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## REGULATIONS

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### REGULATION

Our Group's operations are mainly carried out by our Company's subsidiary in the PRC. The establishment and operations of such subsidiary shall comply with the laws and regulations in respect of:

### FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC 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 NPC on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005 respectively. The companies are classified into categories — limited liability companies and limited companies by shares. The Company Law shall also apply to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are also regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法), which was promulgated on April 12, 1986 and amended on October 31, 2000, and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which was promulgated on December 12, 1990 and amended on April 12, 2001.

The Catalogue of Industries for Guiding Foreign Investment Industries (Amended in 2011) (外商投資產業指導目錄(2011年修訂)) (the "Catalogue") which was promulgated by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on December 24, 2011, with effect from January 30, 2012, lists the industries in the categories of foreign investment encouraged industries, foreign investment restricted industries and foreign investment prohibited industries. Industries not listed in the Catalogue are generally open to foreign investment unless specifically prohibited or restricted by other PRC laws and regulations.

### TAXATION

#### *Income Tax*

According to PRC Enterprise Income Taxation Law (中華人民共和國企業所得稅法) (the "EIT Law"), which was promulgated by the National People's Congress on March 16, 2007 and became effective on January 1, 2008, the income tax rate for both domestic and foreign-invested enterprises is 25% commencing January 1, 2008.

On December 26, 2007, the State Council promulgated the Notice of the State Council on Transitional Preferential Policy For Implementing Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知), whereby enterprises enjoying preferential tax rates under the relevant tax laws and administrative regulations and the enterprises income preferential tax policy as stipulated by competent documents with administrative regulatory force are subject to the following measures during transition:

- (1) As from January 1, 2008, enterprises that have enjoyed preferential tax rates shall be taxed at rates to be increased from the current rate to the full rate under the EIT Law

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within a period of 5 year. Among them, for enterprises enjoying enterprise income tax of 15%, the tax rate of 18%, 20%, 22%, 24% and 25% will take effect in 2008, 2009, 2010, 2011 and 2012, respectively; for enterprises enjoying enterprises income tax of 24%, the tax rate of 25% takes effect from 2008 onwards.

- (2) As from January 1, 2008, enterprises enjoying fixed-term preferential tax treatment under relevant enterprises income tax, such as the “2 years tax exemption and 3 years 50% tax reduction” and the “5 years tax exemption and 5 years 50% tax reduction” will continue to enjoy the preferential tax treatment until expiry of the relevant fixed term according to relevant tax law, administrative regulations and preferential measures stipulated in the relevant document after the promulgation of the EIT Law. For enterprises not yet enjoyed preferential tax treatment, as profits have not yet been realized, the relevant term for enjoying preferential tax treatment shall be calculated commencing from 2008.

The enterprises entitled to benefit from the transitional preferential policies referred to above shall be enterprises established prior to March 16, 2007 that are registered with an administrative authority such as the administration of industry and commerce.

In order to clarify certain provisions in the EIT Law, the Implementation Regulation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008.

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 February 20, 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 Chinese resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) owner’s equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reaches a percentage specified in the tax agreement.

In addition, pursuant 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 October 1, 2009, where a non-resident enterprise (as defined under the EIT Law and the Administrative Measures.) 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.

### *Value-added Tax*

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which was promulgated by the State Council on December 13, 1993 and amended on November 10, 2008 and which became effective on January 1, 2009, and its implementation rules, all entities or individuals in the PRC engaged in the sale of goods,

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processing services, repair and replacement services, and the importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”, and the rate of VAT is 17% or in certain limited circumstances, 13%, depending on the products.

### ***Business Tax***

Pursuant to the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) effective from January 1, 1994, as amended on November 10, 2008, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The items and rates of business tax shall be implemented in accordance with the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

### **PRODUCT QUALITY**

The Product Quality Law of the PRC (中華人民共和國產品質量法) (the ‘Product Quality Law’) was promulgated on February 22, 1993 and effective from September 1, 1993 by the Standing Committee of the National People’s Congress, as amended on July 8, 2000 and August 27, 2009.

Pursuant to the Product Quality Law, a seller is obliged:

- to adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other labels of such stock;
- to take measures in keeping products for sale in good quality;
- not to sell defective or deteriorated products or products;
- to sell products with labels that comply with the relevant provisions;
- not to forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not to forge or falsely use product quality marks such as authentication marks; and
- not to add impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

Pursuant to the Product Quality Law, a producer shall:

- be responsible for the quality of products it produces;
- not produce products that have been ordered to cease production;
- not forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not forge or falsely use product quality marks such as authentication marks;

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- not add impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production;
- ensure that the marks on the products or the packaging of the products are originals; and
- ensure that, for products that may be easily broken, or are inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the packaging meets the corresponding requirements, carries warning marks or warnings written in Chinese or draws attention to the method of handling.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or loss of property due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

### CONSUMER PROTECTION

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’) was promulgated by the Standing Committee of the National People’s Congress on October 31, 1993 and became effective on January 1, 1994.

The Consumer Protection Law sets out standards of behavior which business operators must observe in their dealings with consumers, including the following:

- goods and services provided to consumers must comply with the Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- providing consumers with true information and advertising concerning goods and services, as well as providing true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by them;
- issuing purchase or service vouchers to consumers in accordance with relevant national regulations or business practices;
- ensuring the quality, functionality, applications and duration of the normal use of the goods or services and ensuring that the actual quality of the goods or services are consistent with those displayed in advertising materials, product descriptions or samples;
- properly performing its responsibilities for guaranteed repair, replacement and return or other responsibilities in accordance with national regulations or any agreement with the consumer; and

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- not setting unreasonable or unfair terms for consumers or excluding themselves from civil liability for undermining the legal rights and interests of consumers by means of, among others, standard contracts, circulars, announcements or shop notices.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the business operator may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property loss due to product defects in certain commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

### TORT LAW

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

### ENVIRONMENTAL PROTECTION

Pursuant to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “Environmental Protection Law”), promulgated on and effective from December 26, 1989, by the Standing Committee of the National People’s Congress, the environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The Environmental Protection Law requires any facility that produces pollutants or other hazards to incorporate environmental protection measures in its operations and establish an environmental protection responsibility system. Any entity that discharges pollution must register with the relevant environmental protection authority. Remedial measures for breaches of the Environmental Protection Law include a warning, payment of damages or imposition of a fine. Criminal liability may be imposed for a material violation of environmental laws and regulations that causes loss of property, personal injuries or death.

Pursuant to the Law of the PRC on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》) with effect from September 1, 2003, the PRC government has set up a system to appraise the environmental impact from construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report of appraising thoroughly the environmental impact which may happen is required; if the construction project may result in a slight impact on the environment, an

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environmental impact record of analyzing or appraising the specific environmental impact which may happen is required; and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but filing an environmental impact form is needed, construction units shall prepare an environmental impacts report. The report shall be approved by the relevant PRC environmental protection authority before construction commences.

Pursuant to the 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》) with effect from April 1, 1996 and amended on December 29, 2004, environment impacts appraisal shall be conducted for construction of projects discharging solid wastes, store, use and disposal of solid wastes and comply with regulations by the State regarding environmental protection of construction project. The prevention facilities for solid wastes shall be designed, constructed and put into operation together with the main part of the project. The construction project can only be put into operation after the environmental protection authority has examined and approved the solid wastes pollution prevention facilities.

Pursuant to the 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》) with effect from June 1, 1988 and amended on August 29, 1995 and April 29, 2000, respectively, new construction projects, expansion projects or reconstruction projects which discharge atmospheric pollutants shall comply with regulations by the State regarding environmental protection of construction projects. The environmental impacts statement of the construction projects shall include an assessment of the project impact on the ecosystem and be submitted to the environmental protection authority for approval. The construction project can only be put into operation after the environmental protection authority has examined and approved the atmospheric pollution prevention facilities.

Pursuant to the 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》) with effect from March 1, 1997, a construction project which is likely to produce environmental noise pollution shall prepare an environmental impact statement which includes measures to prevent and control such pollution, and submit it to the relevant environmental protection authority for approval. The construction project can only be put into operation after the environmental protection authority has examined and approved the noise pollution prevention facilities.

Pursuant to the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) with effect from November 1, 1984 and amended on May 15, 1996 and February 28, 2008, respectively, new construction projects, expansion projects or reconstruction projects and other above-water facilities that directly or indirectly discharge pollutants to water shall be carried out the appraisal regarding their effects on environment according to law. Water pollution prevention facilities shall be designed, built and put into operation together with the main part of the project. The construction project can only be put into operation after the environmental protection authority has examined and approved the water pollution prevention facilities.

### **LABOR AND INSURANCE**

The relevant labor laws in the PRC include the PRC Labor Law(中華人民共和國勞動法) (the “Labor Law”) (effective from January 1, 1995 and amended in 2009), the PRC Labor Contract Law (中華人民共和國勞動合同法) (effective from January 1, 2008), the Social Insurance Law of the PRC



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(中華人民共和國社會保險法) (effective from July 1, 2011), the Regulation of Insurance for Work-Related Injury (工傷保險條例) (effective from January 1, 2011), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法) (effective from January 1, 1995), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) (effective from January 22, 1999), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法) (effective from March 19, 1999), the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例) (effective from March 24, 2002), and other related law and regulations issued by relevant governmental authorities from time to time in the PRC.

The Labor Law was promulgated by the Standing Committee of the National People's Congress and came into force on January 1, 1995. According to the Labor Law, employees are entitled to have equal opportunities in employment, selection of occupations, receiving wages and remuneration, rest days and holidays, protection of occupational safety and health, the rights to social insurance and welfare, etc. An employee shall not work for more than eight hours a day and no more than 44 hours a week on average. The employers must establish and improve the system for occupational safety and health, provide education on occupational safety and health to employees, and comply with the State and/or local regulations of occupational safety and health as well as provide the necessary labor protective measures to employees.

On June 29, 2007, the Labor Contract Law, another important law concerning employees, was adopted by the Standing Committee of the National People's Congress and amended on December 28, 2012 and came into effect on January 1, 2008. According to the Labor Contract Law, labor contracts must be executed in order to establish a labor relationship between an employer and employees. When an employer is recruiting employees, it should inform the employees truthfully the content of work, working conditions, place of work, occupational hazards, safe production conditions, labor remuneration and other circumstances requested to be notified by the employees. An employer and an employee shall fully perform their respective obligations in accordance with the terms set forth in the labor contract. An employer must make payment for employee remuneration timely and in full amount in accordance with the contract terms, must strictly abide by the fixed standard of labor work, and must not force or threaten an employee in disguise to work overtime. After the labor contract is released or terminated, the employer should issue a proof of release or termination of the labor contract to the employee, and complete the filing procedure and transfer of social insurance relationship for the employee within 15 days.

Under the Social Insurance Law, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurance Premiums, and the Interim Provisions on Registration of Social Insurance, an employer is required to contribute the social insurance for its employees, including the basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and injury insurance.

Under the Regulations on the Administration of Housing Provident Funds, promulgated by the State Council on April 3, 1999 and as amended on March 24, 2002, employers are required to make contributions to a housing provident fund for their employees.

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### FOREIGN EXCHANGE

The Foreign Exchange Administrative Regulations of the PRC (中華人民共和國外匯管理條例) (the “Foreign Exchange Administrative Regulations”), which was promulgated on January 29, 1996 and implemented since April 1, 1996 and was amended with effect from August 5, 2008, forms an important legal basis for the PRC authorities to supervise and regulate foreign exchange.

According to Foreign Exchange Administrative Regulations, 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 prior approval of the State Administration of Foreign Exchange (the “SAFE”) is obtained.

Under the Administration Rules of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) which was promulgated by the People’s Bank of China on June 20, 1996, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange.