
THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

SUMMARY OF THE PRC LAWS AND REGULATIONS

The primary production and operations entity of the Group is Ausnutria Hunan, which is located in the PRC. Ausnutria Hunan, with respect to its all business operations, including the production and sales of paediatric food products, milk and dairy products, is subject to all industry policies, relevant laws, regulations, rules and extensive government regulatory policies which are presently valid and effective. With respect to its current business operations, the Group is mainly subject to the following laws, regulations and rules:

Policies relating to the Foreign-invested Paediatric Nutrition Products Industry

Guidance on the foreign investment industry in the PRC can be found in the Foreign Investment Industrial Guidance Catalogue 《外商投資產業指導目錄》 which has been promulgated and implemented from time to time. Pursuant to the Foreign Investment Industrial Guidance Catalogue which was jointly issued by the National Development and Reform Commission and Ministry of Commerce on 31 October 2007, development and production of infant food has been listed as a business which has encouraged foreign investment.

In addition, based on the Conditions for Admission to the Dairy Product Processing Industry 《乳製品加工行業准入條件》 and the Dairy Product Industrial Policies (2009 Version) 《乳製品工業產業政策(2009年修訂)》 released by the National Development and Reform Commission on 18 March 2008 and the Ministry of Industry and Information Technology of the PRC and the National Development and Reform Commission on 26 June 2009 respectively, foreign investment in paediatric nutrition products need to comply with the relevant admission conditions, such as the establishment and composition of enterprises, scale and capability of processing, technology and equipment, product quality, environmental health and protection, energy consumption and production safety.

Regulatory System relating to the Infant Food Industry

The PRC has established a series of laws and regulations to strengthen the control on production, operation and sales of food, especially paediatric nutrition products, and has formed a stringent regulatory system that covers, *inter alia*, food safety system, food hygiene system, food production licence system, food standardisation system, food imports and exports control system, food identification management system as well as food recall system. The following is a general description of the aforesaid key legal systems:

A. Food Safety System

According to the Food Safety Law of the PRC 《中華人民共和國食品安全法》 adopted by the National People’s Congress Standing Committee on 28 February 2009 and implemented on 1 June 2009, the food safety standard is compulsory and should include the following:

- (1) maximum limits relating to the level of pathogenic micro-organisms, pesticide residues, veterinary medicine residue, heavy metals, contaminants, and other substances which may be harmful to human health found in food and food-related products;
- (2) types, scope of application and dosage of food additives;
- (3) nutritional requirements of staple and supplementary food exclusively for infants and toddlers and other special groups of people;

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- (4) requirements for labels, identification and instructions relevant to food safety and nutrition;
- (5) hygiene requirements for the operating procedures of food production;
- (6) quality requirements relating to food safety;
- (7) methods and procedures for food inspection and testing; and
- (8) other particulars proposed to be developed as food safety standards.

The health administrative department (衛生行政部門) of the State Council is responsible for formulating and announcing national food safety standards. Where there are no national food safety standards, the health administrative department of provinces, autonomous regions and municipalities directly under the central government may formulate their own local food safety standards. If there are no national food safety standards or local standards, enterprises should formulate their own enterprise standards to regulate their own food production. Imported food, food additives and food-related products should comply with the PRC national food safety standards.

According to the Regulations for the Implementation of the Food Safety Law of the PRC 《中華人民共和國食品安全法實施條例》 promulgated and implemented on 20 July 2009, food producers and traders should engage in production and trading activities in accordance with the laws, regulations and food safety standards, establish and improve their food safety management systems and adopt effective measures to ensure that the food is safe. Food producers and traders should be responsible for the safety of the food which they produce and trade, be responsible to the society and the public, and undertake social responsibility.

The Food Safety Law has been implemented since 1 June 2009, however, the related regulations of other regulatory departments are subject to further enactment, for specifying and refining the actual application of the Food Safety Law.

According to the Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products 《乳品質量安全監督管理條例》 issued and implemented by the State Council of the PRC on 9 October 2008, dairy animal breeders, fresh milk purchasers, dairy products production enterprises and sellers are the first responsible takers. They should assume responsibility for the quality and safety of the dairy products which they produce, purchase, transport and sell. Fresh milk and dairy products should comply with the national safety standards for the quality of dairy products. These national safety standards relating to the quality of dairy products are developed by the health department of the State Council and amended from time to time in accordance with the results of risk monitoring and risk assessments. The addition of non-edible chemical substances or other substances which may be harmful to human health during the production process of dairy products is prohibited.

B. Food Hygiene System

Pursuant to the requirements of the Food Safety Law of the PRC, food production operations should comply with the following hygiene requirements:

- (1) having suitable facilities to treat raw food materials and process, package and store food based on the variety and quantity of food produced; keeping such facilities tidy and clean; and maintaining required distances between such facilities and toxic or hazardous elements or other sources of contamination;

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- (2) having appropriate production and operating equipments or facilities based on the variety and quantity of food produced or operated; and having appropriate equipments or facilities for disinfection, changing, cleaning, lighting, illumination, ventilation, anticorrosion, dust-proofing, fly-proofing, rat-proofing, insect-proofing, cleansing and wastewater treatment, rubbish and other wastes storage;
- (3) having technical professionals and management personnel trained in the area of food safety, and a system with rules to ensure food safety;
- (4) having equipments and production lines arranged in a practical way to prevent cross-contamination between processed food and food that are ready-to-eat, raw materials and finished products, and to avoid food being in contact with toxic and unclean substances;
- (5) tableware, drinking utensils and containers for ready-to-eat food should be cleaned and disinfected prior to use; cooking utensils and other utensils should be washed after being used and kept clean;
- (6) containers, utensils and equipments used for storage, transportation, loading and unloading of food should be safe, harmless and kept clean to prevent food contamination; and conforming to specifications such as setting the temperature to a value which is required to ensure food safety; transporting food and toxic and hazardous substances separately;
- (7) ready-to-eat food should have small packages or use packaging materials and tableware which are non-toxic and clean;
- (8) food production and operating staff should have good personal hygiene, wash their hands thoroughly and wear clean working clothes and headwear while producing and operating food; non-toxic and clean tools should be used while selling ready-to-eat food without packaging;
- (9) water used should comply with the national hygiene standards for drinking water;
- (10) detergents and disinfectants used should be safe and harmless for the human body; and
- (11) compliance with other laws and regulations.

Pursuant to the Measures for the Administration of Food Hygiene Permit 《食品衛生許可證管理辦法》 promulgated by the Ministry of Health on 25 December 2005 and implemented on 1 June 2006, enterprises which wish to engage in food production and operating activities must report to the health administrative department and submit an application for obtaining hygiene permits according to the relevant procedures. Once approval from the health administrative department is granted, food production and operating activities can commence, and thereafter responsibility in regard to the hygiene in food production and operation should be assumed by the relevant enterprises.

Those applying to be engaged in the business of food production and processing must comply with the following conditions:

- (1) having a hygiene management system in place, organisation and professionally trained full-time or part-time profession staff to manage food hygiene;
- (2) having plants, facilities, equipments and an environment which are appropriate for food production and processing that meet hygiene requirements;

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- (3) having conditions and measures that control contamination in production lines and during production and processing;
- (4) having raw and supplementary materials, tools, containers and packaging materials for production that meet hygiene requirements;
- (5) having agencies, personnel and the necessary instruments and equipments to carry out food testing;
- (6) staff should receive training and pass health checks before commencing work; and
- (7) other conditions as required by provincial health administrative departments.

Health administrative departments will issue food hygiene permits to those food production operators who meet the relevant permit requirements.

C. Food Production Permission System

Pursuant to the Food Safety Law of the PRC, China has implemented a licensing system on food production and operation.

In accordance with the Regulations of the PRC on the Administration of Production Licence for Industrial Products 《中華人民共和國工業產品生產許可證管理條例》 promulgated by the State Council on 9 July 2005 and implemented on 1 September 2005, the State has put in place a production licensing system for enterprises which produce processed food such as dairy products, meat products, beverage, rice, noodles, cooking oil, wine, and other products the consumption of which may directly affect human health.

Under the Provisional Detailed Rules for Administration and Supervision of Quality and Safety in Food Production and Processing Enterprises 《食品生產加工企業質量安全監督管理實施細則(試行)》 issued and implemented by AQSIQ on 1 September 2005, the State has introduced a system on food quality and safety market entry. Food production and processing enterprises must meet the required production conditions for food quality and safety, and obtain food production licences in accordance with the required procedures. Produced or processed food is only allowed to be sold after passing inspections and with labels regarding food quality and safety market entry.

For production of processed food by way of entrustment arrangement, the enterprise (that is, the contractor) should be an enterprise holding a valid licence for food production, and the contracting party and the contractor should file a report with their respective municipal quality and technical supervision departments (質量技術監督部門).

The effective period for a food production licence is three years. If enterprises wish to continue their operation after the expiry of the effective period, they must submit applications to the original quality and technical supervision departments six months before the effective period expires.

D. Food Standardisation System

In accordance with the Standardisation Law of the PRC 《中華人民共和國標準化法》 implemented on 1 April 1989 and its implementation regulations and interpretation provisions, standards in relation to protecting personal health and the safety of persons and property as well as mandatory execution standards imposed by laws and regulations are classified as “mandatory standards”. Food hygiene standards are part of mandatory standards.

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According to the Notice of Issues Relating to the Implementation of Three Compulsory National Standards Including General Technical Requirements of Infant Formula Powder and Infant Supplementary Cereals Powder 《關於實施〈嬰幼兒配方粉及嬰幼兒補充穀粉通用技術條件〉等三項強制性國家標準有關問題的通知》(國標委農輕聯[2004]63號) issued by the Standardisation Administration Commission of the PRC and AQSIQ on 29 June 2004, production enterprises should strictly comply with three compulsory national standards, namely GB10767-1997 General Technical Requirements of Paediatric Formula Powder and Paediatric Supplementary Cereals Powder 《嬰幼兒配方粉及嬰幼兒補充穀粉通用技術條件》(hereinafter referred to as “**General Technical Requirements** 《通用技術條件》”), GB10765-1997 “Infant Formula Milk Powder I 《嬰幼兒配方乳粉I》”(hereinafter referred to as “**Formula I**”) and GB10766-1997 “Infant Formula Milk Powder II, III 《嬰幼兒配方乳粉II、III》”(hereinafter referred to as “**Formula II, III**”).

Besides following the three standards, enterprises producing paediatric formula products can also adopt enterprise standards to the extent that such standards are not below the corresponding technical requirements of the national standards. If this is the case, enterprises are required to file such standards to the local standardisation administrative department.

Imported infant formula milk powder I or infant formula milk powder II, III are required to comply with the technical requirements of Formula I or Formula II, III, while other paediatric formula powder products are required to comply with the General Technical Requirements.

E. Food Imports and Exports Regulatory System

Pursuant to the requirements of the Food Safety Law of the PRC, imported food, food additives and food-related products must comply with the PRC’s national food safety standards. Customs will allow the imported food products to enter the country after the relevant exit-entry inspection and quarantine authority has inspected and approved such products by issuing certificates of customs clearance. Overseas food producers exporting food to China are required to register with the PRC’s exit-entry inspection and quarantine departments.

According to the requirements of the Law on Import and Export Commodity Inspection of the PRC 《中華人民共和國進出口商品檢驗法》 which was amended on 28 April 2002 and executed on 1 October 2002 and its implementation regulations, AQSIQ has formulated and adjusted the list of imported and exported commodities which require mandatory inspection. Exit-entry inspection and quarantine authorities will carry out inspections on commodities which are on the list as well as on other imported and exported commodities which are required to be inspected by other laws and administrative regulations. Commodities which require inspection shall be inspected in accordance with the mandatory requirements of the national technical specifications. Commodities which do not have such mandatory requirements can refer to the relevant overseas standards designated by AQSIQ. Imported commodities which require inspection cannot be sold or used before such inspections have been completed.

F. Food Identification Management System

Pursuant to the Food Identification Management Requirement 《食品標識管理規定》 promulgated by AQSIQ on 27 August 2007 and effective from 1 September 2008, food identification labels should state the name, place and date of production, expiry date, net content, list of ingredients, names and addresses of producers, and standardisation numbers of national standards, industry standards, local standards or enterprise standards for those who have filed these to the authorities.

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Food labels with wordings such as “nutrition” or “strengthened” in their names or descriptions are required to state the nutrition and calories of such food in accordance with the relevant national standards and comply with the quantity identification required by the national standards. Food which is under the production licensing management scheme is required to show its food production licence number and QS mark on the food label.

G. Food Recall System

The State has established a food recall system under the requirements in the Food Safety Law of the PRC.

Pursuant to the Provisions on the Administration of Food Recall 《食品召回管理規定》 issued and implemented by AQSIQ on 27 August 2007, food recall is categorised into three grades, namely grade one recall, grade two recall and grade three recall, based on the severity level of food safety hazards. Food will be recalled on two basis: voluntary recall or recall by order.

Voluntary recall

- (1) The food producer should immediately cease production and sale of the food that has been identified as unsafe for human consumption which should be recalled;
- (2) from the date on which the food has been identified as unsafe food which should be recalled, the relevant sellers should be notified not to sell and the consumers should be notified not to consume the identified food within one day for a grade one recall, within two days for a grade two recall, and within three days for a grade three recall;
- (3) information relating to food recall distributed by food producers to the public must be reported to provincial quality and technical supervision departments or above in accordance with relevant requirements;
- (4) from the date on which the food has been identified as unsafe food which should be recalled, food producers should submit their food recall plan to provincial quality and technical supervision departments through municipal quality and technical supervision departments where such producers are located within three days for a grade one recall, within five days for a grade two recall, and within seven days for a grade three recall; and
- (5) from the date on which the food has been recalled, progress reports should be submitted to provincial quality and technical supervision departments through municipal quality and technical supervision departments where such producers are located once every three days for a grade one recall, once every seven days for a grade two recall and once every 15 days for a grade three recall.

Recall by order

If any of the following situations takes place, AQSIQ shall order food producers to recall the relevant unsafe food and may publish relevant food safety information and consumption warnings or adopt other measures to avoid any further harm being caused to the public:

- (1) food producers deliberately concealing the hazards of food safety, or food producers not taking any recall action where a voluntary recall is required;
- (2) the harm has expanded or reoccurred due to the fault of food producers; and

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- (3) hidden problems relating to food safety which may be harmful to human health and life are discovered during a selective inspection conducted by the nation’s supervisors. Food producers are required to stop producing and selling the unsafe food immediately after receiving notice of a recall order.

Supervision on the use of food additives

Pursuant to the Food Safety Law, no food additive may be used in food unless it is technically deemed necessary and has been proven to be safe and reliable after passing risk assessments. The health administrative department of the State Council shall, on the basis of the technical requirements and the results of the food safety risk assessments, revise the varieties, scope of use and standard on the dosage of food additives in a timely manner. A food producer shall use food additives in accordance to the food safety standards in relation to the varieties, scope of use and dosage of food additives, and shall not, during the process of food production, use any chemical substances other than food additive or any other substances which may cause potential harm to human health.

When purchasing raw materials for producing food, food additives and food-related products, a food producer shall inspect the licence and product compliance certification document from the supplier. For any supplier who is unable to provide a compliance certification document, an inspection on the raw materials for producing food shall be implemented in accordance to the food safety standards. No raw material for food, food additive or food-related product with which the food safety standards have not been complied shall be purchased or used. A food production enterprise shall establish an inspection record system for the purchased raw materials for producing food, food additives and food-related products, which records contents such as the names, specifications, quantities of the raw materials for producing food, food additives and food-related products, names and contact information of the suppliers and the date of purchase. Such inspection record must be true and be kept for at least two years.

Pursuant to the Measures for the Hygienic Administration of Food Additives 《食品添加劑衛生管理辦法》 promulgated on 28 March 2002 and implemented since 1 July 2002 by the Ministry of Health of the PRC, a food additives operator, when purchasing food additives, shall request a copy of the Licence of Hygiene and a certification of product inspection compliance. The use of food additives should comply with the applicable hygienic standards of food additives or the provisions on varieties, the scope of use and dosages as required under the list announced by the Ministry of Health.

Under the Administrative Measures for the Record of Use of Food Additive by Food Production and Processing Enterprises (Trial) 《食品生產加工企業食品添加物質使用備案管理辦法(試行)》 promulgated on and implemented since 19 April 2007 by AQSIQ, an enterprise engaged in food processing in the PRC shall file at the Bureau of Quality and Technical Supervision of a county-level from where it is located a record of the varieties, the use and dosages of all food additives used in the food, and be responsible for the authenticity of its contents. In case of a change of the basic contents to the record made by such enterprise, a new record shall be made within 15 days.

Environmental Protection

- A. Under the Environmental Protection Law of the People’s Republic of China 《中華人民共和國環境保護法》 implemented on 26 December 1989, all enterprises producing environmental pollution and other public hazards should incorporate environmental protection works into their plans and establish a responsibility system for environmental protection. These enterprises should adopt

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effective measures to prevent and control pollution and damage from waste gas, sewage, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities caused to the environment.

Facilities for preventing and controlling pollution in construction projects should be designed, built and operate with the main construction works simultaneously. Such projects can commence operation or be used after passing the examination for acceptance conducted by the environmental protection administrative department in charge which reviewed and approved the original environmental impact reports.

- B. Pursuant to the Regulation on the Administration of Construction Projects Environmental Protection 《建設項目環境保護管理條例》 issued and implemented on 29 November 1998 by the State Council and the Law of Environmental Impact Assessment of the PRC 《中華人民共和國環境影響評價法》 implemented on 1 September 2003, the State has conducted an assessment of environmental impact system for construction projects. The State organises the projects into different categories according to the level of harm such projects could cause to the environment. If the construction projects will have a significant impact on the environment, then environmental impact reports should be prepared, and full assessment of the impact should also be conducted. Projects with smaller environmental impact are required to compile environmental impact report statements and conduct analysis or special assessment on environmental impact. For those projects with minor environment impact, and which are not required to conduct an environment impact assessment are required to fill out an environmental impact registration form. The aforesaid environmental impact assessment documents as submitted by the construction units will be approved by the environmental protection administrative department in charge, which possesses the right of approval in accordance with the national rules. For projects which have not gone through this examination process or have not received approval after such examination, the project approval department must not approve such projects and construction units cannot commence construction.
- C. According to the Law of the PRC on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》 amended on 28 February 2008 and with effect from 1 June 2008, construction projects or other water facilities which are newly constructed, reconstructed and expanded, discharge pollutants into the water directly or indirectly should conduct an environmental impact assessment in accordance with relevant laws. Enterprises which discharge industrial sewage directly or indirectly into water system should obtain pollutant discharge permits. Enterprises which discharge pollutants directly or indirectly into the water system should report to and register with the environmental protection administrative department in charge which is above county level in relation to the facilities which they own for discharging and treating water pollutants, as well as the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These enterprises are also required to provide relevant technical information about how to prevent and control water pollution. Enterprises which discharge pollutants directly into the water should pay pollutant discharge fee according to the types and quantities of their water pollutants and the levy standard.
- D. The Law of the PRC on Prevention and Control of Air Pollution 《中華人民共和國大氣污染防治法》 which was amended on 29 April 2000 and took effect from 1 September 2000 requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere need to comply with certain regulations relating to environmental protection. Units that discharge

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pollutants into the atmosphere should report to the local environmental protection administrative department in charge in relation to the facilities which they own for the discharge and treatment of pollutants, as well as the types, quantities and concentrations of the pollutants discharged under normal operating conditions. They are also required to provide relevant technical information about how to prevent and control atmospheric pollution. The PRC government has implemented a system on levying fees for discharging pollutants into the atmosphere based on the type and quantity of pollutants discharged. The standards on levying pollution discharge fees that the government put in place have been based on the requirements for strengthening the prevention and control of atmospheric pollution as well as the national economic and technological conditions.

- E. According to the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Waste 《中華人民共和國固體廢物污染環境防治法》 amended on 29 December 2004 and with effect from 1 April 2005, enterprises producing industrial solid wastes should form and improve an accountability system in preventing and controlling environmental pollution, and adopt measures to prevent and control such wastes from polluting the environment. The State has implemented a reporting and registration system for industrial solid pollutants. In accordance with the relevant requirements, units producing industrial solid pollutants must provide relevant information to the local environmental protection administrative department in charge which is above county level, where such information includes the type, quantity, flow, storage and treatment of the industrial solid wastes.
- F. Under 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》, effective from 1 March 1997, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

Labour and Production Safety

- A. In accordance with the Labour Contract Law of the PRC 《中華人民共和國勞動合同法》, effective from 1 January 2008, employers and employees should enter into written employment contracts to establish their employment relationship. When hiring employees, employers are required to inform the employees about their job duties, working conditions, working places, occupational hazards, production safety conditions, remuneration and other matters which employees may be concerned with. Employers and employees should fully perform their respective obligations in accordance with the commitments set forth in the employment contracts. Employers should pay remuneration to employees on time and in full in accordance with the commitments set forth in the employment contract and the PRC regulations, strictly adhere to the working quota standards, and are prohibited from compelling employees to work overtime. At the time of terminating an employment contract, the employers should provide evidence for such termination and arrange for the worker to transfer his/her file and social insurance relations within 15 days.
- B. Pursuant to the Employment Promotion Law of the PRC 《中華人民共和國就業促進法》 with effect from 1 January 2008, recruitment units should provide equal employment opportunities and fair employment conditions when recruiting employees. No employment discrimination will be

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allowed. The State protects female workers in that men and women have equal employment rights. Except as required by the State, employers must not refuse to employ women due to their gender or raise the employment standard for women. Additionally, employers are not allowed to include any restrictions regarding the marital status or pregnancy of female employees in employment contracts. Employers should also provide suitable care to workers from minority ethnic groups in accordance with the laws, and not discriminate against the disabled. Furthermore, they are not permitted to reject employment on the basis of the employees having a contagious disease or discriminate against workers from rural areas.

- C. According to the Regulation on Occupational Injury Insurance 《工傷保險條例》 which took effect from 1 January 2004, employers should pay occupational injury insurance fees for their employees.
- D. Under the Interim Measures Concerning the Maternity Insurance of Enterprises Employees 《企業職工生育保險試行辦法》, effective from 1 January 1995, employers should pay maternity insurance fees for their employees.
- E. Under the Interim Regulations Concerning the Levy of Social Insurance Fees 《社會保險費徵繳暫行條例》 implemented from 22 January 1999 and the Interim Measures Concerning the Administration of the Registration of Social Insurance 《社會保險登記管理暫行辦法》 adopted since 19 March 1999, employers in the PRC should register social insurance with the local social insurance authorities, and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.
- F. According to the Regulation Concerning the Administration of Housing Fund 《住房公積金管理條例》 implemented since 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the housing fund management centre. Employers will then need to open housing fund accounts with entrusted banks for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.
- G. Pursuant to the Production Safety Law of the PRC 《中華人民共和國安全生產法》, effective from 1 November 2002, production and operating enterprises should be equipped with the safety conditions for production as set out in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entities that do not comply with such safety conditions will not be allowed to be engaged in any production or operating activities. Production and operating units should provide education and training programmes to their employees regarding production safety. The design, manufacturing, installation, application, checking, maintenance, reforming and abandonment of safety facilities should follow the national standards or industrial standards. In addition, production and operating units should provide employees with protective equipments that meet national standards or industrial standards, and educate and supervise them in strictly complying with the production rules and regulations and operation procedures of the relevant units regarding safety.

Regulations on Foreign Trade and Customs

- A. Pursuant to the Foreign Trade Law of The People's Republic of China 《中華人民共和國對外貿易法》 amended on 6 April 2004 by the Standing Committee of the National People's Congress of the PRC and implemented since 1 July 2004, (1) the State allows the free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations, (2) the foreign trade department of the State Council may, where the monitoring of import and export so requires, employ the system of automatic licence of import and export for some of the freely

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imported and exported goods, and publish a catalogue of these goods. For goods subject to the automatic licence system, if the consignor or consignee applies for automatic licence prior to handling the formalities of customs declaration, the foreign trade department of the State Council in-charge or the institutions entrusted by it shall grant approval. Should it fail to handle the formalities of the automatic licence, customs shall not release the goods thereunder, (3) the state employs a system to manage the quotas or licensing for goods subject to import or export restrictions, and a system to manage the licensing of the technologies subject to import or export restrictions. For goods and technologies subject to these systems, they cannot be imported or exported unless approvals have been granted by the foreign trade department of the State Council independently or in collaboration with other departments of the State Council, (4) the State has in place a unified system of commodity quality assessment, and makes authentications, inspections, and quarantines to imported and exported commodities according to the relevant laws and administrative regulations.

- B. Pursuant to The Regulations of the People's Republic of China on the Administration of the Import and Export of Goods 《中華人民共和國貨物進出口管理條例》 promulgated on 10 December 2001 and implemented since 1 January 2002 by the State Council, the state allows the free import and export of goods and maintains fairness and order of the import and export of goods according to the PRC laws. Unless it is clearly provided in laws or administrative regulations to forbid or restrict the import or export of goods, no entity or individual may establish or maintain prohibitive or restrictive measures over the import or export of goods. Prohibited goods may not be imported into the country. Where there are quantitative limits on the goods being imported, such goods shall be subject to the administration of quotas, and goods limited by other aspects shall be subject to the administration of licences. Goods which can be freely imported are not subject to any limitations.
- C. Pursuant to The Customs Law of the People's Republic of China 《中華人民共和國海關法》 as amended on 8 July, 2000 by the Standing Committee of the National People's Congress and implemented since 1 January 2001, unless otherwise provided, all imported and exported goods shall be declared and duties on them paid by their consignor or consignee, or by a declaration enterprise entrusted by the consignor or consignee, and approved by and registered with the customs. If entrusted by the consignor or consignee and handling the declaration in the name of the client, such declaration enterprise shall submit to the customs a document certified by a power of attorney and signed by the entrusting party, and comply with all the provisions applicable to the entrusting party under the Customs Law. If entrusted by the consignor or consignee, but the handling of the declaration is in its own name, the declaration enterprise shall bear the same legal responsibility as that of the consignor or consignee. Where the consignor or consignee or the declaration enterprise handle the declaration, they shall register with the customs office in accordance with the laws. The person handling the declaration shall obtain the qualification for declaration in accordance with the laws. No enterprises or persons can make declarations without registering with customs or obtaining the relevant qualifications for declaration in accordance with the laws.
- D. Pursuant to The Measures for the Registration and Record of Foreign Trade Dealers 《對外貿易經營者備案登記辦法》 promulgated on 25 June 2004 and implemented since 1 July 2004 by the Ministry of Commerce of the PRC, foreign trade operators engaging in the import and export of goods shall register with the Ministry of Commerce or the agency appointed by the Ministry for record, and obtain the Registration Form of Record for Foreign Trade Operators (對外貿易經營者

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備案登記表) with a seal indicating filing and registration. Save for those not required for registration under the laws, administrative regulations or by the Ministry of Commerce, should a foreign trade dealer fails to register, the declaration procedures for import and export will be subject to refusal by the Customs.

- E. Pursuant to The Provisions of the Customs of the People’s Republic of China for the Administration of Registration of Declaration Entities 《中華人民共和國海關對報關單位註冊登記管理規定》 promulgated on 31 March 2005 and implemented since 1 June 2005 by the General Administration of Customs of the PRC, a declaration activity refers to (1) complying with the provisions pertaining to truthfully declaring commodity codes, the actual traded price, the place of origin and the code of the corresponding preferential trade agreement, etc in relation to the imported or exported goods, filling out declaration lists, submitting declaration documents, etc, and handling other declaration related matters; (2) applying for payment of taxes, or tax refund or supplement of tax; (3) applying for filing, modification or cancellation of contracts for processing trade, and tax regulations, etc; (4) applying for tax reduction and exemption, etc. for imported and exported goods; (5) dealing with inspection or customs clearance, etc, of imported and exported goods; and (6) other declarations that should be made by declaration entities. A consignor or consignee of import or export goods shall register with the declaration entity at the local customs office, and to obtain the Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods by the Customs of the People’s Republic of China (中華人民共和國海關進出口貨物收發貨人報關註冊登記證書), which is valid for three years. The consignor or consignee shall apply for exchange of certificate at the local customs office within 30 days prior to the expiry of the validity.
- F. Pursuant to The Administrative Measures on Goods Automatic Import Permission 《貨物自動進口許可管理辦法》 jointly announced by the Ministry of Commerce and the General Administration of Customs on 10 November 2004, and implemented since 1 January 2005, the Ministry of Commerce carries out automatic import permission administration on some imported goods according to the requirements of goods import supervision. The catalogue should be published at least 21 days before the implementation. For imported goods which are required to undergo automatic import permission administration, a consignee (including the importer and import customer) is required to submit an application for an “automatic import licence” with the local or corresponding licence issuing administration authorities and obtain such licence, before its declaration at customs. On 10 July 2009, the Ministry of Commerce and the General Administration of Customs jointly announced that automatic import permission administration also applies to fresh milk, milk powder and whey from 1 August 2009.
- G. Pursuant to The Administrative Measures for the Import Report and Information Issuance of the Staple Agricultural Products (Trial) 《大宗農產品進口報告和信息發佈管理辦法(試行)》 promulgated on 24 June, 2008 and implemented since 1 August 2008 by the Ministry of Commerce, the Ministry of Commerce shall, together with the relevant departments, formulate and adjust the Catalogue of the Staple Agricultural Products under the Administration of Import Report 《實行進口報告管理的大宗農產品目錄》 (the “**Catalogue**”). A foreign trade operator who imports the staple agricultural products under the Catalogue shall report to the organisations entrusted by the Ministry of Commerce the basic information of that enterprise and perform the obligations concerning the import report. On 10 July 2009, the Ministry of Commerce announced that fresh milk, milk powder and whey are included in the Catalogue, and the import reporting administration has been implemented for the abovementioned categories since 1 August 2009. A foreign trade

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operator which imports fresh milk, milk powder and whey should report to the China Chamber of Commerce of Import and Export of Foodstuffs (中國食品土畜進出口商會), and also file a copy of the registration form with the local commerce department at the provincial level and the local commerce department of city specifically designated in the state plan.

Taxation

The key taxes applicable to the Company in the PRC are enterprises income tax and value added tax.

- A. Pursuant to the PRC Enterprises Income Tax Law 《中華人民共和國企業所得稅法》 and its implementation regulations implemented since 1 January 2008, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. If an organisation or establishment is set up by a non-resident enterprise in the PRC, it is subject to enterprise income tax for the income derived from such organisation or establishment in the PRC and the income derived from outside the PRC but with actual connection with such organisation or establishment in the PRC. For a non-resident enterprise which has not set up an organisation or establishment in the PRC, or has set up an organisation or establishment but the income derived has no actual connection with such organisation or establishment, its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax shall be levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in PRC but its earning income is not connected with the abovementioned permanent establishment will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 (“**Tax Arrangement**”), where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate in respect to the payment of dividends by such PRC enterprise to such Hong Kong enterprise is 5%. Otherwise, the withholding tax rate is 10% for the relevant dividends.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements 《國家稅務總局關於執行稅收協定股息條款有關問題的通知》, residents of counter-parties to any tax treaties who own up to a certain proportion (25% or 10% in general) of capital of a Chinese resident company paying dividends are subject to taxation on such dividends at the tax rates as arranged. Any residents of the counter-parties qualifying to enjoy such tax benefits should: (1) be an enterprise subject to taxation on dividends in accordance to such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such Chinese residents company; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the Chinese resident company.

- B. Pursuant to the Provisional Regulations of the People’s Republic of China on Value-Added Tax 《中華人民共和國增值稅暫行條例》 and the implementation regulations as amended on 5 November 2008 by the State Council and implemented since 1 January 2009, unless stated otherwise, for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

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Foreign exchange

- A. Pursuant to the Regulations on the Administration of Foreign Exchange of the People’s Republic of China 《中華人民共和國外匯管理條例》 as amended on 1 August 2008 by the State Council and implemented since 5 August 2008, international payment in foreign exchange and transfer of foreign exchange under current accounts shall not be subject to the restrictions of the State. The income of foreign exchange of domestic institutions or individuals can be transferred back into China or deposited overseas. The specific requirements and term related to the transfer or deposit shall be prescribed by the foreign exchange administration department of the State Council in light of the balance of international payment and the status of foreign exchange administration. Foreign exchange incomes and payments under the current account shall be based on authentic and lawful transactions. The foreign exchange incomes under the current account may be retained or sold to financial institutions operating the foreign exchange sale and settlement business. If offshore institutions or offshore individuals propose to make onshore direct investments, they shall complete registration with the foreign exchange administrative body upon approval of the relevant competent authorities. If onshore institutions or onshore individuals propose to make an offshore direct investment or offshore issuance or trading of negotiable securities or derivative products, they shall complete the registration as required by the foreign exchange administrative department under the State Council. The foreign exchange or the settled foreign exchange funds under the capital account can be used if approved by the relevant authorities and the foreign exchange administrative body.
- B. Pursuant to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Companies 《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (“**Notice No. 75**”) promulgated on 21 October 2005 by the State Administration of Foreign Exchange of the PRC and implemented since 1 November 2005, domestic residents engaged in stock right financing and roundtrip investment via overseas special purpose companies shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Where a special purpose company experiences a “major capital modification event” such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guaranty to another party, etc., and is not involved in any roundtrip investment, the domestic resident shall, within 30 days as of the major event, apply to the foreign exchange office for going through the procedures of modification or archival filing of the foreign exchange registration of the overseas investments. In May 2007, the State Administration of Foreign Exchange announced the implementation procedures for foreign exchange registration in accordance to Notice No. 75 in order to instruct and govern the relevant registration of domestic residents. On 25 June 2009, 25 individual shareholders of the Company completed the foreign exchange registration procedures in accordance to Notice no. 75.

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Others

Regulations concerning mergers and acquisitions of domestic enterprises by foreign investors.

A. Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors.

Pursuant to the Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者並購境內企業的規定》 (“**Acquisitions Provisions**”) implemented since 8 September 2006 by the Ministry of Commerce, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce, China Securities Regulatory Commission and State Administration of Foreign Exchange and amended on 22 June 2009 by the Ministry of Commerce, the acquisition of a domestic enterprise by a foreign investor means (1) the foreign investor purchases by agreement the equities of the shareholders of a domestic non-foreign-invested enterprise (hereinafter referred to as “domestic enterprise”) or subscribes to the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; (2) the foreign investor establishes a foreign-invested enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates its assets; or (3) the foreign investor purchases by agreement the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise and operates the assets.

In the opinion of our PRC legal advisers, there was no action contemplating an acquisition of any domestic enterprise by foreign investors as defined in the Acquisitions Provisions during the Reorganisation. Accordingly, the Acquisitions Provisions do not apply to the Reorganisation.

B. Law of Wholly Foreign-invested Enterprises

Pursuant to the Law of the People’s Republic of China on Wholly Foreign-invested Enterprises 《中華人民共和國外資企業法》 as amended and implemented by the Standing Committee of the National People’s Congress on 31 October 2000 and the Rules for the Implementation of the Law of the People’s Republic of China on wholly Foreign-invested enterprises 《中華人民共和國外資企業法實施細則》 as amended and implemented by the State Council on 12 April 2001, a wholly foreign-invested enterprise shall retain a certain amount from its profits after income tax has been paid in accordance with PRC tax law as reserve funds, bonus and welfare funds for staff members. The amount retained for the reserve funds shall not be less than 10% of the profits (profits after income tax has been paid), and the withdrawal may stop when the accumulated amount withdrawn reaches 50% of the registered capital of the enterprise. The amount retained for bonus and welfare funds for staff members shall be determined by the foreign-invested enterprise itself. No wholly foreign-invested enterprise may distribute its profits unless and until its deficits for the previous fiscal years have been recovered; undistributed profits for the previous fiscal years may be distributed together with the distributable profits for the current fiscal year.

C. The Product Quality Law

Pursuant to the Product Quality Law of the People’s Republic of China 《中華人民共和國產品質量法》 as amended by the Standing Committee of the National People’s Congress on 8 July 2000 and implemented since 1 September 2000, a producer shall establish its own proper internal regulatory system for the management of product quality, strictly implementing position-oriented quality standards, quality responsibilities and relevant measures for their assessment. A producer

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should be responsible for the quality of the products produced by it. The quality of the products is required to pass standard examinations. The State has implemented a supervision and inspection system based on random inspection which aims at testing those products that may cause injury to the health or safety of the human body and properties, important industrial products that significantly affect the national economy and those products that have been reported by consumers or relevant organisations as defective in quality.

Our compliance with the regulations

As confirmed by our PRC legal advisers, Ausnutria Hunan has currently complied with the relevant PRC regulatory requirements and obtained all necessary approvals, permits and licences in regard to its existing operations in all material aspects. To ensure compliance with all applicable PRC laws and regulations and to prevent any breaches in the future, we have adopted the following measures to enhance our internal compliance management system.

- A. We have been approved by the relevant verifications of ISO9001:2000 and GB/T19001-2000, HACCP and GMP. We would, as required by the regulations of the PRC and, depending on the needs of our operations, promulgate, revise, announce and/or comply with all related regulations and systems of operations, and ensure that our staff members are trained and are fully aware of all regulations. Our compliance officer monitors the status of compliance of such regulations, and we also receive inspection, instruction and guidance from the verification department of such professional bodies on a regular basis.
- B. We have established a dedicated customer service department to provide services to our consumers. It deals with feedbacks and complaints from our consumers, maintains communication between us and consumers, and recommends improvements in our operations and products.
- C. We believe the strict regulations of the PRC also help to ensure the legitimate operations of our Group. The PRC government applies a stricter regulatory system, and the relevant supervisory departments of the government have the rights to oversee our operations, and undertake inspection from time to time in order to ensure our ability to comply with the requirements under the PRC laws and regulations.

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SUMMARY OF HONG KONG LAWS AND REGULATIONS

There are a number of laws and regulations which are relevant to the infant food industry and the importation of milk powder into Hong Kong. In Hong Kong, the Food and Environmental Hygiene Department (“**FEHD**”) is responsible for food safety control which includes the implementation of policies and enforcement of legislation relating to food. The Customs and Excise Department is responsible for the control of the import of goods into Hong Kong.

A. *Food Safety Control*

Public Health and Municipal Services Ordinance

The legal framework for food safety control in Hong Kong is set out in Part V of the Public Health and Municipal Services Ordinance (Cap. 132) (“**Public Health Ordinance**”), and all regulations made thereunder. The basic requirement under the Public Health Ordinance is that no food intended for sale should be unfit for human consumption. There are various restrictions contained in the Public Health Ordinance, such as the prohibition of adding substances to food which may render the food injurious to health, and provisions relating to examination, labelling, advertisement and sampling of food.

Pursuant to the Public Health Ordinance, the FEHD (or any public officer empowered under the Public Health Ordinance) has the power to take samples at entry points into Hong Kong to conduct various kinds of tests such as bacteria testing and chemical analysis.

The FEHD (or any public officer empowered under the Public Health Ordinance) also has power to examine any food which is intended for human consumption, and seize and remove such food or its packaging if it appears that such food is unfit for human consumption. This power is also exercisable where there is a breach of any of the regulations formed under the Public Health Ordinance (see below under the heading “Regulations under the Public Health Ordinance”). For imported food, the FEHD may also request the importer to provide all the facilities which may be necessary for the examination. Furthermore, the FEHD can prohibit or restrict the delivery of imported food for a period of not more than six days for the purpose of examining such food, and request for details of who and where the food is being delivered to.

2009 Amendments

In May 2009, certain amendments were made to the Public Health Ordinance. The Public Health and Municipal Services (Amendment) Ordinance 2009 (“**2009 Amendments**”) came into force on 8 May 2009 which empowers the Director of Food and Environmental Hygiene (the “**Authority**”) to make various orders under the new section 78B of the Public Health Ordinance.

The Code of Practice on Section 78B Orders (“**Code**”) was issued under the Public Health Ordinance and took effect on 8 May 2009, the same date on which the 2009 Amendments came in force. The Code aims at explaining the relevant powers of the Hong Kong government and also sets out the steps that should be taken in order to comply with Section 78B orders. While a breach of the Code does not impose any criminal or civil liability, the Code may be used as evidence in legal proceedings if the court considers that a provision therein is relevant.

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Section 78B orders include:

- (a) prohibiting the import of food;
- (b) prohibiting the supply of food;
- (c) directing that food supplied be recalled; and
- (d) directing that food be impounded or destroyed.

In relation to an order prohibiting the import of food, the Code explains that if only food products produced by a particular overseas plant or only a particular batch of food imported are problematic, the prohibition order is likely to apply to that particular plant or that particular batch of food only. If food is being transported into Hong Kong when an order is in force, the FEHD may ban it from entry, mark and seal or seize the food. In certain circumstances, special arrangements may be made to return the food to its place of origin in its original transporting media or to direct the food to a designated place for temporary storage, for the purpose of re-exporting to its place of origin or other places acceptable to the FEHD.

The FEHD or any relevant authority can only make an order if it has reasonable grounds to believe that the making of the order is necessary to prevent or reduce a possibility of danger to public health or to mitigate the adverse consequence of a danger to public health in Hong Kong. The 2009 Amendments provide a non-exhaustive list of factors in determining whether there are reasonable grounds for making an order. These factors include information obtained from the importer or supplier of the food, and information and reports from a public analyst or from any international food or health authority.

Regulations under the Public Health Ordinance

Pursuant to the Public Health Ordinance, the FEHD or the relevant authority may make regulations in relation to the composition of food and drugs, as well as in relation to food and drugs hygiene.

Other regulations which may be important to the infant food industry include the Food and Drugs (Composition and Labelling) Regulations (Cap. 132W) (“**Composition and Labelling Regulations**”), the Preservatives in Food Regulation (Cap. 132BD), Harmful Substances In Food Regulations (Cap. 132AF) (“**Harmful Substances Regulations**”) and Dried Milk Regulations (Cap. 132R).

Dried Milk Regulations

The Dried Milk Regulations apply to dried milk in which no other substance has been added. “Dried milk” as defined in these regulations includes milk which has been concentrated in the form of solid or powder by removal of water.

There are specific requirements under these regulations for dried milk products. For example, particular types of dried milk must contain a certain percentage of milk fat, and there should not be more than 5% of moisture in the product. There is a further condition that the product (which is in powder or solid form) consists of no less than 70% of dried milk.

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Composition and Labelling Regulations

The Composition and Labelling Regulations relate to the marking and labelling of certain food types. Milk powder products which are manufactured and packaged outside Hong Kong and then imported into Hong Kong may be caught under these regulations as “prepackaged food”. Prepackaged food is where the contents of the food cannot be altered without opening or changing the packaging and it is ready for presentation to the ultimate consumer. There are certain requirements that apply to prepackaged food under these regulations.

One of the main requirements is that the food must be legibly marked or labelled with its food name or designation, and which must not be false, misleading or deceptive as to the nature of the food. Specifically, where a purchaser could be misled by the omission of an indication that a food is powdered, the name of the food must include or be accompanied by such an indication.

The name and address of the manufacturer or packer also need to be indicated unless: (i) the product contains a mark or label with an indication of its country of origin, the name and registered office of the distributor or brand owner in Hong Kong, and the full address of the manufacturer or packer has been notified to the relevant authority by the Hong Kong distributor or brand owner; or (ii) the food is marked or labelled with an indication of its country of origin and with a code marking which identifies the manufacturer or packer in that country, and particulars of such code marking have been notified to the relevant authority.

Other requirements relate to the labelling of the ingredients, durability (such as the “best before” date), and net weight or volume of the food.

Harmful Substances Regulations

The Harmful Substances Regulations and its amendments in 2008, the Harmful Substances in Food (Amendment) Regulation 2008 (“**2008 Amendments**”) govern the presence of harmful substances in food imported to and sold in Hong Kong. The 2008 Amendments came into effect on 23 September 2008 after the melamine incident. Various measures have since taken place to effectively improve the control of food safety in milk powder and milk products. The Centre for Food Safety has expanded the scope of the surveillance and testing and is continuously obtaining samples of milk powder and dairy products in the market. The 2008 Amendments have put in place new provisions to prohibit inappropriate level of melamine in food. For food intended to be consumed principally by children under the age of 36 months, the maximum amount of melamine which can be present is 1 milligram per kilogram of the food.

B. *Importation*

The Import and Export Ordinance (Cap. 60) and its regulations are applicable to the general importation process in Hong Kong. The Import and Export Ordinance is aimed at providing regulation and control of the import of articles into Hong Kong, the export of articles from Hong Kong, and the handling and carriage of articles imported into Hong Kong or which may be exported from Hong Kong.

The general requirement is that persons who import any goods into Hong Kong are required to lodge with the Customs and Excise Department an import declaration within 14 days after the importation of the food. Certain documents need to be presented for customs clearance, including bill of lading or similar documents, invoice, packing list, etc.

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Under the Import and Export Ordinance, customs officers are granted certain powers in order to carry out their duties. They are given various powers in relation to the investigation, examination, and seizure of goods.

Similar to the Public Health Ordinance, the relevant authority may make specific regulations as provided by the Import and Export Ordinance for the purpose of prohibiting the import of any article and other purposes relating to import and export. Such regulations include the Import and Export (General) Regulations (Cap. 60A) and Import and Export (Removal of Articles) Regulations (Cap. 60F).

As at the Latest Practicable Date, we have imported our paediatric milk formula products into Hong Kong but have not yet commenced selling or distributing these products in Hong Kong. As advised by our Hong Kong legal advisers, we have complied with all the relevant procedural requirements relating to the importation of goods and quality control of the Customs and Excise Department and the FEHD which are necessary for permitting the sale and distribution of our paediatric milk formula products in Hong Kong.