
REGULATORY OVERVIEW

This section sets out summaries of certain aspects of the PRC laws and regulations, which are relevant to our Group’s operation and business.

PRC ALCOHOL CIRCULATION RULES

The Alcohol Circulation Administration Rules (酒類流通管理辦法) promulgated by the Ministry of Commerce on 7 November 2005 came into effect on 1 January 2006. According to the Alcohol Circulation Administration Rules and relevant notices of the Ministry of Commerce, alcohol (excluding beer) distributors should file with local commerce bureaus 60 days after having obtained business licenses. In addition, the alcohol (excluding beer) sellers should fill in the Alcohol Circulation Collateral Form (酒類流通附隨單) with the relevant information of alcohol sold when selling alcohols and such Alcohol Circulation Collateral Forms should be circulated with the sold alcohols.

PRC REGULATION ON PRODUCT LIABILITIES AND QUALITY CONTROL

Pursuant to the General Principles of the Civil Law of the PRC (中華人民共和國民法通則) promulgated by the National People’s Congress on 12 April 1986 and the Law of the PRC on the Protection of Consumers’ Rights and Interests (中華人民共和國消費者權益保護法) promulgated by the Standing Committee of the National People’s Congress on 31 October 1993, both manufacturers and distributors will be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture and distribute.

Further, consumers who sustain losses or damages from defective products are entitled to be indemnified by either manufacturers or distributors according to the Law of the PRC on Products Quality (中華人民共和國產品質量法) promulgated by the Standing Committee of the National People’s Congress on 22 February 1993 and amended on 8 July 2000. Nevertheless, if manufacturers are responsible for the defective products and the losses or damage caused thereby, the distributors which have indemnified consumers for their losses may seek claims on the indemnities against the manufacturers.

To impose further protection on consumers in connection with the purchase or use of food, the Food Safety Law of the PRC (中華人民共和國食品安全法) (the “PRC Food Safety Law”) was promulgated by the Standing Committee of the National People’s Congress on 28 February 2009 and took effect from 1 June 2009. According to the PRC Food Safety Law, (i) the food distributors may be subject to penalties, or even be required to cease operation if they fail to comply with the relevant food safety requirements; (ii) if the food distributors have caused any damage to the consumers or their assets, they shall compensate such consumers for the damage caused; and (iii) if the food distributors knowingly distribute unqualified food products, the consumers may claim for damages as well as compensation of up to ten times of the price of the unqualified food products.

REGULATORY OVERVIEW

Pursuant to the Law on Food Hygiene of the PRC (中華人民共和國食品衛生法) promulgated by the Standing Committee of the National People’s Congress on 30 October 1995, food, including wine, production enterprises should obtain the Food Hygiene Permit (食品衛生許可證) in order to conduct its business and the Ministry of Health of PRC is the relevant governmental authority which administers food hygiene issues. The Administration Rules on Food Hygiene Permit (the “Food Hygiene Permit Rules”) (食品衛生許可證管理辦法) promulgated by the Ministry of Health of PRC which became effective on 1 June 2006 stipulates the compulsory standards and the detailed procedures to obtain the Food Hygiene Permits. According to the Food Hygiene Permit Rules, the validity period of a food hygiene permit is 4 years from the date of issue. In addition, a food producer conducting food production in 2 or more places shall obtain the Food Hygiene Permits for each of its production places.

The Administration Regulations on the Production Permit 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 of PRC became effective on 1 September 2005, and Implemental Rules on the Supervision and Administration of the Quality Safety of Food Production and Processing Enterprises (Provisional) (食品生產加工企業質量安全監督管理實施細則(試行)) issued by General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (“AQSIQ”) became effective on 1 September 2005 (collectively, the “QS Rule”). According to the QS Rules, the PRC adopted the market admittance system on food safety standards. Enterprises operating food production and/or food processing shall therefore maintain the production conditions which can guarantee the food safety standards, and shall obtain the production permit of the industrial products according to relevant procedures. Food products shall not leave the factory and be distributed without passing inspection and being stamped with the food safety standards market admittance symbols.

PRC STANDARDISATION LAW

The Standardisation Law of the PRC (the “Standardisation Law”) (中華人民共和國標準化法), promulgated by the Standing Committee of the National People’s Congress on 29 December 1988 and its implemented regulations. According to the Standardisation Law and its implemental regulations (中華人民共和國標準化法實施細則), the food hygiene standard is a compulsory standard imposed on food production enterprises. Products that fall short of the compulsory standards shall not be distributed or imported.

PRC ADVERTISEMENT RULES

The Provisional Rules on the Release of Food Advertisement (the “Food Advertisement Rules”) (食品廣告發佈暫行規定) promulgated by the State Administration for Industry and Commerce on 30 December 1996 as amended on 3 December 1998. According to the Food Advertisement Rules, the Food Hygiene Permit (食品衛生許可證) is required when releasing wine advertisements.

REGULATORY OVERVIEW

According to the Advertisement Administration Rule for Alcohol (酒類廣告管理辦法) promulgated by the State Administration for Industry and Commerce on 17 November 1995, the inspection compliance certificate (檢驗合格證明) issued by a qualified food quality inspection institution is required before the launch of a wine advertisement.

PRC ENVIRONMENTAL PROTECTION LAWS

The Water Law of the PRC (中華人民共和國水法), promulgated by the Standing Committee of the National People’s Congress dated 29 August 2002 and effective from 1 October 2002, states that the direct usage of water from natural sources such as rivers, lakes or underground water shall be subject to the water usage permit system. The usage of such water is conditional upon the application and grant of a Water Intake Permit (取水許可證) from the relevant water administration authorities, and payment of the relevant water resource fees. Further, according to the Water Intake Permit and Water Resources Fees Collection Regulations (取水許可和水資源費徵收管理條例) promulgated by the State Council of the PRC on 21 February 2006 and effective from 15 April 2006, enterprises and individuals who hold Water Intake Permits shall be entitled to use water of up to such a maximum amount as prescribed by the approved annual water usage plan. In the event the prescribed amount in the approved annual water usage plan is exceeded, additional fees will be imposed on the users.

Pursuant to The Environmental Protection Law of the PRC) (the “Environmental Protection Law”) (中華人民共和國環境保護法) effective as at 26 December 1989, the State Administration for Environmental Protection (the “SAEP”) shall establish national standards for environmental quality control. The governments of provinces, autonomous regions and municipalities directly under the Central Government may establish their own local standards for environmental quality control for the items not specified in the national standards and shall report them to the SAEP for its record.

The Environmental Protection Law requires all enterprises and institutions that cause environmental pollution and other public hazards to incorporate and implement environmental protection policies into their plans and establish a responsibility system for environmental protection. These enterprises and institutions shall adopt effective measures to prevent and control the pollution and damage to the environment from waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Installations for the prevention and control of pollution in a construction project shall be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned, until its installations for the prevention and control of pollution are examined and assessed to be up to the standard by the competent department of environmental protection administration which examines and approves the environmental impact statement.

New construction projects, expansion, reconstruction projects and other installations which directly or indirectly discharge pollutants into the water body shall be subject to the state regulations on environmental protection of construction projects according to the Law of the

REGULATORY OVERVIEW

PRC on 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 came into effect on 1 June 2008 and the Implementation Rules of the Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法實施細則) effective as at 20 March 2000. Enterprises and institutions that discharge pollutants directly or indirectly into a water body shall report to and register with the local environmental protection department at or above the county level their existing facilities for discharging and treating water pollutants, and the categories, quantities and concentrations of water pollutants discharged under their normal operation conditions, and also submit to the same department technical information concerning prevention and control of water pollution.

Enterprises and institutions that discharge pollutants directly into a water body shall pay a pollutant discharge fee counted on the basis of categories, quantities and collection standards of the water pollutants discharged.

New construction projects, expansion, or reconstruction projects that discharge pollutants into the air shall be subject to state regulations on environmental protection of construction projects under the Law of the PRC on Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) amended on 29 April 2000 and effective as at 1 September 2000. Enterprises and institutions that discharge atmospheric pollutants shall report to the local administrative department of environmental protection of their existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operation conditions and submit to the same department their technical information concerning prevention and control of atmospheric pollution.

The PRC Government implements a system of collecting fees for discharging pollutants on the basis of the categories and quantities of the atmospheric pollutants discharged, and establishes reasonable standards for collecting the fees hereinbefore according to the needs of strengthening prevention and control of atmospheric pollution and the State's economic and technological conditions.

According to the Law of the PRC on Prevention and Control of Environmental Pollution by Noise (中華人民共和國環境噪聲污染防治法) effective as at 1 March 1997, new construction project, expansion, or reconstruction project shall be subject to the state regulations on environmental protection of construction projects. If noise pollutions are generated due to the use of fixed facilities during industrial production, the industrial enterprise shall report to the competent local administrative department of environmental protection at or above the county level about the categories and quantities of noise discharging facilities, the noise level under normal operation conditions and the conditions of the facilities that prevent and control noise pollution meanwhile the enterprise shall submit to the same department their technical information concerning prevention and control of noise pollution. Industrial enterprises which discharge noises shall take treatment measures and pay a fee for excess discharge according to State regulations.

As at 1 April 2005, producers, distributors, importers and users of a product shall be responsible for the prevention and control of the solid wastes it generates or discharges under the Law of the PRC on Prevention and Control of Environmental Pollution 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.

REGULATORY OVERVIEW

PRC LABOUR AND PRODUCTION SAFETY LAWS

Effective as at 1 January 2008, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labourers under the Labour Contract Law of the PRC (the “Labour Contract Law”) (中華人民共和國勞動合同法). Enterprises and institutions are forbidden to force the labourers to work beyond the time limit and the employers shall pay labourers for overtime work in accordance with national regulations. In addition, the labour wages shall not be lower than local standards on minimum wages and shall be paid to the labourers timely.

According to the Labour Law of the PRC (中華人民共和國勞動法) effective as at 1 January 1995, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation, educate labourers of work place safety and sanitation. Work place safety and sanitation facilities shall comply with State-fixed standards. The enterprises and institutions shall provide labourers with work place safety and sanitation conditions which are in compliance with State stipulations and relevant articles of labour protection.

Effective as at 1 November 2002, enterprises and institutions shall be equipped with the measures for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards under the PRC Production Safety Law (the “Production Safety Law”) (中華人民共和國安全生產法). Any entity that is not equipped with the measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programs to the employees thereof regarding production safety.

The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide personal protective equipment that reach the national standards or industrial standards to the employees thereof, supervise and educate them to use these equipment according to the prescribed rules.

According to the Regulations on Work-Related Injury Insurance (工傷保險條例) effective as at 1 January 2004, the Interim Measures concerning the Maternity Insurance for Enterprise Employees (企業職工生育保險試行辦法) effective as at 1 January 1995, the Interim Regulations concerning the Levy of Social Insurance (社會保險費徵繳暫行條例) effective as at 22 January 1999, the Interim Measures concerning the Management of the Registration of Social Insurance (社會保險登記管理暫行辦法) effective as at 19 March 1999 and the Regulations concerning Housing Fund (住房公積金管理條例) effective as at 3 April 1999 and amended on 24 March 2002, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance, as well as housing fund.

REGULATORY OVERVIEW

PRC INCOME TAX LAW

According to the Enterprise Income Tax (“EIT”) Law of the PRC (中華人民共和國企業所得稅法) enacted on 16 March 2007 and the Implementation Regulations of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) enacted on 6 December 2007 (collectively the “Income Tax Law”), which both took effect on 1 January 2008, the EIT for both domestic and foreign-invested enterprises are unified at 25%. For those enterprises established before 16 March 2007 and entitled to preferential income tax treatments by tax related laws and administrative regulations, the Income Tax Law provides for a five-year transitional period, during which the applicable EIT rate shall be converted to the unified rate at 25% gradually.

According to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (國務院關於實施企業所得稅過渡優惠政策的通知) issued on 26 December 2007 and took effect on 1 January 2008, enterprises that enjoy “2-year exemption and 3-year half payment”, “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions in the past may, after the Income Tax Law took effect on 1 January 2008, continue to enjoy the relevant preferential treatments under the preferential measures and the time period set out in the previous tax law, administrative regulations and relevant documents until the expiration of the said time period. However, the preferential time period applicable to an enterprise shall start to run from 2008 if such enterprise has not enjoyed the preferential treatments yet because of its failure to make profits. In addition, enterprises which were entitled to a preferential income tax at the rate of 15% will gradually be levied on the unified 25% tax within five years commencing on 1 January 2008. The transitional tax rates applied to the enterprises entitled to the 15% preferential tax rate are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012. Enterprises which previously enjoyed the 24% preferential tax rate are imposed with the unified 25% tax rate from 1 January 2008. Further, the tax preferential treatments applied to enterprises within the designated great western development region in the PRC of western area will continue to be applied.

Our PRC subsidiary, Tongtian Winery, was approved to be converted into a wholly-owned foreign enterprise on 5 September 2006 and obtained its business license on 24 April 2007, thus Tongtian Winery is not entitled to preferential income treatment since 1 January 2008.

PRC TRADEMARK LAW

The period of validity of a registered trademark shall be ten years, to be counted from the date of approval of the registration under the Trademark Law of the PRC (中華人民共和國商標法) amended as at 27 October 2001 and came into effect on 1 December 2001. The administrative authority for industry and commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law. Where the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

REGULATORY OVERVIEW

PRC LICENSES, PERMITS AND APPROVALS

Based on the above summaries laws and regulations, our Group has obtained the following licenses, permits and approvals in relating to the business and operation of our Group.

Licenses, permits and approvals	Issuing authority	Prescription	Expiry date
Hygiene Permit (衛生許可證)	Tonghua County Hygiene Bureau (通化縣衛生局)	Permit to product licensed products: wine	10 December 2011
National Industrial Product Production Permit (全國工業產品生產 許可證)	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國 國家質量監督 檢驗檢疫總局)	Permit for production and sale of licensed products: wine	22 January 2012
Water Intake Permit (取水許可證)	Tonghua County Water and Electricity Bureau (通化縣水利電力局)	Permit to extract up to 20,000 tonnes of water from wells situated within the production premises per annum	16 May 2012

As advised by our PRC legal advisers, Jingtian & Gongcheng, saved as disclosed above and in this section, our business and operations in the PRC are not subject to any special legislation or regulatory controls other than those generally applicable to companies and businesses operating in the PRC.

Our Directors are not aware of any incident of suspension or revocation of any of our licenses, permits or approvals or any fact or circumstances which will cause our licenses, permits or approvals to be suspended or revoked.

To the best of our Directors’ knowledge, we have all necessary licenses, permits or approvals for our business operations in the PRC and have complied with all applicable laws and regulations of the PRC throughout the Track Record Period and up to the date of this document.