

PRC Wholly Foreign-owned Enterprises Law and its Implementation Regulation
(外資企業法及其實施細則)

According to the 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 by the National People's Congress and amended on 31 October 2000 by the Standing Committee of the National People's Congress, the investments, the profits, and other lawful rights and interests of a foreign investor are protected in the PRC. A foreign investor may remit abroad profits and other legal earnings from a wholly foreign-owned enterprise, as well as any remaining funds when the enterprise is liquidated.

According to the Implementation Rules on the PRC Law on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法實施細則), which was promulgated on 12 December 1990 by the Ministry of Foreign Trade and Economic Cooperation and amended on 12 April 2001 by the State Council of the PRC, the articles of association of a wholly foreign-owned enterprise shall become effective upon the approval by the examining and approving authority and the same procedures shall apply whenever any amendments thereto are made. Any division, merger, or any significant change in the registered capital of a wholly foreign-owned enterprise shall be subject to approval by the examining and approving authority. The enterprise shall engage a PRC qualified auditor for a capital verification report. Upon approval by the examining and approving authority, registration shall be made with the Administrative Bureau for Industry and Commerce. Any increase or transfer of the registered capital of a wholly foreign-owned enterprise shall be subject to approval by the examining and approving authority. The wholly foreign-owned enterprise shall, in accordance with PRC laws and regulations and provisions of the financial authority, set up its own financial and accounting systems and submit them to the local financial and tax authorities for their records.

PRC Regulations relating to Production License of Industrial Products and Implementation Procedures (工業產品生產許可證規定及實施辦法)

The PRC Administrative Rules on Production License of Industrial Products (國務院中華人民共和國工業產品生產許可證管理條例), which was promulgated on 9 July 2005 by the State Council of the PRC and became effective on 1 September 2005, provides that a production licensing system be implemented for enterprises engaging in the production of important industrial products listed in the Catalogue for Industrial Products Implementing Products Licensing System of Industrial Products (the "**Catalogue**") promulgated by the General Administration of Quality Supervision, Inspection and Quarantine (the "**AQSI**"). Our hair-care products and skin-care products are categorized as industrial products in the Catalogue. No enterprise or individual may produce, sell, or use the products in the Catalogue without obtaining a production license for industrial products (the "**Production License**"). To obtain a Production License, an enterprise must have a business license, professional technical personnel, production conditions and inspection and quarantine measures, technology, skills and documents regarding production of its process that are commensurate with the product, and a sound and effective system for quality administration. The products of the enterprise shall also comply with state standards, industrial standards and requirements for protection of health, personal life, and property security. The enterprise may not use outdated skills and processes, carry out productions which may result in high energy consumption, environmental pollution, or waste resources.

The Implementation Procedures of the PRC Administrative Rules on Production Licenses of Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法), which was promulgated on 15 September 2005 by AQSI and became effective on 1 November 2005, provides the application procedures for the use of products under the administration of the production licensing system for industrial products within the PRC. The enterprise shall submit an application to the local administration of quality supervision, inspection and quarantine for the production of the products that are included in the Catalogue. An administrative licensing application decision will be made within five days of receipt of the application documents of the applicant. A decision on whether to grant the license shall be made by AQSI within 60 days of acceptance of the application and the production licensing certificate which is valid for five years shall be issued within 10 days of a decision. The

entrustment agreement of processing of products under the administration of production licensing system for industrial products shall be submitted to the local administration of quality supervision, inspection and quarantine for filing.

PRC Regulations on Hygiene Supervision, Advertisement and Labeling of Cosmetics
(化妝品衛生監督、廣告及標識管理規定)

The Regulations on the Supervision of Hygiene of Cosmetics (化妝品衛生監督條例), which was promulgated on 13 November 1989 by the Ministry of Health and became effective on 1 January 1999, provides that a hygiene licensing system is implemented for enterprises engaging in the production of cosmetics. The Cosmetic Production Enterprise Hygiene License shall be approved and issued by the hygiene administration authority at the provincial level and will be valid for four years and checked every two years. To produce cosmetics for special use, a production enterprise shall be approved by the State Administration of Foods and Drugs and obtain a number of approvals before it commences production.

The Administrative Rules on the Advertisement of Cosmetics (化妝品廣告管理辦法), which was promulgated on 13 July 1993 by the State Administration for Industry and Commerce and became effective on 1 October 1993, provides that the advertisement of cosmetics shall not contain prohibited contents such as false and misleading statements, exaggerating effects of the products and debasement of competitors' products. The local branch of the State Administration for Industry and Commerce shall have the right to prohibit such an advertisement and impose a fine if the advertisements contains the prohibited contents.

The Administrative Provisions on Cosmetics Labeling (化妝品標識管理規定), which was promulgated on 27 August 2007 by the AQSIQ and became effective on 1 September 2008, which requires labels of cosmetic products to contain information such as origin, requirements, name and address of the producer, date of production, expiry date, batch number, applicable industrial or state standards, quality inspection certificate, and product license number. According to the regulation, the label of a cosmetic product shall not claim or imply that the cosmetic product has any medical or therapeutic effects, and shall not exaggerate the function of product.

PRC Law for the Safety of Production (安全生產法)

According to the Law for the Safety of Production (安全生產法) which was promulgated on 29 June 2002 by the Standing Committee of the National People's Congress and became effective on 1 November 2002, companies carrying out production activities shall have safe production conditions as required by relevant laws and regulations. Companies having more than 300 employees shall form a management department to carry out the functions of production safety or appoint personnel solely responsible for production safety. Companies shall display warning signs at the location and on equipment with high potential risks. Companies shall purchase job-related injury insurance according to relevant laws and regulations.

PRC Environmental Protection Law and relevant Regulations (環境保護法及相關規定)

The Environmental Protection Law (環境保護法) was promulgated by the Standing Committee of the National People's Congress and became effective on 26 December 1979. The law sets out the legal framework for environmental protection in the PRC. The underlying principle of the environmental protection law is to protect and improve the living and ecological environment, pollution and human health. Facilities for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. Facilities for the prevention and control of pollution shall not be dismantled or left idle without approval. Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council. The importation of any technology or facility that fails to meet the requirements specified in the regulations of our country concerning environmental protection shall not be imported.

The Law on the Prevention and Control of Water Pollution (水污染防治法), which was promulgated on 11 May 1984 by the Standing Committee of the National People's Congress and amended on 15 May 1996, and which was further amended on 28 February 2008, established the standards for the prevention and control of pollution of rivers, lakes, canals, irrigation channels, reservoirs, other surface water, and underground water. New construction projects, projects under expansion or reconstruction, and other projects which may directly or indirectly discharge pollutants into water bodies shall be subject to such law. Facilities for the prevention and control of water pollution at a construction project must be designed, built and commissioned together with the principal part of the project. Enterprises directly or indirectly discharging polluted water into water bodies shall obtain a permit for the discharge of polluted water. Enterprises discharging pollutants directly or indirectly into a water body shall, pursuant to the regulations of the environmental protection department under the State Council, report to and register with the local environmental protection department their existing facilities for discharging and treating pollutants, and the categories, quantities and concentrations of pollutants discharged under their normal operating conditions, and also provide to the same department technical information concerning prevention and control of water pollution.

The Administrative Rules on the Environmental Protection of Construction Projects (建設項目環境保護管理條例) which was promulgated by the State Council of the PRC and became effective on 29 November 1998, provides that the environmental impact assessments ("EIAs") must be carried out by qualified institutions for the construction projects. The environmental impact report, the form of environmental impact report or a registration form must be submitted to competent authorities for environmental protection for approval.

If the construction project is expected to have a major impact on the environment, an environmental impact report is required. The environmental impact report must contain complete and detailed assessment of the pollution which may be caused by the construction project and its impact on the environment.

If the construction project is expected to have a minor impact on the environment, a form of environment impact report is required.

If the construction project is expected to have minimal impact on the environment, a registration form is required.

PRC Anti-Unfair Competition Law (反不正當競爭法)

The PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法), which was promulgated by the Standing Committee of the National People's Congress and became effective on 1 December 1993, provides that market-players shall abide by the principle of voluntariness, equality, impartiality, honesty and good faith. Market-players shall also adhere to public commercial morals in their business transactions. The market-players shall not engage in any unfair competition activities which include but may not be limited to:

- (1) feigning another's registered trademarks;
- (2) using the name, package, decoration of famous or noted commodities, or using a name, package or decoration similar to that of famous or noted commodities, which may confuse consumers in distinguishing the commodities from famous or noted commodities;
- (3) using the name of another enterprise or individual which may confuse consumers in distinguishing the commodity from the other's commodities;
- (4) feigning or pretending to be the certificate of attestation, mark of fame and high qualification, feigning the certificate of originally produced place of the commodities; which may cause consumers to misunderstand the qualification of the commodities due to false certificates;

- (5) infringing another's intellectual property rights; and
- (6) fabricating and spreading false facts which may damage the business reputation or commodity fame of its competitors.

Foreign Exchange Registration (外匯登記)

According to the Notice on Issues Relating to Foreign Exchange Control on Fundraising by Domestic Residents through Offshore Special Purpose Vehicles and Round-trip Investments (the **"No. 75 Notice"**) (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) promulgated on 21 October 2005 by SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles for capital raising with the assets or equity interest of PRC domestic companies owned by them. According to the No. 75 Notice, resident natural persons include those individuals who have PRC citizenship or other domestic legal status and those "individuals who does not have any domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests". In accordance with the Notice of the General Affairs Department of the State Administration of Foreign Exchange on Printing and Distributing the Operating Rules for the Notice of the State Administration of Foreign Exchange on the Relevant Issues about Foreign Exchange Control over the Financing and Return Investment of Domestic Residents through Overseas Special Purpose Companies (Hui Zong Fa [2007] No.106) (國家外匯管理局總公司關於印發《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》操作過程的通知 (匯綜發[2007]106號)) promulgated on 29 May 2007 by SAFE, "the individual who does not have domestic legal status in the PRC but resides in the PRC habitually for the purpose of economic interests" mainly include the following (no matter whether he/she has a PRC statutory identification certificate or not),

- (1) individuals who have domestic permanent residence leaves this domestic permanent residence temporarily for reasons including overseas travel, study, medical treatment, work, or the requirements of overseas residence, etc.;
- (2) individuals who hold domestic-funded rights and interests of domestic enterprises; and
- (3) individuals who hold domestic-funded rights and interests in domestic enterprises which were converted into foreign-funded rights and interests with the same individual holding the aforementioned rights and interests.

Based on that: (i) Mr. Chen and Ms. Wan have confirmed that they are permanently resident in Hong Kong and their current residence in the PRC is a temporary one to facilitate management of their investment in the PRC including Bawang Guangzhou; (ii) Mr. Chen and Ms. Wan, being the ultimate controllers of Bawang Guangzhou, became Canadian citizens on 10 December 2004 and do not hold any domestic-funded rights and interests of any domestic enterprises; (iii) a SAFE Guangdong Branch official has orally confirmed that Mr. Chen and Ms. Wan are not required to register under the No.75 Notice; and (iv) our PRC legal advisors have advised that Mr. Chen and Ms. Wan are not required to register.

PRC Regulations on the Issue and Listing of Shares Outside China and relevant Regulatory Approvals (境外發行股票和上市管理規定及審批)

According to the Circular on Further Strengthening Administration of the Issue and Listing of Shares Outside China (Guo Fa [1997] No. 21) (關於進一步加強在境外發行股票和上市管理的通知 (國發[1997]21號)) which was promulgated by the State Council of the PRC came into effect on 20 June 1997 (the **"Red Chip Guideline"**). In the event that an unlisted overseas Chinese enterprise or a listed Chinese controlled enterprise applies for overseas listing where it has held its overseas assets or domestic assets for more than 3 years and these assets were obtained through investment of overseas asset, local laws will apply. However, domestic businesses that hold the share rights in the Chinese-funded enterprises shall obtain prior consent of the People's Government at the provincial level or the competent authority of

the State Council of the PRC. Those companies' assets within China that have been owned for less than three years may not be included in the application for issue and listing of shares outside China unless there is a special need to do so, under which circumstance the matter shall be examined by the China Securities Regulatory Commission and subsequently examined and approved by the State Council Securities Commission. Following completion of the listing activity, the domestic businesses that hold equity interests in the Chinese-funded enterprise shall report to the China Securities Regulatory Commission.

In accordance with Decision of the State Council on the Cancellation of Administrative Approval Items for the Second Batch and on the Alteration of the Regulatory Measures on a Batch of Administrative Approval Items (Guo Fa [2003] No. 5) (國務院關於取消第二批行政審批項目和改變一批行政審批項目管理方式的決定) which was promulgated by the State Council and became effective on 27 February 2003, "the inspection of the legal opinion regarding issuing of shares and listing of the overseas company relating to domestic rights and interests issued by the PRC lawyer made by the China Securities Regulatory Commission" provided in the Announcement on the Issues concerning the Issuing Shares and Listing of the Overseas Company related to the Domestic Rights and Interests (Zheng Jian Fa Xing Zi [2000] No. 72) (中國證券監督管理委員會關於涉及境內權益的境外公司在境外發行股票和上市有關問題的通知(証監發行字[2000]72號)) promulgated by the China Securities Regulatory Commission on 9 June 2000 belongs to the 313th item of the 406 administrative approval items and shall be cancelled.

CSRC promulgated the Announcement of China Securities Regulatory Commission on the Cancellation of Administrative Approval Items for the Second Batch and on the Alteration of Regulatory Measures on Some Administrative Approval Items (中國證券監督管理委員會關於取消第二批行政審批項目和改變一批行政審批項目管理方式的通告), and the Notice on Doing a Good Job in the Cancellation of Administrative Approval Items for the Second Batch and in the Subsequent Supervision and Maintaining Consistency after the Alteration of Regulatory Measures on Some Administrative Approval Items (Zheng Jian Fa [2003] No. 17)) (中國證券監督管理委員會關於做好第二批行政審批項目取消及部分行政審批項目改變管理方式後的後續監管和銜接工作的通知(証監發[2003]17號)) on 1 April 2003. In accordance with the aforementioned documents, since 27 February 2003, the legal opinion regarding issuing of shares and listing of the overseas companies relating to domestic rights and interests issued by the PRC lawyer has not been accepted by the China Securities Regulatory Commission. If the legal opinion issued by the PRC lawyer was accepted prior to this, no objection letter will be issued.

The Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors (the "M&A Rules" (關於外國投資者并購境內企業的規定), which was promulgated by the Ministry of Commerce, the State Asset Supervision and Administration Commission, the CSRC, the State Administration of Taxation, the State Administration for Industry and Commerce and the SAFE became effective on 8 September 2006 and applies in the event that foreign investors acquire PRC enterprises. Our PRC legal advisor to the Company and the PRC legal advisor to the Joint Sponsors advise that the Red Chip Guideline and M&A Rules are not applicable to the listing of the Company and it is unnecessary for the Group to obtain approval from the PRC government authorities in respect of the listing of the Company for the reasons that: (1) Mr. Chen and Ms. Wan became Canadian citizens on 10 December 2004; and (2) Bawang Guangzhou was set up as a new wholly foreign owned enterprise before 8 September 2006 by an offshore entity owned by Mr. Chen and Ms. Wan and was owned by Mr. Chen and Ms. Wan since its establishment.

General regulations on PRC Trademark Registration

Pursuant to the PRC Trademark Law (商標法) and its Implementation Regulation (商標法實施條例), registered trademarks are those that have been approved and registered by the Trademark Office, including commodity trademarks, service trademarks, collective marks and certification marks. The Trademark Office of the Administrative Department for Industry and

Commerce (國家工商行政管理總局商標局) under the State Council is in charge of trademark registration and administration in the PRC.

Trademark registrants shall be entitled to the exclusive use of their trademarks. This is limited to the use of registered trademarks on certain commodities on which the use of the registered trademarks is approved.

The validity period of a registered trademark shall be ten years commencing from the day the registration is approved. If a registrant needs to continue to use the registered trademark after the validity period, an application for the renewal of registration shall be made within six months before the expiration of the validity period. If the renewal application is approved, the trademark will be renewed for another ten years.

A trademark shall not be registered and shall be prohibited from being used if: (1) the trademark is the copy, imitation or translation of a well-known trademark of another on the same or similar commodities not registered in China; and (2) the trademark may mislead the public or lead to possible damages to the interests of the registrant of that well-known trademark. A trademark shall not be registered and shall be prohibited from being used if: (i) it is a copy, imitation or translation of a well-known trademark of another which has been registered in China; and (ii) it may mislead the public and lead to possible damages to the interests of the registrant of that well-known trademark.

Regulation on Determination of Well-known Trademarks

Pursuant to the PRC Trademark Law, the following factors shall be taken into consideration in the determination of well-known trademarks:

- (1) how well that trademark is known by the relevant public;
- (2) the period during which that trademark has been in use;
- (3) the period, extent and geographic scope of any publicity of that trademark;
- (4) the record of protection of that trademark as a well-known trademark; and
- (5) other factors for which that trademark is well-known.

Under the Provisions for the Determination and Protection of Well-known Trademarks (馳名商標認定和保護規定), the term “well-known trademark” refers to a trademark widely known by the public and highly reputable in China.

The Trademark Office of the State Administration for Industry and Commerce shall be responsible for the recognition and administration of well-known trademarks.

The validity period of a well-known trademark shall be from the date when it is recognized as a well-known trademark until the end of the validity period of such trademark or until the recognition of the well-known trademark is revoked. The following serve as evidence indicating that trademark is well known:

- (1) materials showing that the public knows such trademark;
- (2) materials showing the duration of the use of such trademark;
- (3) materials showing the duration, extension and areas of advertising of such trademark;
- (4) records showing that such trademark has been protected as a well-known trademark;
- (5) other materials showing that the trademark is renown, including production amount, sales volume, and the profit of the products bearing the trademark.

Regulation on Cosmetics Labeling

According to the Administrative Regulations on Cosmetics Labeling (化妝品標識管理規定), which was promulgated on 27 August 2007 by the AQSIQ and became effective on 1 September 2008, the label of the cosmetic product shall not contain any information claiming or implying any medical or therapeutic effects of the cosmetic product, the PRC legal advisors to the Company are unable to opine on whether the labels of the products produced by Bawang Guangzhou after 1 September 2008 have complied with the regulation due to the short history of the regulation and the lack of implementation rules of the regulation. If Bawang Guangzhou fails to comply with the regulation, Bawang Guangzhou may be ordered to rectify within a specific period of time. If Bawang Guangzhou fails to rectify promptly, Bawang Guangzhou may be imposed a fine of no more than RMB10,000. We received confirmation from the Administration of Quality and Technology Supervision of Guangdong Province, the local governmental authority responsible for implementing such regulation on 30 September 2008, confirming Bawang Guangzhou has not been punished due to issues relating to product quality from 20 November 2007, the date on which Bawang Guangzhou obtained the production License, to 30 September 2008. Likewise, we have not received any penalties due to violation of the regulation as of the Latest Practicable Date.

Save as explained in the above paragraph, as advised by our PRC legal advisor, based on the certificates issued by the competent authorities, Bawang Guangzhou has complied with all relevant regulatory requirements for its operations in all material respects. Bawang Guangzhou has obtained all necessary PRC licenses and permits required under the above regulations.

To ensure ongoing compliance with the regulatory requirements, Bawang Guangzhou has adopted the following measures, among others:

- (1) assigned in-house legal counsel who will monitor both current and newly promulgated regulatory requirements applicable to Bawang Guangzhou;
- (2) set up an office to be in charge of affairs in relation to the license and permits to be obtained by Bawang Guangzhou;
- (3) set up an office to be in charge of affairs in relation to the intellectual property of Bawang Guangzhou; and
- (4) consult external legal counsel for further advice, where appropriate.