

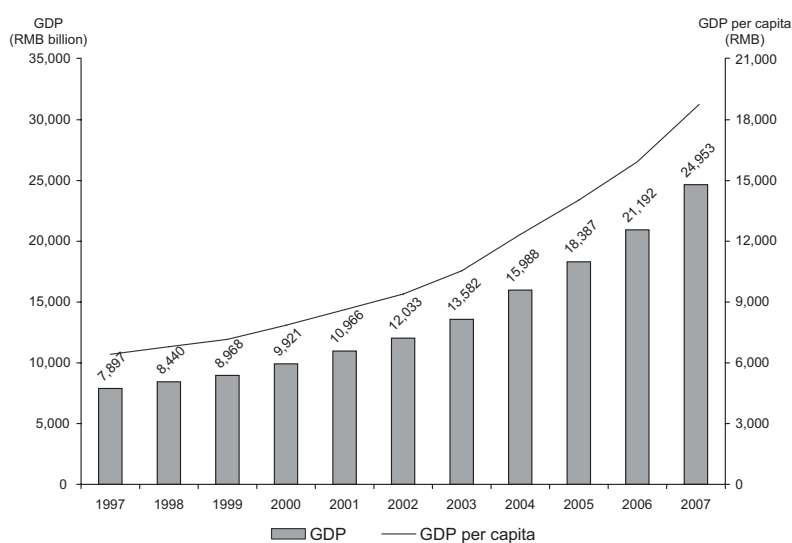
INDUSTRY AND REGULATORY OVERVIEW

OVERVIEW OF THE PRC ECONOMY

PRC Economic Growth

The PRC economy has been growing fast. According to the statistics released by the World Economic Outlook Databases, China ranked the fourth largest in the world in terms of GDP in 2007. According to the announcement issued by the National Bureau of Statistics of China on 24 January 2008 (the "Announcement"), the PRC economy kept steady and fast growth in 2007 with the features of rapid economic growth, optimized structure, increased efficiency and improved livelihood of the people. The preliminary verified GDP in 2007 was approximately RMB24,953 billion, representing a growth of approximately 11.9% as compared to the previous year, representing a fifth successive year of over 10% growth. In terms of growth by sectors, the primary industry recorded a growth of 3.7%, the secondary industry recorded a growth of 13.4% and the tertiary industry recorded a growth of 12.6%. The GDP and GDP per capita in China from 1997 to 2007 is shown in the chart below.

GDP and GDP per capita in China 1997–2007



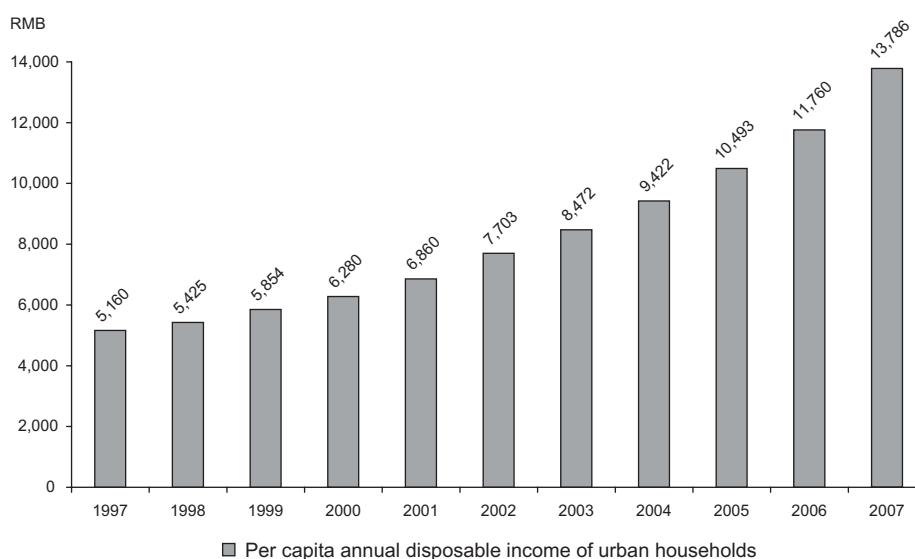
Source: National Bureau of Statistics of China

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Growth in Personal Wealth and Consumption

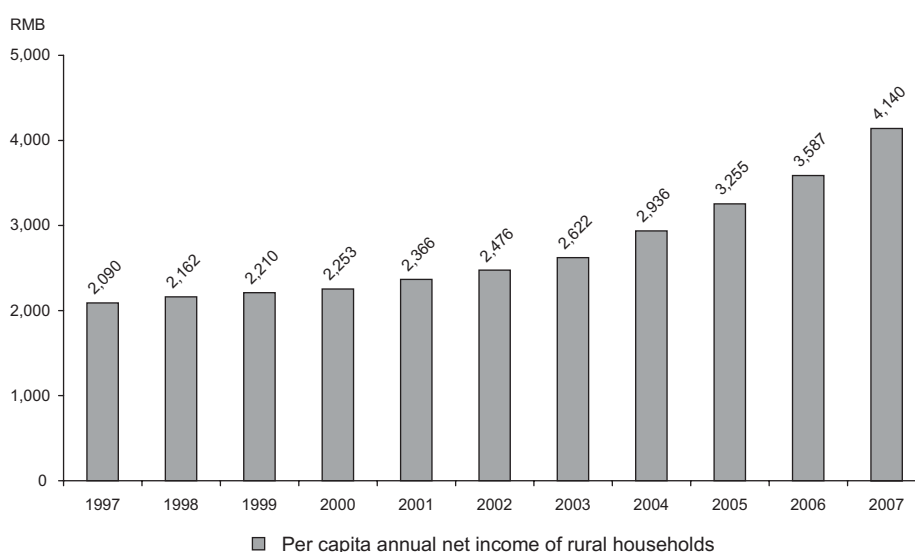
Improvement in annual disposable income and annual net income of urban and rural households in China respectively increased the purchasing power of the livelihood in the PRC. According to the Announcement, the annual disposable income per capita of urban households in China was approximately RMB13,786 in 2007, representing a growth of approximately 17.2% as compared to the previous year. The annual net income per capita of rural households in China was approximately RMB4,140, representing a growth of approximately 15.4% as compared to the previous year. The annual disposable income per capita of urban households and the annual net income per capita of rural households in China from 1997 to 2007 are shown in the charts below.

Annual disposable income per capita of urban households in China 1997–2007



Source: National Bureau of Statistics of China

Annual net income per capita of rural households in China 1997–2007

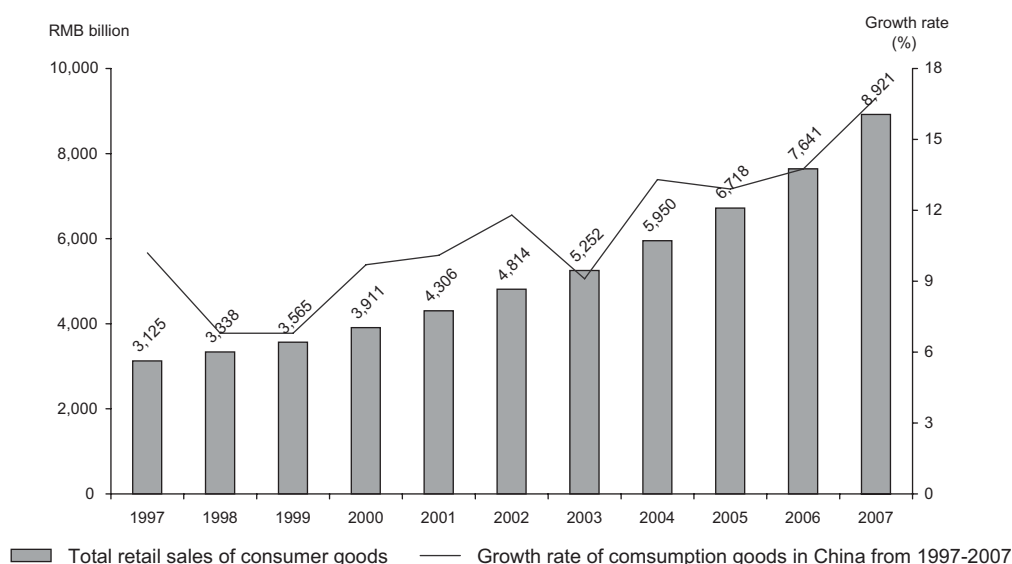


Source: National Bureau of Statistics of China

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According to the Announcement, the total retail sales of consumer goods reached approximately RMB8,921 billion in 2007, representing a growth of approximately 16.8%, or 3.1 percentage points higher than that in 2006. In terms of different sectors, the growth of wholesale and retail sectors was approximately 16.7%, and the growth of lodging and catering industry was approximately 19.4%. The sales by wholesale and retail businesses above the designed size in the sectors enjoyed over 20% growth including petroleum and petroleum products, automobiles, construction and decoration materials, communication equipment, furniture, household electric appliances and audio-video equipment, clothing, shoes, hats and textiles, cosmetics and sports and recreation articles. The growth of retail sales of consumer goods in China from 1997 to 2007 is shown in the chart below.

Retail Sales of Consumer Goods in China 1997–2007



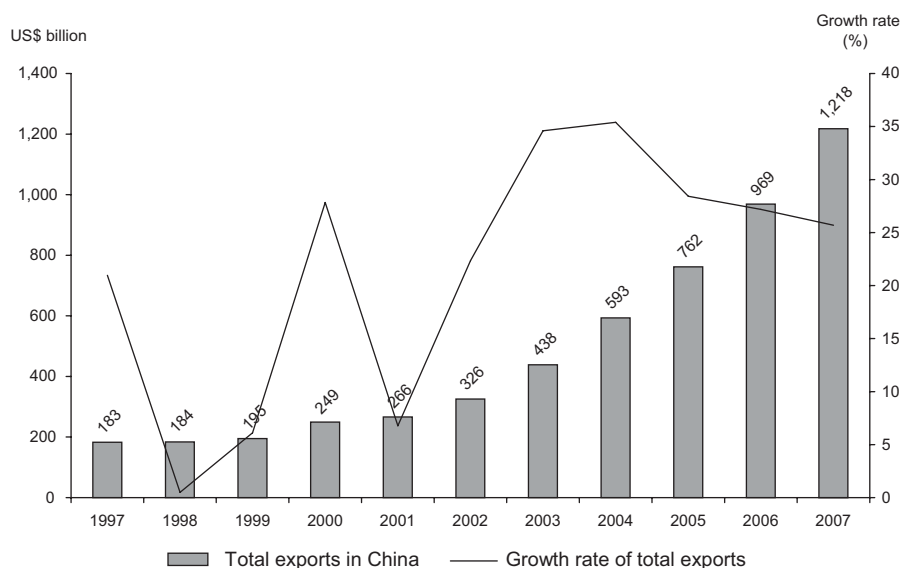
Source: National Bureau of Statistics of China

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Growth in Total Export in China

China is an important export centre in the world. According to the Announcement, the total volume of imports and exports in China in 2007 reached approximately US\$2,174 billion, representing a growth of approximately 23.5%, which was 0.3 percentage point lower than that in 2006. The value of exports was approximately US\$1,218 billion, representing a growth of approximately 25.7%, or 1.5 percentage points lower than that in 2006; and the value of imports was approximately US\$956 billion, representing a growth of approximately 20.8%, or 0.8 percentage point higher than that in 2006. China had a trade surplus of approximately US\$262.2 billion, representing a growth of approximately US\$84.7 billion over that in 2006. The chart below shows the total exports in China from 1997 to 2007.

Total Export in China 1997–2007



Source: National Bureau of Statistics of China

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THE PACKAGING INDUSTRY IN THE PRC

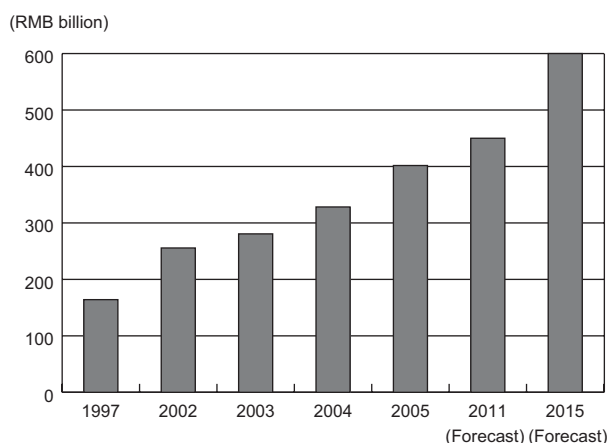
Packaging is the science, art and technology of enclosing or protecting products for distribution, storage, sale and use. Nowadays, the packaging can be used by marketers to encourage potential buyers to purchase the products and it is also one of the value-added factors for the price dispersion between products. Marketing communications and graphic design are applied to the surface of the package and the point of sale display.

According to the 7th issue in 2007 of the China Paper Newsletter, there were more than 11,000 packaging enterprises in China and the production value has increased from less than RMB10 billion in early 1980s to RMB410 billion in 2005. China has become the world's third largest packaging country next to the United States and Japan. However, the packaging products, in terms of choice and quality, still cannot satisfy the demand. One fourth of the packaging products are relied on import.

According to the China Packaging Yearbooks 2004-2005 and 2006-2007, the annual production output of the enterprises with an annual sales over RMB5 million in the packaging industry in the PRC was increased from approximately RMB164.2 billion in 1997 to approximately RMB401.7 billion in 2005, representing a CAGR of approximately 11.8%.

According to the NDRC newsletter dated 7 November 2007 published by NDRC (the "NDRC Newsletter"), in the outline of the Eleventh Five-Year Plan, the expected annual production value of the packaging industry will attain RMB450 billion, representing an annual growth rate of approximately 7%. During the period from 2011 to 2015, the expected annual production value will further increase to RMB600 billion, representing an annual growth rate of approximately 16%.

Total production output of the packaging industry in the PRC



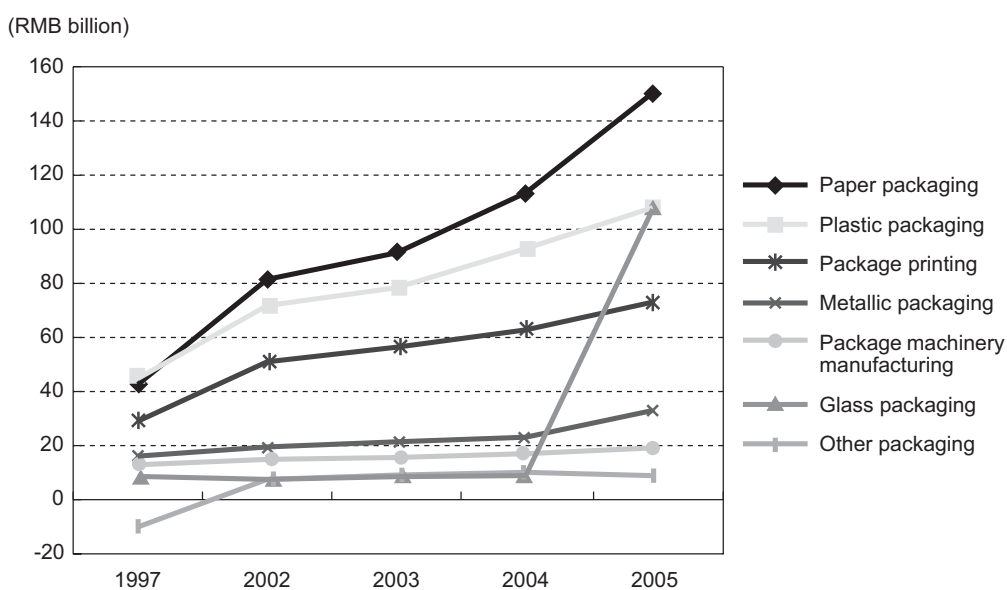
Source: China Packaging Yearbooks 2004, 2005 and 2006-2007
NDRC Newsletter

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According to the classification in China Packaging Yearbook 2006-2007, industrial production output of the packaging industry mainly divided into seven segments, including (1) paper packaging sector; (2) plastic packaging sector; (3) package printing sector; (4) metallic packaging sector; (5) package machinery manufacturing sector; (6) glass packaging sector; and (7) other packaging sector.

Between 1997 and 2005, paper packaging has been the fastest growing sector in the packaging industry. Based on the China Packaging Yearbooks 2004, 2005 and 2006-2007, the industrial production output of the paper packaging sector (including state-owned enterprises and non-state-owned enterprises with sales over RMB5 million) has grown from approximately RMB42.6 billion in 1997 to approximately RMB149.2 billion in 2005, representing a CAGR of approximately 17.0%. The aforesaid CAGR outpaced the CAGRs of package printing and plastic packaging sectors during the same period of approximately 12.2% and approximately 11.6% respectively.

Sectorial industrial production output of the PRC's packaging industry

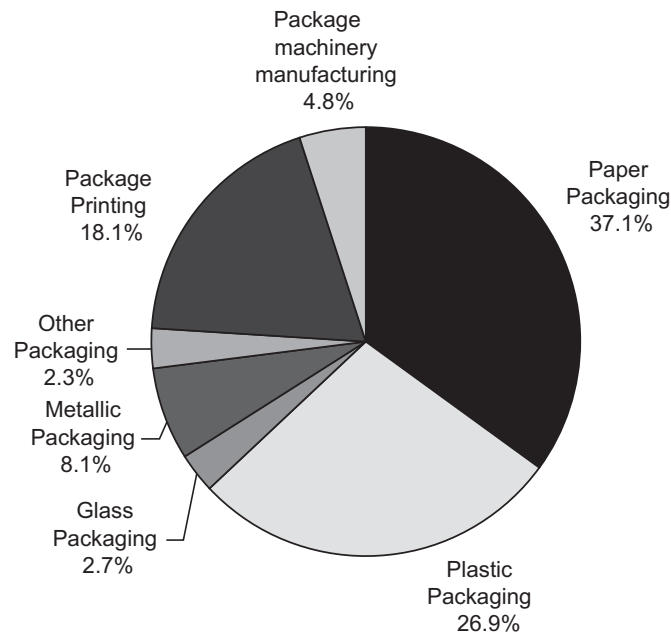


Source: China Packaging Yearbooks, 2004, 2005 and 2006-2007

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The paper packaging sector was the largest sector in the PRC's packaging industry in 2005 which contributed to approximately 37.1% of the total industrial production output of the industry during the year. The chart below set out the contribution by the aforesaid sectors in the PRC's packaging industry in 2005:

Sectorial industrial production output contribution of the PRC's packaging industry in 2005



Source: *China Packaging Yearbook 2006-2007*

As estimated by the NDRC in November 2007, paper packaging will remain the largest segments in the PRC's packaging industry by 2015, with an expected production volume of up to 36 million tonne, as compared to that of plastic packaging, metallic packaging and glass packaging of under 16 million tonne each.

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PAPER PACKAGING INDUSTRY IN THE PRC

In light of the above, paper packaging has been the fastest growing sector in the PRC's packaging industry. The contribution by the paper packaging sector to the PRC's packaging industry in terms of industrial production output has been increasing during the last decade.

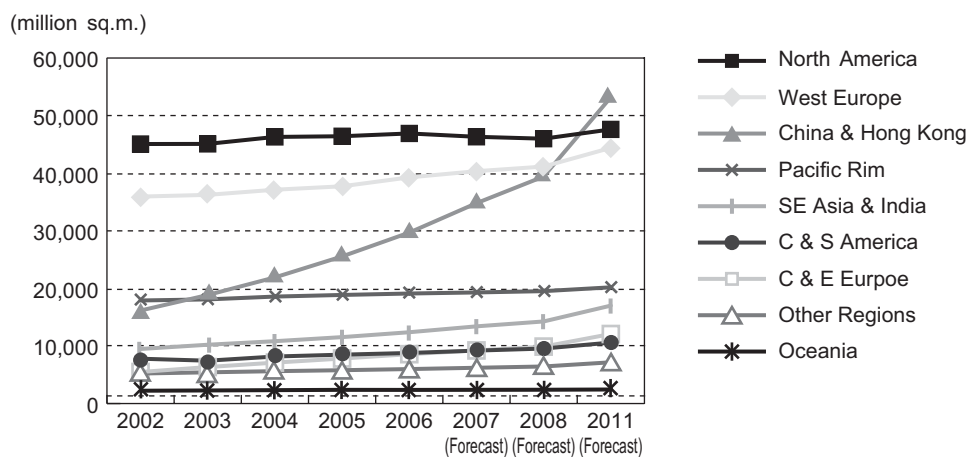
Corrugated paperboard

Corrugated carton is one of the major kinds of packaging material due to its features, including mainly flexible usage, environmental friendly and vibration-resistant. Corrugated carton is made of corrugated paperboard which is built with corrugated or wavy fluting medium lying between two pieces of smooth paper boards on the outside. Hence, the strong growth in retail sales of consumption goods and export in China encourages the growth in the packaging industry which in turn accelerates the growth in corrugated paperboard industry in China.

China (including Hong Kong) was one of the major players in the world corrugated paperboard industry. As reported by ICCA, the global corrugated paperboard production/shipments amounted to approximately 173.0 billion sq.m. in 2006, representing an increase of about 5.2% over that of approximately 164.5 billion sq.m. in 2005. Over one-third of 2006 global growth in corrugated production and shipments occurred in Asia.

According to ICCA Global Corrugated Forecast 2007-2011 (the "Forecast") published by ICCA in July 2007, China (including Hong Kong) rank the second largest around the world in 2006, after the United States, in terms of corrugated production. During the year, China (including Hong Kong) produced approximately 29,675 million sq.m. of corrugated paperboard, representing a CAGR of approximately 16.4% over of that in 2004, which contributed to approximately 17.2% of global corrugated production. The chart below shows the growth of the top 9 of the corrugated paperboard production around the world from 2002 to 2006, in particular, the robust growth in China (including Hong Kong) as compared with that of other regions, together the forecasted production trends in 2007, 2008 and 2011 by region:

Trend of corrugated production in the world



Source: *The Forecast*

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The importance of contribution by China (including Hong Kong) to the corrugated paperboard industry can be further demonstrated by the distribution of market share around the world in 2006 below:

Market share of the corrugated paperboards production in 2006

Rank	Country	2006	
		Production <i>(million sq.m.)</i>	Approximate market share <i>(%)</i>
1	United States	40,351	23.3
2	China (including Hong Kong)	29,675	17.2
3	Japan	13,863	8.0
4	Germany	8,541	4.9
5	Italy	6,648	3.8
6	France	5,765	3.3
7	Spain	4,844	2.8
8	India	4,400	2.5
9	UK	4,325	2.5
10	Brazil	4,114	2.4
	Others	50,454	29.3
	Total	172,980	100

Source: The Forecast

Approximately 29.7 billion sq.m. of corrugated paperboards were produced by China (including Hong Kong) in 2006, representing approximately 17.2% of the global production volume in the respective year. Apart from the United States and China (including Hong Kong), the corrugated paperboards production volume by each of the countries around the world in 2006 was less than 10%.

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According to the Forecast, the corrugated production grew marginally ahead of the industrial production for the period 2003 to 2006. The historical trend of industrial production and corrugated production in China (including Hong Kong) from 2003 to 2006 is set forth below:

	Historical			
	2003	2004	2005	2006
Industrial production (% change on previous year)	16.2	16.0	15.7	16.0
Corrugated production (% change on previous year)	16.7	16.2	16.6	16.2

Source: *The Forecast*

China (including Hong Kong) is expected to be the largest contributor to the corrugated paperboard production in the world in the coming years. According to the Forecast, over the 5-year period from 2006 to 2011, the global corrugated market will generate corrugated paperboard of an additional 41.6 billion sq.m., of which 56.5% is expected to be generated in China (including Hong Kong), whilst less than 10% is expected to be generated by each of the remaining countries. The CAGR of China (including Hong Kong) over the aforesaid 5-year period is expected to be 12.4%, as compared with the estimated world average of 4.4%. The forecast of global production growth of corrugated paperboards by country is set forth below:

Forecast of global production growth of corrugated paperboards by country

Rank	Country	2006-2011		
		Production growth <i>(million sq.m.)</i>	Contribution (%)	CAGR (%)
1	China (including Hong Kong)	23,494	56.5	12.4
2	India	2,717	6.5	9.0
3	Turkey	1,391	3.3	9.6
4	Germany	1,359	3.3	3.0
5	Poland	1,270	3.1	8.8
6	Russia	1,084	2.6	7.3
7	Italy	800	1.9	2.3
8	Indonesia	790	1.9	4.9
9	Brazil	771	1.9	3.5
10	Spain	711	1.7	2.8
	Other	7,186	17.3	
	Total	41,573	100	

Source: *The Forecast*

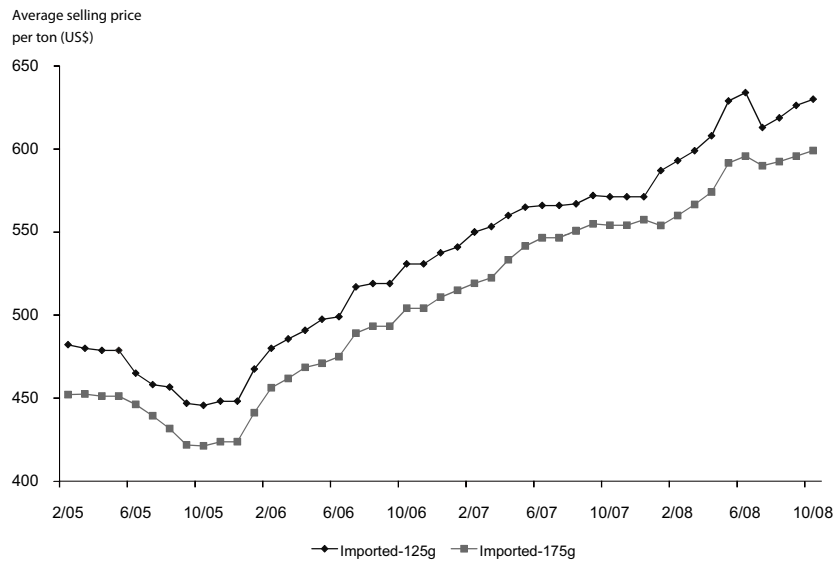
Growth in global industrial production has averaged 3.6% per annum from 2001 to 2006 peaking at 5.1% in 2006 and since deteriorating to 4.2% in 2007. The global industrial production is forecast to grow at an average rate of 3.2% per annum over the aforesaid 5-year period, with most of the growth being in China (including Hong Kong) and South East Asia/India.

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Price of raw paper

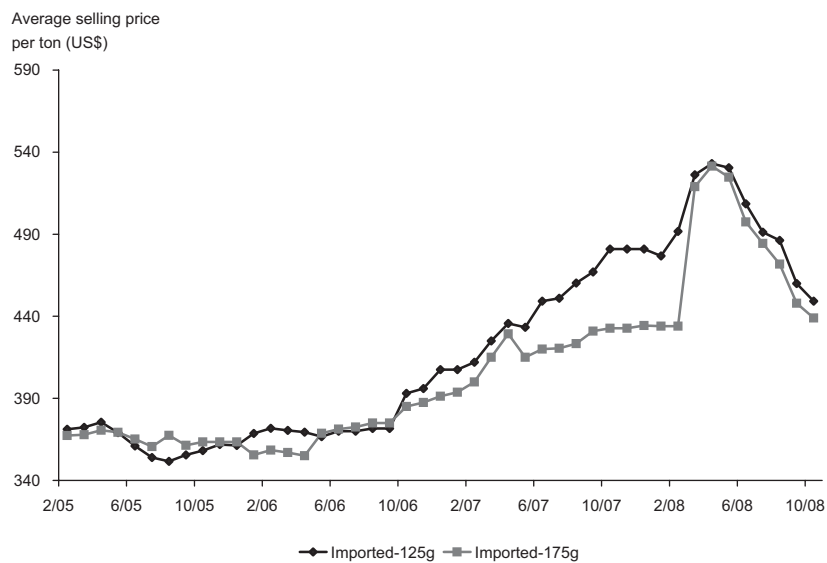
The principal raw material required to produce corrugated paperboard and paper-based packaging products is raw paper, mainly including linerboard and corrugated medium. The prices of raw paper are general subject to fluctuations according to market conditions. The prices of imported raw paper were in an increasing trend along the years and started to decrease since June 2008. Set out below are the price trends of 125g and 175g imported kraftlinerboard, a major kind of linerboard, for the period 2005 to 2008:

Price Trend of Imported Kraftlinerboard



Source: HKCPMA

Price Trend of Imported Kraftlinerboard (manufactured partially of kraft pulp)



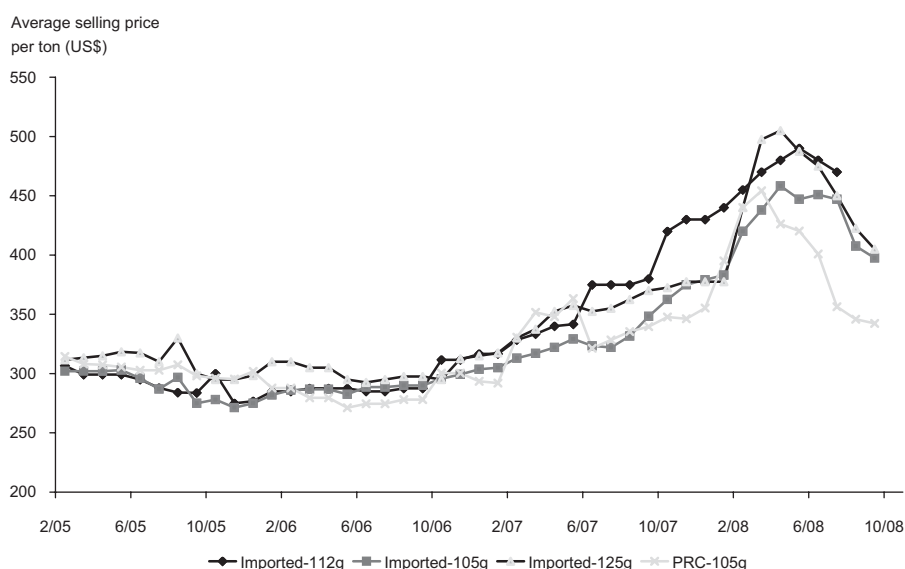
Source: HKCPMA

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As set out in the chart above, The overall average selling price per tonne for 125g imported kraftlinerboard (manufactured wholly of kraft pulp) increased from US\$465.1 in 2005 to approximately US\$608.5 in 2008, representing a CAGR of approximately 9.4% and the overall average selling price per tonne for 175g imported kraftlinerboard (manufactured wholly of kraft pulp) increased from US\$438.0 in 2005 to approximately US\$576.6 in 2008, representing a CAGR of approximately 9.6%. The overall average selling price per tonne for 125g imported kraftlinerboard (manufactured partially of kraft pulp) increased from approximately US\$362.9 in 2005 to approximately US\$495.4 in 2008, representing a CAGR of approximately 10.9% and the overall average selling price per tonne for 175g imported kraftlinerboard (manufactured partially of kraft pulp) increased from approximately US\$365.5 in 2005 to approximately US\$478.4 in 2008, representing a CAGR of approximately 9.4%. The prices for the imported kraftlinerboard, for manufactured wholly of kraft pulp and partially of kraft pulp, at both weights started to decrease since June 2008.

Set out below is the price trends of 112g, 105g and 125g imported corrugated medium and the 105g PRC corrugated medium for the period 2005 to 2008:

Price Trend of Imported and PRC Corrugated Medium



Source: HKCPMA

According to the chart above, the average selling price per tonne of both imported and PRC corrugated medium has been increasing since 2006 and started to decrease in the first quarter of 2008. The 112g, 105g and 125g imported corrugated medium recorded a CAGR of approximately 15.3%, 7.6% and 9.1%, respectively during the period 2005 to 2008. The 105g PRC corrugated medium recorded a CAGR of approximately 2.2% during the same period, which was relatively lower than those imported corrugated medium. Due to the relatively lower price, the Directors expect that the demand for 105g PRC corrugated medium will increase in the future.

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PRC LAWS AND REGULATIONS

The business of the Group and the Processing Partner are subject to several principal PRC laws and regulations, key of which are summarised below:

Regulations for the administration of the printing industry (《印刷業管理條例》)

The Regulations for the administration of the printing industry came into effect on 2 August 2001 (the "Regulations"), which applies to the operations of printing publications, printed matters of package and decoration, and other printed matters. The Regulations provides that the State enforces licence system for printing business operations. Any unit or individual is not permitted to undertake the printing business operations without obtaining the licence of printing business under the Regulations. The State allows the establishment of Chinese and foreign equity joint printing enterprises, Chinese and foreign cooperative joint printing enterprises, and allows the establishment of foreign-funded enterprises engaged in the operations of printing printed matters of package and decoration. The administrative department of publishing of the State Council shall be in charge of the supervision and administration of the printing industry of the whole country. The administrative departments in charge of publishing administration of the people's governments at the county level and above shall be responsible for the supervision and administration of the printing industry within their respective administrative areas. The operators of printing industry shall establish and perfect the system of printing undertaking validation, the system of printing undertaking registration, the system of printed matter keeping, the system of printed matter delivery, and the system of destroying the shopworn and defective products produced in printing activities. If an operator undertaking printing business is in violation of the Regulations, penalties may be imposed by the local publishing administrative departments at the county level, such as ordering cessation of unlawful activities, cessation of business operations and ordering of rectification, confiscation of printed products and illegal gains as well as a fine of five times above and ten times below the illegal business revenue; cancellation of the licence of printing business, and even recourse of the criminal liabilities.

Interim Provisions on the Establishment of Foreign Investment Printing Enterprise (《設立外商投資印刷企業暫行規定》)

The Interim Provisions on the Establishment of Foreign Investment Printing Enterprise was implemented on 29 January 2002, which applies to the enterprises with foreign investment established within the territory of the PRC. It is permitted by the State to establish Chinese and foreign equity joint printing enterprises that are engaged in the printing of publications, printed matters for packaging decorations and other printed matters, and to establish solely enterprises with foreign investment that are engaged in the printing and management of printed matters for packaging decorations. The Chinese party to a Chinese and foreign equity joint printing enterprises shall occupy a controlling or leading position and the foreign investment printing enterprise may not establish any branch organization. The registered capital of a foreign investment printing enterprise that is engaged in the printing of publications or printed matters for packaging decorations shall not be less than RMB10 million and the term of business operation shall no more than 30 years in general. Where the term of business operation expires, an application shall be

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filed within 180 days prior to the expiration and shall be submitted to the original approving authorities for examination and approval. To establish a printing enterprise with foreign investment, the application shall first be made to the provincial administrative department in charge of press and publication of the place where the enterprise is to be located. The administrative department in charge of foreign trade and economic cooperation of the provinces, autonomous regions, municipalities directly under the PRC government and the municipalities separately listed on the State plan shall be entitled to approve the establishment of printing enterprises with foreign investment whose total investment is below US\$30 million and which intend to engage in the printing or management of printed matters for packaging decorations.

Shenzhen Special Economic Zone Actualized Several Provisions on < Regulations for the administration of the printing industry> 《深圳經濟特區實施<印刷業管理條例>若干規定》

The Shenzhen Special Economic Zone Actualized Several Provisions on <Regulations for the administration of the printing industry> (the "Provisions") was amended and enacted on 25 June 2004. Shenzhen administrative department of publishing is in charge of the supervision and administration of the printing industry in Shenzhen. To establish a printing enterprise should have a specific business scope, necessary funds, fixed production and operation places as well as necessary production equipments. Any printing enterprises or individual cannot print any presswork which violating constitution or laws, containing reactionary, pornographic or superstitious contents and other contents publicly prohibited by state orders, infringing intellectual property or illegal printing certificates, documents, securities or trademark.

Interim Measures on the Qualifications of Print Operators (《印刷業經營者資格條件暫行規定》)

The Interim Measures on the Qualifications of Print Operators was implemented on 9 November 2001. Enterprises undertaking packaging and decorating printed products should have the fixed production and operation places suitable for the development of businesses, which shall not be less than 600 sq.m.; enough money for normal production and operation with the registered capital shall not be less than RMB1,500,000; necessary equipment for packaging, decoration and printing; organizations and personnel necessary for the business scope, and the legal representative and major persons in charge of production or operation must have the training certificate in printing regulations granted by the publication administrations under the people's government on the municipal level and above; the completed operation and management and finance control of the verification of printing, registration, storage, consignment, destruction as well as quality control system.

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Law of the People's Republic of China on Product Quality (《中華人民共和國產品質量法》)

The Law of the People's Republic of China on Product Quality was implemented on 22 February 1993 and was amended on 1 September 2002 which is enacted to strengthen the supervision and control over product quality, to define the liability relating thereto and to protect the legitimate rights and interests of users and consumers. The department in charge of supervision and control over product quality under the State Council shall be responsible for nation-wide supervision and control over product quality. Local bureaus responsible for supervision and control over product quality ("Supervisor") at the county level and above are responsible for supervision and control over product quality within their respective areas of jurisdiction. The quality of a product shall be inspected and proved to be up to the standards. The State shall, with respect to product quality, enforce a supervision and inspection system with random spot-checking. Producers and sellers cannot refuse legal supervision and inspection to the product quality. If the product quality is unqualified and unsatisfied, the Supervisor may, according to the case, demand the producer or seller to correct within a time limit, issue a warning notice, order the producer or seller to cease production and make rectification, revoke the business license of the producer or seller. Manufacturers shall be liable for the quality of the products they produce and sellers shall adopt measures to keep the products for sale in good quality. A manufacturer shall be liable for compensation if his defective product causes damage to human life or property other than the defective product itself. Where damage to human life or property is due to a product defect caused by the fault of a seller, the seller shall be liable for compensation.

There is no compulsory national standard of corrugated paperboard production. The Company currently adopt a trade standard called SN/T0262-93 "Rules for the inspection of transport packaging for export commodities-Corrugated fiberboard box" (《出口商品運輸包裝瓦楞紙箱檢驗規程SN/T0262-93》), which regulated the technique requirement, inspection items, sample and test methods of corrugated board box of transport packaging for export commodities. The abovementioned rules is applied to the inspection of single-corrugated board box ("單瓦楞紙箱") and double-corrugated board box ("雙瓦楞紙箱") for export commodities.

The Environmental Protection law of the People's Republic of China (《中華人民共和國環境保護法》)

The PRC Environmental Protection Law (the "Environmental Protection Law") was implemented on 26 December 1989, the competent department of environmental protection under the State Council is responsible for overall supervision and management of environmental protection in the PRC. It formulates national standards for discharging waste materials and environmental protection and monitors the PRC environmental protection system. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective areas of jurisdiction.

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The Environmental Protection Law requires all operations that produce pollutants or other hazards to take environmental protection measures, and to establish an environmental protection responsibility system and adopts effective measures to control and properly dispose of waste gas, waste water, waste residue, dust or other waste materials. Any enterprise or institution that discharges waste material must report to and register with the relevant environmental protection authority.

If an enterprise or institution fails to report or provides false information about the environmental pollution caused by it, it will receive a warning or be penalized. An enterprise or institution that has failed to eliminate or control pollution by the deadline as required shall, as provided by the State, pay a fee for excessive discharge; in addition, a fine may be imposed on it on the basis of the damage incurred, or the enterprise or institution may be ordered to suspend its operations or close down.

Enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate any losses or damages suffered as a result of such environmental pollution. Material violation of the Environmental Protection Law that causes a serious environmental pollution accident, leading to the grave consequences of heavy losses of public or private property or human injuries or deaths of persons may attract criminal liability.

Law of the People's Republic of China on the Prevention and Control of Water pollution (《中華人民共和國水污染防治法》)

The Law of the People's Republic of China on the Prevention and Control of Water Pollution (the "Water Pollution Law") was promulgated on 11 May 1984 and revised on 15 May 1996. It is the legal framework for the prevention and control of water pollution in respect of terrestrial and underground water from rivers, lakes, canals, channels and reservoirs. Environmental protection divisions under local people's governments are vested with the function to supervise and administer the prevention and control of water pollution, whilst the competent department of environmental protection under the State Council is in charge of the formulation of water quality standards and pollutant discharge standards.

Any enterprise or institution that discharges water pollutants is subject to a discharge fee in accordance with the relevant regulations and an excess-pollutant discharge fee in case of discharges in excess of the prescribed level and has to take corrective measures. The urban centralized water pollutants disposal enterprise or institution which has paid a water pollutants disposal fee to the said enterprises or institutions is not subject to a discharge fee.

Failure to comply with the Water Pollution Law will subject to a warning notice or a penalty payment as determined by competent department of environmental protection, and based on the decision determined by the local people's government, the non-complying entity will subject to suspension of operations or closure of business. Any entity that causes water pollution is obliged to ensure elimination of the pollution and compensate the loss suffered by any entity or individual.

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Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》)

The Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution was implemented on 5 September 1985 and was amended on 1 September 2002, which provides supervision and management of the prevention and control of atmospheric pollution. Pursuant to the aforesaid law, the administrative department of environmental protection under the State Council shall establish national standards for the discharge of atmospheric pollutants. New construction projects, expansion or reconstruction projects that discharge atmospheric pollutants shall comply with the State regulations concerning environmental protection for such projects. Any facilities for the prevention of air pollution which do not meet the required standards are prohibited from being used. Every entity discharging atmospheric pollutants shall report to the local administrative department of environmental protection its existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operating conditions. The concentration of the pollutants discharged by such entity may not exceed the national or local standards and fees for discharging pollutants shall be charged.

Regulation on Management of Environmental Protection for the Construction Projects (《建設項目環境保護分類管理條例》)

Under the Regulation on Management of Environmental Protection for the Construction Projects (《建設項目環境保護分類管理條例》) and the Law on Environmental Impact Appraisal of the People's Republic of China (《中華人民共和國環境影響評價法》) which were promulgated in November 1998 and October 2002 respectively, the PRC government has set up a system to appraise the environmental impact for construction projects and administer environmental impact appraisal based on the degree of environmental impact. Construction units shall submit the environmental impact documents to the relevant environmental authorities for approval, and must not commence the construction without relevant approval.

According to the Classified Directory for Environmental Protection Administration of Construction Project (《建設項目環境保護分類管理名錄》), paper manufacturing units are required to submit environmental impact reports to relevant environmental authorities for approval, and must not commence the construction without relevant approval.

Regulation on the Protection of Environment of the Shenzhen Special Economic Zone (《深圳經濟特區環境保護條例》)

The Regulation on the Protection of Environment of the Shenzhen Special Economic Zone was implemented on 16 September 1994 and amended on 3 March 2000, which provides specific rules for the protection of environment and prevention of pollutions which are applicable to Shenzhen. Individual or entity which discharges pollutants shall register its pollutant-discharging facilities, the type, quantity, concentration, strength, method and direction of discharge under normal operating conditions and prepare a statistical report. Such individual or entity shall also apply for the Pollutant-discharging Permit (《污染物排放許可證》) and be liable for paying a fee for discharging pollutants.

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Law of the People's Republic of China on Employment Contracts (《中華人民共和國勞動合同法》)

The Law of the People's Republic of China on Employment Contracts came into force on 1 January 2008. This law governs the establishment of employment relationships between, and the conclusion, performance, amendment, termination and ending of employment contracts by, organizations such as enterprises, individual economic organizations and private non-enterprise units in the PRC ("the Employer") on the one hand and employees ("the Employee") in the PRC on the other hand.

The employment relationship is established on the date that the Employer starts using the Employee and a written employment contract shall be concluded. Employment contracts are divided into fixed-term employment contracts, open-ended employment contracts and employment contracts to expire upon completion of a certain job. If the Employee has been working for the Employer for a consecutive period of not less than 10 years, or prior to the renewal, a fixed-term employment contract was concluded on two consecutive occasions, an open-ended employment contract should be concluded, unless the Employee requests the conclusion of a fixed-term employment contract.

When the employment contract is terminated, the Employer shall pay the Employee severance pay. The severance pay based on the number of years that the Employee worked with the Employer at the rate of one month's wage for each full year worked. Any period of not less than six months but less than one year shall be counted as one year. The severance pay payable to the Employee for any period of less than six months shall be one-half of his monthly wages.

Staffing firms shall be established in accordance with the relevant provisions of the company law and have registered capital of not less than RMB500,000. When [●] the Employee, staffing firms shall enter into staffing agreements with the units that accept the Employee under the placement arrangements ("Accepting Units"). And the staffing firms should conclude the employment contracts with the Employee to be placed. The employment contracts between staffing firms and the Employee to be placed shall be fixed term employment contracts with a term of not less than two years and staffing firms shall pay labor compensation on a monthly basis. Both of staffing firms and the Accepting Units may not charge fees from the Employee placed. The Employer may not establish staffing firms to place the Employee with themselves or their subordinate units.

The State Council's labour administration authority shall be responsible for overseeing the implementation of the employment contract system nationwide. The labour administration authorities of local people's governments at the county level and above shall be responsible for overseeing the implementation of the employment contract system in their respective jurisdictions. The Employee whose lawful rights and interests have been infringed upon shall have the right to request that the relevant authority deal with the infringement according to law, or to apply for arbitration and institute an action according to law. If the Employer's rule or regulation with a direct bearing on the immediate interests of the Employee, the labor administration authority shall order rectification and give a warning to the Employer. The Employer that caused harm to the Employee will be liable for damages. If the circumstance is serious, the Employer shall be subjected to administrative punishment or criminal liability according to law.

INDUSTRY AND REGULATORY OVERVIEW

Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Return Investment via Overseas Special Purpose Companies ("Notice 75") (《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》)

Notice 75 was implemented on 1 November 2005. This notice provides that a domestic resident legal person or domestic resident natural person ("domestic resident") has to register foreign exchange registration of overseas investments at local foreign exchange administration, when the domestic resident use its/his enterprise assets or interests inside China to engage in stock right financing and in return investment via overseas special purpose companies.

As advised by the PRC Legal Advisers, Mr. Chong is a holder of Hong Kong identity card and Perfect Group is not a special purpose vehicle within the meaning under the Notice 75. Further, the Reorganisation is not a return investment within the meaning under Notice 75. As such, Mr. Chong is not required to follow the foreign exchange registration requirements under Notice 75.

Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》)

Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors were implemented on 8 September 2006. This regulation applies to a foreign investor purchases the stock right of a shareholder of a non-foreign-invested enterprise in China (domestic company) or capital increase of a domestic company so as to convert and re-establish a domestic company as a foreign-invested enterprise (equity merger and acquisition); or, a foreign investor establishes a foreign-invested enterprise and purchases and operates the assets of a domestic enterprise by the agreement of that enterprise, or, a foreign investor purchases the assets of a domestic enterprise by agreement and uses this asset investment to establish a foreign-invested enterprise and operate the assets (Asset Merger and Acquisition).

The foreign investor merger with and acquisition of domestic enterprises shall comply with the requirements stipulated by laws, administrative regulations and rules of China, and the Guiding Catalogue of Foreign Invested Industry. To an industry that is not allowed to be operated by a sole foreign investor, its merger and acquisition shall not result in foreign investor holding the enterprise's entire equity. To an industry that needs Chinese party to have the holdings or have relative holdings, and the Chinese party shall maintain its holdings or relative holdings in the enterprise after the enterprise in that industry is merged and acquired. To an industry that is forbidden to be operated by a sole foreign investor, the foreign investor shall not merge with or acquire any enterprise in that industry.

The PRC Legal Advisers further advise that the "Provisions on the Acquisition of Domestic Enterprises by Foreign Investors" (the "Provisions on Acquisition") principally apply to the direct or indirect acquisition of PRC domestic enterprises by foreign investors. As both Come Sure Shenzhen and Bright Leader Shenzhen are wholly foreign owned enterprises directly invested by foreign investors, there does not exist acquisitions of Come Sure Shenzhen or Bright Leader Shenzhen or acquisitions of other PRC domestic enterprises through Come Sure Shenzhen or Bright Leader Shenzhen.