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## REGULATORY OVERVIEW

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### OVERVIEW OF PRC REGULATIONS

Our operating subsidiaries in the PRC are mainly engaged in the fabrication of plastic injection molds and the manufacturing of plastic components. A summary of the important provisions of the relevant PRC laws and regulations governing enterprises engaging in the production of plastic injection molds and plastic components is set out below:

#### **Incorporation, Operation and Management of WFOE**

The incorporation, operation and management of a company in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”) which was promulgated 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, with the latest amendments taking on 1 January 2006. The PRC Company Law generally governs two types of companies – limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed. The PRC Company Law also governs foreign-invested limited liability companies. According to the PRC Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The (i) PRC Law on Wholly Foreign Owned Enterprises (《中華人民共和國外資企業法》) which was promulgated on 12 April 1986 and was amended on 31 October 2000 and (ii) the Implementation Rules of the PRC Law on Wholly Foreign Owned Enterprises (《中華人民共和國外資企業法實施細則》) promulgated by the State Council on 12 December 1990 and amended on 12 April 2001 govern the establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, employment and all other relevant matters of WFOE.

Any investments conducted by the foreign investors and foreign enterprises in the PRC is subject to the Guidance Catalogue of Industries for the Foreign Investment (《外商投資產業指導目錄》) (the “**Guidance Catalogue**”), the latest version of which was promulgated by the MOFCOM and the National Development and Reform Commission (商務部及國家發展和改革委員會) on 24 December 2011 and came into effect on 30 January 2012. The Guidance Catalogue contains specific provisions guiding market access of foreign capital, with respect to categorising industries into encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign-invested industries. Foreign investment is permitted for industries not listed in the Guidance Catalogue unless specifically allowed in other PRC regulations.

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### Product Quality and Consumer Rights

Products made in the PRC are subject to 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 and amended on 8 July 2000. According to the Product Quality Law, a manufacturer of a product is responsible to compensate for the damages to any person or property caused by the defect of such a product, unless the manufacturer is able to prove that: (i) it has not circulated the product; (ii) the defect did not exist at the time when the product was circulated; or (iii) the state of scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered.

The PRC Law on Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) (the “**Consumers Protection Law**”) was promulgated on 31 October 1993 and became effective on 1 January 1994. According to the Consumers Protection Law, unless otherwise provided by this law, a business that provides products or services shall, in any of the following circumstances, bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations: (i) where a defect exists in a product; (ii) where a commodity does not possess functions it is supposed to possess, and it is not declared when the product is sold; (iii) where the product standards indicated on a product or on the package of such product are not met; (iv) where the quality condition indicated by way of product description or physical sample, etc. is not met; (v) where products pronounced obsolete by formal State decrees are produced or have expired or deteriorated commodities are sold; (vi) where a sold product is not adequate in quantity; (vii) where the service items and charges are in violation of an agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a product, refund of a product purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by PRC laws and regulations, are harmed.

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was promulgated on 26 December 2009 and came into force on 1 July 2010 to clarify the tort liability, and to prevent and punish tortious conduct. Under this law, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation of the victim.

### Production Safety

The Production Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Production Safety Law**”) was promulgated on 29 June 2002, became effective on 1 November 2002 and was subsequently amended on 27 August 2009. It governs the supervision and administration of production safety in the PRC. The Production Safety Law requires a production entity to meet the relevant requirements such as providing its staff with proper training, handbooks concerning production safety, and safe working conditions as set out in the relevant laws, rules and regulations in the PRC. Any production entity that fails to provide the

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required safe working conditions may not engage in production activities. Violation of the Production Safety Law may result in fines, penalties, suspension of operations, order to cease operations, or even criminal liability in severe cases.

The Interim Measures for the Supervision and Administration of “Three Simultaneities” for the Safety Facilities of Construction Projects (《建設項目安全設施“三同時”監督管理暫行辦法》) (the “**Construction Projects Interim Safety Measures**”) were promulgated by the State Administration of Work Safety (國家安全生產監督管理總局) on 14 December 2010 and came into effect on 1 February 2011. The Construction Project Interim Safety Measures provide that, for the construction projects specially set forth in the Construction Project Interim Safety Measures, production and business operation entities are required to conduct comprehensive research and pre-assessment on the safety conditions of the construction projects. For other construction projects, production and operation entities are required to conduct a comprehensive analysis of the project conditions and facilities for production, safety and submit written reports to the relevant supervision and administration bureau of production safety in accordance with the Construction Projects Interim Safety Measures.

### **Special Equipment**

The Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) were promulgated by State Council, came into effect on 1 June 2003 and were further amended on 24 January 2009. According to the aforesaid regulations, enterprises manufacturing or using special equipment are required to establish and strive to perfect the safety and energy-saving management system, job safety and energy-saving accountability system for the special equipment. Special equipment mentioned above refer to boilers, pressure vessels (including gas cylinders), pressure pipelines, elevators, lifting appliances, passenger ropeways, large amusement facilities, and special vehicles used in the factory, which involve a high degree of safety risks.

### **Labour**

Companies in the PRC are subject to the PRC Labour Law (《中華人民共和國勞動法》) (the “PRC Labour Law”), the PRC Labour Contract Law (《中華人民共和國勞動合同法》) (the “PRC Labour Contract Law”) and the Implementations Regulations of the PRC Labour Contract Law (《中華人民共和國勞動合同法實施條例》), as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for our operations in the PRC. The PRC Labour Contract Law, which became effective on 1 January 2008, imposes stricter requirements with respect to signing labour contracts with employees, stipulating probation and violation penalties, terminating labour contracts, paying remuneration and economic compensation, use of labour dispatch as well as social security premiums than previously required under PRC Law. The PRC Labour Contract Law was further amended on 26 December 2012, and such amendments became effective on 1 July 2013.

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According to the PRC Labour Law and the Labour Contract Law, companies in the PRC must enter into labour contracts if they are to establish labour relationships with the employees. Companies must pay wages that are no lower than the local minimum wage standards to such employees. Companies are also required to establish labour safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to the employees.

### **Social Insurance Regulations and Housing Provident Fund Regulations**

The PRC social insurance system is mainly governed by the Social Insurance Law of the PRC (the “**Social Insurance Law**”) (《中華人民共和國社會保險法》), the Interim Measures Concerning the Maternity Insurance of Enterprises Employees (《企業職工生育保險試行辦法》), the Provisional Regulations on the Collection of Social Insurance Fees (《社會保險費徵繳暫行條例》), the Provisional Measures on the Administration of Social Insurance Registration (《社會保險登記管理暫行辦法》) and the Regulations on Work-Related Injury Insurance (《工傷保險條例》). The Social Insurance Law was promulgated on 28 October 2010 and came into effect on 1 July 2011. The Interim Measures Concerning the Maternity Insurance of Enterprises Employees became effective on 1 January 1995. The Provisional Regulations on the Collection of Social Insurance Fees were promulgated by the State Council and came into effect on 22 January 1999. The Provisional Measures on the Administration of Social Insurance Registration were promulgated by the Ministry of Labour and Social Security and came into effect on 19 March 1999. The Regulations on Work-Related Injury Insurance were promulgated by the State Council on 27 April 2003, came into effect on 1 January 2004 and were subsequently amended on 20 December 2010. According to the aforesaid laws and regulations, employers in the PRC shall conduct registration of social insurance with the competent authorities, and make contributions to the five basic types of social insurance for their employees, namely, basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

According to the Administrative Regulations on Housing Provident Funds (《住房公積金管理例》) which were promulgated by State Council, came into effect on 3 April 1999 and were amended on 24 March 2002, all business entities (including foreign investment enterprises) are required to register with the local administrative centre of housing provident funds and then maintain housing fund accounts with designated banks and pay the related funds for their employees.

### **Occupational Disease Prevention and Control**

According to the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) promulgated on 1 May 2002 and amended on 31 December 2011, the Administrative Measures for the Classifications of the Occupational Disease Hazards of Construction Projects (《建設項目職業病危害分類管理辦法》) promulgated by the Ministry of Health of the PRC (衛生部) on 27 July 2006, and the Interim Measures for the Supervision and Administration of “Three Simultaneities” for the Occupational Health of Construction Projects (《建設項目職業衛生“三同時”監督管理暫行辦法》) promulgated by the State Administration of Work Safety of the PRC (國家安全生產監督

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管理總局) on 27 April 2012 and came into effect on 1 June 2012, for construction projects that may cause occupational diseases, the entity engaging in the construction is required to preliminarily assess risks of occupational diseases, design and construct occupational disease prevention facilities, evaluate control of the occupational disease hazards and obtain a final approval for the construction of the occupational disease prevention facilities.

According to the Interim Measures for the Supervision and Administration of “Three Simultaneities” for the Occupational Health of Construction Projects (《建設項目職業衛生“三同時”監督管理暫行辦法》), construction projects shall be supervised and managed according to the degree of risks of occupational diseases that the construction projects may cause. The risks have been categorised into the following three classes: (i) for the construction projects that may cause common occupational diseases, the pre-assessment report of occupational diseases shall be filed to the supervision and administration bureau of work safety, and the final acceptance for construction of the occupational disease prevention facilities may be organised by the entity engaging in the construction itself while the acceptance report shall be filed to the supervision and administration bureau of work safety; (ii) for the construction projects that may cause relatively serious occupational diseases, the pre-assessment report of occupational disease hazards shall be examined and verified by the supervision and administration bureau of work safety, and the final acceptance for construction of the occupational disease prevention facilities shall be organised by the supervision and administration bureau of work safety; and (iii) for the construction projects that may cause serious occupational diseases, the pre-assessment report of occupational disease hazards shall be examined and verified by the supervision and administration bureau of production safety, the design for the occupational disease prevention facilities shall be examined by the supervision and administration bureau of work safety, and the final acceptance for construction of the occupational disease prevention facilities shall be organised by the supervision and administration bureau of work safety.

### Foreign exchange

Foreign exchange control in the PRC is mainly regulated by the Foreign Exchange Control Regulations of the PRC (《中華人民共和國外匯管理條例》), which were promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and were amended on 14 January 1997 and 5 August 2008. According to the aforesaid regulations, the Renminbi paying under current accounts (such as foreign exchange transactions in relation to trading and services and dividends payment) can be exchanged into foreign currency at liberty, but exchange of the Renminbi under capital accounts (such as direct investment, loan or stock investment outside the PRC) into foreign currency shall first obtain approval from the foreign exchange administration.

### Foreign Exchange Registration

On 21 October 2005, SAFE promulgated the Notice of the SAFE on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (《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 “SAFE Circular No. 75”).

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According to SAFE Circular No. 75, if a PRC domestic resident wants to use an overseas special purpose vehicle (“SPV”) (i.e., an overseas enterprise directly or indirectly controlled by the domestic resident for the purpose of overseas stock financing for the assets or interests held by him in a PRC domestic enterprise) to conduct return or direct investment in the PRC, the domestic resident shall bring the prescriptive materials to the local branch of SAFE to apply for foreign exchange registration of overseas investments.

### Taxation

#### *Enterprise Income Tax*

According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), which was promulgated on 16 March 2007 and came into effect on 1 January 2008, the income tax rate for both domestic and foreign-invested enterprises is 25%, and the existing tax exemptions, reductions and preferential treatment which had been enjoyed by foreign-invested enterprises were abolished unless otherwise specified.

Pursuant to the PRC Enterprise Income Tax Law, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered as “resident enterprises” and are subject to the uniform 25% enterprise income tax rate for their global income.

The PRC Enterprise Income Tax Law also provides that the enterprise income tax should be levied at the reduced rate of 20% for qualified “small and thin-profit enterprises”, and the enterprise income tax should be levied at the reduced rate of 15% for “New and High Technology Enterprises” in key industries supported by the PRC.

#### *Value-Added Tax*

According to the Provisional Regulations Concerning Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993, which were subsequently amended on 5 November 2008 with the amendments taking effect effective on 1 January 2009:

- (A) All entities and individuals that engage in (i) the sales of goods, (ii) the provision of processing, repairs and replacement services and (iii) the importation of goods in the PRC are taxpayers of VAT, and shall pay VAT tax in accordance with these regulations.
- (B) Except as stipulated in these regulations, for taxpayers engaged in the aforesaid services (“**Selling Goods or Taxable Services**”), the VAT payable shall be the balance of output tax payable for the period after deducting the input tax payable for the period. The formula for computing the tax payable is as follows: VAT payable = Output tax payable for the period – Input tax payable for the period.

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- (C) For taxpayers engaged in Selling Goods or Taxable Services, the output tax shall be the VAT payable calculated based on the sales amounts, tax rates prescribed in these regulations and amount collected from the purchasers. The formula for computing the output tax is as follows: output tax = sales amount x VAT rate.
- (D) VAT rates: For taxpayers selling or importing goods, other than those stipulated in these regulations, the VAT rate shall be 17%. For taxpayers exporting goods, the VAT rate shall be 0%, except as otherwise stipulated by the State Council. For taxpayer providing processing, repairs and replacement services, the VAT rate shall be 17%.

### *Withholding Tax on Dividends*

According to the PRC Enterprise Income Tax Law and the Implementation Rules of the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》), non-resident enterprises which have not set up institutions or premises in the PRC, or where the institutions or premises are set up but its subsidiary's after-tax income has no actual relationship with such institutions or premises shall be subject to the withholding tax of 10% on income derived from the after-tax profit of its subsidiary. According to the Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and 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》), profit derived by a foreign investor residing in Hong Kong from its wholly-owned PRC enterprise is subject to the tax rate of 5% after obtaining approval from the relevant tax bureau. Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax 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 by the State Administration of Taxation (中華人民共和國國家稅務總局) (the “**State Administration of Taxation**”) and became effective on 2 February 2009, all of the following requirements shall be satisfied for a party to a tax agreement to be entitled to the a tax rate specified in the tax agreement for dividends paid to it by a PRC domestic: (i) such a fiscal resident who obtains dividends should be the company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the PRC domestic company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC domestic company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, shall reach the percentage specified in the tax agreement.

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)》 (the “**Administrative Measures**”) which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) receives dividends from a PRC resident enterprise and wishes to enjoy the favourable tax benefits under the relevant tax arrangements, it shall submit an application for approval to the relevant tax authority. Without such approval, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax agreements.

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### Environmental Protection

In accordance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for discharge of pollutants. The local government of the PRC's provinces, autonomous regions and municipalities directly under the central government may also set their own guidelines for discharge of pollutants within their respective provinces or districts in the event that the national guidelines are inadequate. On 29 November 1998, the Administrative Regulations on Environmental Protection for Construction Project (《建設項目環境保護管理條例》) were promulgated and on 28 October 2002, the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) was promulgated.

A company or enterprise that causes environmental pollution and discharges materials which may endanger the public should implement environmental protection methods and procedures in its business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection, and adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. Installations for the prevention and control of pollution in construction projects must be designed, built and commissioned together with the principal part of the project. Permission to commence production of any construction project shall not be granted until its installations for the prevention and control of pollution have been examined and confirmed to meet applicable standards by the relevant administrative department of environmental protection that examined and approved the environmental impact statement. Any company which discharges environmental pollutants should report to and register with the Administration Supervisory Department of Environmental Protection. A fine may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it would receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time limit would be penalised or have their production and operations ceased. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, and are liable for any losses or damages suffered as a result of such environmental pollution.

### Intellectual Property

The products in the PRC shall be subject to intellectual property laws, which 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**”).



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According to the Trademark Law, which was promulgated on 23 August 1982 and amended on 22 February 1993 and 27 October 2001, any of the following acts is an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of that trademark; (ii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iii) forging, manufacturing without authorisation the marks of a registered trademark, or selling the marks of a registered trademark forged or manufactured 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.

The Patent Law was promulgated on 12 March 1984, became effective on 1 April 1985, and was amended on 4 September 1992, 25 August 2000 and 27 December 2008 respectively. According to the Patent Law, any exploitation of the patent without authorisation of the patentee constitutes an infringing act.

### **Regulations on Domain Names**

The Measures for the Administration of Domain Names for the Chinese Internet (《中國互聯網絡域名管理辦法》) were promulgated by the Ministry of Information Industry on 5 November 2004 and became effective on 20 December 2004. These measures regulate registration of domain names in Chinese with the Internet country code of “.cn”. The Measures on Domain Names Dispute Resolution (《中國互聯網信息中心域名爭議解決辦法(2006年修訂)》) were promulgated by the Chinese Internet Network Infrastructure Centre on 14 February 2006 and became effective on 17 March 2006. These measures require domain name disputes to be submitted to institutions authorised by the Chinese Internet Network Information Centre for resolution.

### **Bank's Acceptance Bill**

According to the Negotiable Instruments Law of the PRC (《中華人民共和國票據法》) and the relevant regulations, negotiable instruments refer to acceptance bills, promissory notes and cheques. The issue, acquisition and negotiation of such instruments shall follow the principle of good faith and reflect the true relationship of transaction and between the creditor and the debtor. A negotiable instrument shall be acquired by payment of consideration, that is, the price corresponding to what is agreed upon by the two parties to the instrument. An acceptance bill is a negotiable instrument, signed and issued by the drawer, who authorises the drawee to pay unconditionally a certain sum in money to the payee or the holder at sight or on a specified date. Acceptance bills include bank's acceptance bills and commercial bills. After signing the acceptance bill, the drawer shall bear the responsibility of ensuring the acceptance and payment of the acceptance bill. Acceptance refers to the act of a drawee of an acceptance bill who promises to pay the sum on the acceptance bill at the maturity of the acceptance bill.

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### M&A Rules

On 8 August 2006, the MOFCOM, the PRC Securities Regulatory Commission (中國證券監督管理委員會) (the “CSRC”), the SAFE and other three PRC authorities promulgated Rules on the Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”), which came into effect on 8 September 2006 and were revised on 22 June 2009.

Foreign investors should comply with the M&A Rules when they purchase shareholding equities of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign investment enterprise; or when the foreign investors establish a foreign investment enterprise (the “FIE”) in the PRC and obtain the assets of a domestic company and operates the asset, or purchase the asset of a domestic company and establish a FIE to operate the asset. According to the M&A Rules, a special-purpose vehicle (the “SPV”) shall mean an offshore company directly or indirectly controlled by a domestic company or PRC residents for the purpose of listing overseas with the equity interests of a domestic company actually owned by such company or individuals, and the overseas listing of a SPV shall be subject to approval from CSRC and MOFCOM.

As the ultimate individual shareholders of our PRC subsidiaries are permanent residents in Hong Kong who hold overseas passport, which does not fall within the scope of being classified as an SPV directly or indirectly established or controlled by PRC individuals or entities as stipulated by the M&A Rules, our PRC legal advisers are of the view that the M&A Rules do not apply to the Reorganisation, proposed Listing or the Global Offering of such companies, and such Hong Kong residents are not required to obtain approvals from CSRC and MOFCOM.

### LAWS AND REGULATIONS APPLICABLE IN SPAIN REGARDING REPRESENTATIVE OFFICES IN SPAIN

Establishing a representative office in Spain (“RO”) does not require any commercial law formalities. However, from a tax, employment and social security perspective, an RO is mainly subject to the following laws and regulations:

#### Taxation

##### *Non-Resident Corporate Income Tax*

According to the *Article 13 of the Royal Decree 5/2004, 5 of March which brought into effect the Non Resident Income Tax Law*, and written consultations issued by the relevant Spanish tax authorities, an RO would not be considered a permanent establishment in Spain from a corporate income tax point of view if it limits its activities to advertising and providing information on products to potential clients and therefore would not be subject to income tax.

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### ***Value-Added Tax***

In accordance with the definitions of permanent establishment settled by the *Article 69. Three of the Royal Decree 37/1992, 28 of December which brought into effect the Value Added Tax Law*, an RO that only performs activities related to marketing and provision of information is not a permanent establishment and therefore would not be subject to VAT. If an RO is selling goods or rendering services, it would be subject to VAT.

Unless there is a reciprocity arrangement with the country in which the parent company of an RO is incorporated, an RO could not recover the VAT it has paid to the local authorities according to the *Article 119 of the Royal Decree 37/1992, 28 of December which brought into effect the Value Added Tax Law*.

### ***Business Activity Tax***

The activity of an RO is subject to the business activity tax according to the *Article 78.1 of the Royal Decree 2/2004, 5 of March which approves the Regulatory Local Tax Office Law*, if it has been registered for Business Activity Tax Purposes with the relevant authorities.

Furthermore, based on the *Article 82.1 (c) of the Royal Decree 2/2004, 5 of March which approves the Regulatory Local Tax Office Law*, no business activity tax exemption would be applicable to an RO if it is not subject to corporate income tax. If there is no exemption, an RO has to submit Business Activity Tax returns.

### ***Payroll Withholding Tax***

An RO is obliged to perform the withholding taxes related to the personal income tax of its employees according to the *Article 30 of the Royal Decree 5/2004, 5 of March which brought into effect the Non-Resident Income Tax Law*.

### **Labour law and Social Security legislation**

An RO is subject to various laws and regulations, including among others, the *Royal Decree 1/1995, 24 of March, which brought into effect the Worker's Statute* (the "**Worker's Statute**") and the *Royal Legislative Decree 1/1994, 20 of June which approves the General Social Security Law* ("**LGSS**"). The Worker's Statute regulates the basic working conditions of employees. LGSS regulates the social security contributions that have to be paid by the employer and the employees within the social security scheme.