importer of the product; or
 - (iii) other professionals in the supply chain, insofar as their activities may affect the safety properties of a product.
- (c) A 'distributor' is defined as meaning any professional in the supply chain whose activity does not affect the safety properties of a product.
- (d) The term 'safe product' is defined as meaning any product which, under normal or reasonably foreseeable conditions of use, presents either:
 - (i) no risk; or
 - (ii) only the minimum risks compatible with the product's use, considered to be acceptable and consistent with a high level of protection for the safety and health of persons.
- (e) A product is deemed to be a safe product where (in the absence of any specific EU legislation) it conforms to the specific rules of the member state in whose territory the product is marketed.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Sector Specific Directives

- (a) Apart from the general effect of the PLD and the GPSD, there are directives which concern the safety of specific types of products, such as toys, medical devices and gas appliances.
- (b) In particular, the Low Voltage Directive (LVD) (2006/95/EC) requires, inter alia, that:
 - (i) member states take all appropriate measures to ensure that electrical equipment within certain voltage limits (between 50 and 1,000 V for alternating current and between 75 and 1,500 V for direct current) may be placed on the market only if, having been constructed in accordance with good engineering practice in safety matters in force in the EU, it does not endanger the safety of persons, domestic animals or property; and
 - (ii) before being placed on the market, the electrical equipment must have affixed to it the ‘CE’ marking to certify its conformity to the provisions of the LVD.

Consumer Protection Directives

Unfair Commercial Practices Directive (2005/29/EC) (the “UCPD”)

- (a) The UCPD seeks to harmonise all fair trading laws in all EU member states and does this by establishing a single regulatory framework to govern unfair commercial practices.
- (b) The directive prohibits generally unfair commercial practices – i.e. those which:
 - (i) do not comply with the standard of special skill and care that a trader may reasonably be expected to exercise towards consumers, commensurate with honest market practice and/or the general principle of good faith in the trader’s field of activity; and
 - (ii) distort or are likely to materially distort the economic behavior with regard to the product of the average consumer whom it reaches or to whom it is addressed, or of the average member of the group when a commercial practice is directed to a particular group of consumers.

This prohibition is particularly intended to prevent the exploitation of vulnerable consumers (e.g. children, the elderly or the mentally or physically infirm).

- (c) Specifically, the directive also includes, inter alia, measures to address:
 - (i) misleading actions or omissions by a trader;
 - (ii) aggressive commercial practices; and
 - (iii) the use of harassment, coercion and undue influence.

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Miscellaneous Other Consumer Protection Directives

Apart from the Unfair Commercial Practices Directive, other consumer protection directives include:

- (a) Misleading and Comparative Advertising Directive (2006/114/EC) which regulates the advertisement of goods or services either expressly or impliedly by reference to those offered by a competitor;
- (b) Privacy and Electronic Communications Directive (2002/58/EC) which regulates the processing of personal data relating to the delivery of communications services;
- (c) E-Commerce Directive (2000/31/EC) which sets up an internal market framework for electronic commerce by removing obstacles to cross-border online services in the EU internal market and enhancing competitiveness of European service providers;
- (d) Unfair Terms in Consumer Contracts Directive (93/13/EEC) which applies to standard form contracts and introduces a notion of “good faith” to redress any significant imbalances in the rights and obligations between consumers and sellers (plus a list of examples of terms that may be regarded as unfair);
- (e) Distance Selling and E-Commerce Directive (97/7/EC) which seeks to put the purchase of goods or services through means of distance communication (e.g. catalogue sales, teleshopping and e-commerce) on a similar footing to the purchase of goods or services in shops; and
- (f) Sale of Consumer Goods and Guarantees Directive (1999/44/EC) which aims to harmonise consumer sale contract law concerning guarantees.

Civil liability

In addition to regulatory liability, there may also be civil claims in both contract (for breach of an implied term of the sale contract for not supplying a product is not of adequate quality) and tort (such as negligence for personal injury or property damage) in respect of product liability/safety and consumer protection.