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Recent forestry policies in the PRC

The following is a brief overview of certain recent forestry policies in the PRC:

- According to the Decision of the Central Committee of the Communist Party of China and the State Council on Accelerating the Development of Forestry (中共中央、國務院關於加快林業發展的決定) promulgated on 25 June 2003, the State encourages all social entities including all capable farmers, urban residents, science and technological personnel, private business owners, foreign investors, cadres and other staff of enterprises, non-profit institutions, administrative organs and social groups to participate in the development and construction of forestry, solely or through partnership.
- According to the Guiding Catalogue for Industry Restructuring (產業結構調整指導目錄) promulgated by NDRC which took effect on 2 December 2005, the planting of forest trees falls within the category of industries encouraged by the PRC government.
- According to the 11th Five-Year Guidance Opinion on the Integrated Use of Resources (“十一五”資源綜合利用指導意見) promulgated by NDRC on 24 December 2006, the basic principles for the integrated use of resources are extended usage, high efficiency and clean usage.
- The policies on the transfer of the State-owned forestry resources are relatively strict, which provide that the State-owned forestry resources, before transfer, should be valued by qualified assets valuation institutions. Currently details of the mechanism for the transfer of the State-owned forestry resources have not yet been promulgated, and on 8 February 2007, the SFA announced that before such mechanism is promulgated by the State Council, they will cease to accept further application for forestry right certificate.
- According to the Outline of Policy on Forest Industry (林業產業政策要點) promulgated by seven state bureaus of the PRC including the SFA on 10 August 2007, (1) development of essential technology, equipments and products which could speed the improvement of forest industrial structure are encouraged; (2) forest resource development and international cooperation are encouraged; (3) non-public ownership forest industry is encouraged; (4) preferential tax policies on forestry shall be implemented; and (5) government support policies on forestry insurance shall be established.
- According to the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) promulgated by MOFCOM and NDRC on 31 October 2007 which came into force on 1 December 2007, the PRC government encourages foreign investments in the business of planting forest trees.
- According to the Opinion on Comprehensively Promoting the Reform of the System of Collectively-owned Forestry Rights (中共中央國務院關於全面推進集體林權制度改革的意見, “Opinion”) issued by the Central Committee of the Communist Party of China and the State Council on 8 June 2008, the State will promote the reform of the system of collectively-owned forestry rights. The reform does not change the ownership of the forest land and the collectively-owned forest land will continue to be owned by the collectives, while the ownership of forest trees and the use right of forest land with a period of 70 years should be granted to the villagers with clearly established ownership and rights. The villagers should be allowed to manage these forests and their benefits should be protected. The State will aim to implement this within around 5 years. The Opinion also provides that those who are entitled to the forestry rights

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shall have full rights to dispose of these rights in accordance with PRC laws, by way of subcontracting, lease, transfer, mortgage, using them for contributing to the capital of a company, provided that the use of the forestry land remains unchanged. Furthermore, the State will simplify the legal formalities for management of logging activities and the approval procedures, and will support the establishment of leading forestry enterprises and promote the large-scale forestry production and standardisation of the forestry management.

- For implementing the Opinion, on 26 December 2008, the SFA promulgated the Notice about the Pilot Implementation of Forestry Deforestation Management Reform (國家林業局關於開展森林採伐管理改革試點的通知), according to which, the SFA will gradually reform the forestry deforestation system, simplify the approval procedures, establish a convenient and efficient deforestation approval system, and ultimately change the current standards-based control system to a sustainable operation management system.
- According to the Plan of Revitalising Forestry Industry (2010-2012) jointly promulgated by SFA, NDRC, MOF, MOFCOM and SAT on 29 October 2009, the PRC government will adopt different measures to encourage the development of forestry industry in year 2010 to 2012. In addition to reducing the Forest Maintenance Fee from 20% of relevant sales value to less than 10%, the PRC government will expand both domestic and international markets, accelerate technological innovation, strengthen brand construction, assist in the expansion of leading enterprises, support the small and medium enterprises and promote forestry reform, etc. In particular, the PRC government will highly support 100 national key leading forestry enterprises and 10 biggest distinctive industry clusters within 3 years to gradually form different fundamental industries. The Company is also the only forestry enterprise recommended by the CCPEF to the State Forestry Administration of the PRC as the first batch of the supported companies within such 100 national key leading forestry enterprises to be benefited from such plan.

Forest management

According to the PRC Forestry Law enacted by SCNPC on 20 September 1984 and amended on 29 April 1998, and the Implementation Regulations of PRC Forestry Law effective as of 29 January 2000, the State adopts a registration system of forest, forest wood and forest land. All forest, forest wood or forest land, whether owned by the State, the collectives, or individuals shall be registered by local people's governments at or above the county level and rosters compiled and certificates issued confirming the ownership or right to use. All forest land in the PRC is either owned by the state or rural collective economic organisations. Ownership of forestry land is not transferable in the PRC. However, forest land use rights, forest trees use rights, forest trees ownership rights are transferable as long as the transfer is conducted in accordance with PRC law (including the requirement that a forest land cannot be converted into a non-forest land).

Forests are divided into the following five categories:

- (1) Protection forests: forests, trees and bushes mainly aimed at protection, inclusive of water source storage forests, forests for water and soil conservation, wind protection and sand bind forests, forests for farmland and grassland protection, river bank protective belts and road protection belts;
- (2) Timber stands: forests and trees mainly aimed at timber production, inclusive of bamboo groves mainly aimed at bamboo production;

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- (3) Economic forests: trees mainly aimed at the production of fruits; edible oils, soft drinks and ingredients; industrial raw materials; and medicinal materials;
- (4) Firewood forests: trees mainly aimed at the production of fuels; and
- (5) Forests for special uses: forests and trees mainly aimed at national defence, environmental protection and scientific experiments.

Only the timber stands, economic forests and firewood forests and the forest land use right thereof and the forest land use right of other forests, trees and other woodlands stipulated by the State Council, are transferable under the PRC laws. Moreover, according to the PRC laws, they can be priced and converted into shares or used as capital contribution for equity joint ventures or cooperation conditions for cooperative joint ventures. However, forest lands shall not be converted into non-forest lands.

The competent forestry bureaus under the State Council or different levels of the people's government shall be responsible for the forestry work nationwide or in their jurisdiction. The competent forestry bureaus at various levels shall, according to the stipulations of the forestry law, exercise administration and supervision over the protection, utilisation and renewal of forests and shall be responsible for sorting out forest resources, establish the resources record system and take hold of the situation in terms of resources changes.

Checking forestry resources is an important forestry work for different levels of the forestry bureaus. The SFA has conducted a national forestry resources survey seven times in the past. The 1st survey was conducted during 1973-1977, the 2nd time during 1977-1982, the 3rd during 1984-1989, the 4th during 1989-1993, the 5th during 1994-1998, and the 6th during 1999-2003. The 7th survey commenced in 2004 and has reached to final stage as of September 2009. Based on the national forestry resources survey, the SFA will establish or update the forestry resources archives, establish forestry resources database by using modern scientific methods and create a better local forestry resources monitoring system. All the forestry resources archives and database will help SFA to better monitor and manage China's forestry resources. When conducting a survey of forestry resources, the SFA is responsible for stipulating the overall plans and polices and finalising the nationwide technical rules for the survey. Different levels of forestry bureaus will establish specific working group or office under the head of the bureau, and organise and recruit specialists or appoint experts for the survey.

Deforestation

Logging in forests is strictly regulated in the PRC under its forestry laws and regulations. Different levels of forestry bureaus (namely, at the national level, the provincial level, the municipal level, the county level and the township level which, together constitute a vertical management system) are responsible for checking and organising the forestry resources, formulating the forestry operation plans, and compiling the annual logging quotas in their area based on these forestry resources and forestry operation plans.

The annual logging quotas are subject to review by the State Council and strictly implemented by different levels of forestry bureaus. In order to ensure the logging quotas will be strictly implemented: (1) before logging, forestry operators are required to obtain the pre-approval and logging permits from the relevant forest bureaus; (2) during logging, the local forest bureaus shall selectively conduct on-site investigation and supervise the logging activities of the forest operators; (3) after logging, the transportation of the timbers out of the forestry zone requires a separate transportation permit from the forestry bureaus; and (4) in respect of transportation, timber inspection posts will be set up along the roads heading out from the forestry zones to inspect the timber transport and stop the transport of timber without permit.

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● Logging quotas

Under the PRC Forestry Law, the PRC government strictly implements a quota system for logging of forest wood, to uphold the overriding principle that the amount of consumption of timber must be less than that of its growth.

Each year, the forestry bureaus at the lower level (which is mainly the county level), based on their regular check on the conditions (including the maturity of trees and the forestry resources) and the forestry operation plans of all forestry lands within their respective area, prepare the proposed annual logging quotas. The annual quota is reviewed by the local governments at the same level and submitted to the forest bureau at the provincial level. The forestry bureaus at the provincial level are then responsible for compiling annual logging quotas by adjusting the proposed logging quotas submitted by the lower level forestry bureaus and submitting them to the PRC State Council for final approval.

According to the Implementation Regulations, the annual quota for certain key forest zones will be compiled by the SFA and approved by the PRC State Council and the quota will be set every five years. The Implementation Regulations of PRC Forest Law further stipulates that the logging of a foreign-invested timber forest up to a certain scale shall be subject to the approval of the forestry bureaus at the provincial level within the annual forest logging quota approved by the PRC State Council and shall be listed separately in respect of the logging quota ("Regulation on Foreign-invested Timber Forest").

On 19 December 2005, the State Council issued the Notice to Approve the Opinions by the SFA on Review of Annual Logging Quotas for the Eleventh Five-Year (關於各地區“十一五”期間年森林采伐限額審核意見的通知) (Guo Fa [2005] No.41), which sets forth the review opinions on the annual logging quotas for the Eleventh Five-Year. Under the Notice on Logging Quotas, the annual logging quota for the Eleventh Five-Year is of 248.155 million m³ excluding logging quota for bamboos, details of which are as follows:

(Unit: 10,000 m³)

Region	By logging types					By consumption structures			By forestry origins			
	Principle logging (主伐)	Tending logging (撫育採伐)	Regeneration logging (更新採伐)	Low-yield forest logging	Others	Total	Commodity forest	Non-commodity forest	Total	Plantation forest	Naturally regenerated forest	Total
National	11743.7	5624.1	2042.1	2731.8	2673.8	24815.5	15769.7	9045.8	24815.5	15694.1	9121.4	24815.5
Sichuan Province . .	382.9	491.7	102.4	0.0	347.0	1324.0	414.7	909.3	1324.0	945.0	378.0	1324.0
Yunnan Province . .	1014.2	984.2	252.5	278.0	509.3	3148.2	1055.0	2053.2	3148.2	1009.6	2139.5	3148.2

In accordance with the said notice, the annual logging quotas for each specific type should be implemented strictly and cannot be used by other types, except that tending logging may utilise the logging quota for principle logging and plantation forest logging may utilise the logging quota for naturally regenerated forests.

The State forbids the logging of the trees in sites of historical interests and revolutionary commemoration and the forest in the natural protection area, and only permits logging the protection forests and other forests with special uses for cultivation and reforestation purposes, while for mature timber stands, logging can be conducted by way of selective logging (擇伐), clear

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logging (皆伐) and shelterwood logging (漸伐). Clear logging shall be performed under strict controls and the reforestation shall be completed in the same or next year of the logging.

- **Logging permits**

The PRC Forestry Law provides that logging of trees requires logging permits.

When a state-owned forestry enterprise or institution applies for a logging permit, it shall come up with a logging area survey, design document and logging and renewal verification proof of the previous year. For non-state-owned forestry operators, they shall apply for a logging permit with a document that contains contents such as logging objective, location, tree species, tree situation, area, stock, approach and reforestation measures.

Upon receipt of an application of logging permit from a forest operator, the respective forestry bureau at county level will examine the application and assess whether the accumulated area/volume of timber to be harvested will exceed the logging quota for the year initially (and internally) allocated to the specific piece of forestry land based on its own annual assessment reports on the relevant forestry land, or the aggregate logging quota for the year allocated to the whole county, which has been submitted to the forestry bureau at municipal level for approval.

Logging permits will not be issued to the applicant under the following circumstances:

- if the applicant has not replanted forest wood logged in the previous year;
- if there were any large scale forest fires, significant unlawful logging or large scale destruction caused by pests in the previous year and the applicant has not adopted appropriate preventive measures or improved measures to prevent such occurrences; or
- if the application is for logging in a conservation forest zone or in a special use forest zone.

The logging permits usually contain details of logging, including the location of logging, the species of trees, its origin, ownership, logging method, intensity of logging, area for logging, the amount of timber, the term of validity of the permit, etc. Forestry operators must carry out the harvesting activities pursuant to such details specified on the logging permits. After logging, the forestry bureaus which issued the logging permits should also examine and inspect whether the logging activities comply with the logging permits.

If it is found that the relevant forestry operator has not conducted logging activities or the re-plantation in accordance with the requirements of the logging permits, the forestry bureau will not approve further applications for logging permits.

- **Violations**

Illegal logging, or logging in excess of timber production plans or logging permits, is punishable by fines and the confiscation of illegally logged timber and the proceeds from sales thereof. Illegal loggers may be asked to replant trees. If any logging unit or individual logger fails to fulfil reforestation tasks pursuant to the prescribed provisions, the department issuing

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the logging permit has the power to stop issuing such permits. In the case of serious violations, the relevant forestry bureaus may impose fines and administrative sanctions.

Save for the Regulation on Foreign-invested Timber Forest which is not applicable to us because of our existing operation scale, our current forestry operations are subject to the above PRC laws and regulations in relation to forest management and deforestation.

Transportation, processing and export of timber

- **Transportation of timber**

Other than the logging quotas and logging permits, timber transportation permit is another measure of the PRC government to further monitor the logging activities in the PRC.

According to the PRC Forestry Law and its implementation regulations, transportation of timber (unless the timber is uniformly allocated and transferred by the state) out of forestry zones all along from the dispatch point of timber to the destination point is required to accompany with a timber transportation permit to be issued by the forestry bureau at the county level or above. No entity or individual carrier may transport any timber without a timber transportation permit. To apply for a timber transportation permit, the applicant shall submit the relevant forest logging permit, the quarantine certificate and other documents as may be required by the forestry bureau at the provincial level. The competent forestry bureau shall, within 3 days after it has received an application, issue to the applicant a timber transportation permit which specifies the total volume of timber permitted to be transported.

The local forestry bureau sets up timber inspection stations in forest zones for the inspection of timber transportation. For any timber transportation without any permit, the timber inspection station shall stop it, and may temporarily detain the timber not covered by a transportation permit and immediately report it to the competent forestry bureau at the county or higher level. When anyone transports any timber without any permit or using a forged or altered timber transportation permit or in excess of the approved timber amount stated in the timber transportation permit, the law provides that (i) the timber may be confiscated; (ii) a fine of up to 50% of the price of the timber may be imposed on the owner; (iii) the transportation fee paid to the carrier may be confiscated; and (iv) a fine up to one to three times of the transportation fee may be imposed on the carrier.

- **Processing of timber in forest zones**

Timber processing in forest areas must be approved by the forestry bureau at the county or higher level. The current PRC Forestry Law and its implementation regulations do not stipulate detailed requirements for timber processing in forest zones. Generally, anyone who is engaged in timber processing can apply for approval by submitting the application form and documents evidencing that it has a stable place for the timber processing, and relevant equipments, capital and working staff and the origin of the timbers are lawful. However, there is a limit, depending on the volume of the local forestry resources, for the total number of approved timber processors within a forest. Any unapproved timber processing in a forest zone will be subject to penalties including the confiscation of illegal proceeds generated therefrom and a fine of not more than 2 times of the proceeds.

- **Export of wild plants**

According the PRC Forest Law, the export of precious trees and their products and derivatives is forbidden or restricted. In accordance with the Regulation of Protection of Wild

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Plants (野生植物保護條例), the export of wild plants which are especially protected by the PRC or restricted by international pacts of which the PRC is a signatory, shall be examined by forestry bureaus at province level and approved by the SFA, and an export permit or label from the State Endangered Species Import and Export Administration Office is required.

Because our current forestry business model does not involve transportation, processing or export of timber, we are not subject to the above PRC laws and regulations in relation to transportation, processing and export of timber.

Environmental and forest protection

In order to protect the forest, the PRC government at various levels shall formulate long-term forestry plans. The local PRC government at various levels shall organise competent authorities to establish forest protection organisations to take charge of the work of forest protection, delimit forest protection responsibility zones, and provide full-time or part-time forest protection personnel. Forest protection personnel may be appointed by the people's government at the county or township level. The main duties and responsibilities of a forest protection person are to patrol and protect forests and stop activities that damage forest resources. In case of damages to forest resources, the forest protection person shall have the right to request the local competent authorities to resolve the issue. The State shall formulate a unified annual timber production plan. The annual timber production plan shall not exceed the approved annual logging quota.

- **Environmental surveillance**

According to the measures for the Administration of Environmental Surveillance (環境監測管理辦法), the environmental protection departments and their environmental monitoring institutions shall establish a quality review and inspection system for monitoring environmental work, environmental quality pollution sources and outbreak of environmental pollution incidents, undertake the construction and operation of environmental monitoring networks, collect and manage environmental monitoring data, conduct environmental condition surveys and assessments, and prepare environmental monitoring reports.

- **Forest pest and disease control**

According to Article 17 of Forest Pest and Disease Control Ordinance (森林病蟲害防治條例), application of pesticides shall comply with the relevant regulations and prevent pollution, ensure human and livestock safe and minimise the death of beneficial insects. We have established procedures of pest control, details of which are set out in the section headed "Business — Our Sustainable Forestry Management — Forestry Management" of this document. One of these rules requires avoidance of use of chemical pesticides in pests control. Our Directors have confirmed that we have been in compliance with Article 17 of Forest Pest and Disease Control Ordinance.

- **Environmental impact assessment**

According to the PRC Environmental law (中華人民共和國環境保護法), the PRC Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the relevant regulations, if an entity performs clear logging, an environmental impact report shall be prepared to provide a comprehensive assessment of the resulting environmental impact; if an entity performs shelterwood logging or plants in the environmental sensitive area, an environmental impact

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report form shall be prepared to provide an analysis or special assessment of the resulting environmental impact; if an entity plants in the environmental non-sensitive area, an environmental impact registration form shall be filled in and submitted to the relevant environmental bureau. The environmental impact report or report form is only required to be submitted to the relevant government authority once and for all.

Environmentally sensitive areas include the followings:

1. the areas stipulated under the national and local laws that need special protection, such as water source protection areas, scenic spots, nature reserves, forest parks, key national heritage, historical and cultural preservation areas, soil erosion protection areas and basic farmland protection areas;
2. the ecologically sensitive and vulnerable areas, such as key soil erosion areas that need special governance and supervision, natural wetlands and habitats of rare or special ecological environment and naturally regenerated forests, tropical rain forests, mangroves, coral reefs, spawning grounds, fisheries and other important ecosystems; and
3. the areas of social concern, such as cultural and educational areas, resorts, hospitals and other protection areas with regional and historical, scientific, national or cultural significance.

An environmental impact report generally shall cover the followings:

1. a brief introduction to the construct project;
2. the existing environment of the construction project;
3. an analysis, prediction and assessment of the environmental effects from the construction project;
4. the protective measures for the environment of the construction project, and the technical and economic demonstrations of such measures;
5. an analysis of the environmental effects from the economic losses and benefits of the construction project;
6. a proposal for monitoring the environment of the construction project; and
7. a conclusion on the evaluation of environmental effects.

According to the contents and format promulgated by SFA, the environmental impact report form shall contain the following contents:

1. the project name, location, types of industry and total investment amount;
2. the main targets of the environmental protection which may be the resident area, the school, hospital, cultural relic, landscape area, water resources or other sensitive points;

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3. the analysis of the impact and suggestions or measures to protect the environment; and
4. the conclusion on the evaluation of environmental effects.

Compared to an environmental impact report form which is a simplified form of the environmental impact report, an environmental impact report is for a construction project which may have more significant environmental impact and therefore is required to contain a more comprehensive assessment of the environmental impact. Both the environmental impact report and the environmental impact report form shall be prepared by a qualified assessment institution. The environmental impact report shall be submitted by an enterprise which is engaged in construction activity, (1) if a feasibility study of the relevant construction project is required by PRC laws and regulation, at the time it conducts such feasibility study; and (2) if such feasibility study is not required by PRC laws and regulations, before it commences the construction or obtains the business license (if required).

We currently do not perform clear logging and therefore do not need to prepare an environmental impact report. However, as we perform shelterwood logging and plant in the environmental non-sensitive area, we are required to submit, and as at the Latest Practicable Date, have not yet submitted, an environmental impact report form and an environmental impact registration form to the relevant environmental bureau, as we are still looking for an assessment company which has the capacity or experience in performing an environmental impact assessment for forestry industry.

We have not conducted any formal environmental impact assessment for our Sichuan forests as the Sichuan local environmental authority does not consider it necessary. However, we are in the process of arranging a formal environmental impact assessment for our Yunnan forests as the Yunnan local environmental authority has informed us that they would accept one for review if we did such an assessment.

- **Reforestation of the forest**

In order to protect the forest, the PRC Forestry Law and the Implementation Regulations of PRC Forestry Law provide that entities and individuals that have harvested the forest shall, according to the area, number of trees, tree species and period of time specified in the logging permits, complete the reforestation task, and the area and number of trees in the reforestation shall not be less than those logged. After reforestation, the forestry bureaus which issue logging permits, shall examine the area and quality of reforestation and issue an Acceptance Certificate of Reforestation.

Should forest logging entities or individuals fail to finish the reforestation task in compliance with the relevant provisions, the authorities which have issued the logging permit may stop issuing any logging permits to them until they have completed their reforestation tasks. Under any of the following circumstances, the local forestry bureau may order the forest logging entities or individuals to complete the reforestation task within a prescribed period, and if they fail to do so, a fine of not more than 2 times the expenses required for completing the uncompleted reforestation task, may be imposed: (1) the forest logging entities or individuals fail to complete the reforestation task in two consecutive years; (2) the reforestation area completed within the current year is less than 50% of the area of reforestation required; (3) except for the arid or semi-arid areas as specially provided for by

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the state, the reforestation survival rate of the year is less than 85%; or (4) the forest logging entities or individuals fail to complete the reforestation task as scheduled in accordance with the requirements of the people's government at the level of the county where the forest is located.

Taxation

According to the new PRC EIT Law (中華人民共和國企業所得稅法) and the Implementation Regulations of PRC EIT Law (中華人民共和國企業所得稅法實施條例) promulgated on 16 March 2007 and 6 December 2007 respectively, which both took effect on 1 January 2008, the enterprise income tax for both domestic and foreign-invested enterprises are now set at 25%. With regard to the income generated from the cultivation of forest trees and the gathering of forest products, the enterprise income tax shall be exempted.

In addition, under the new PRC EIT Law, an enterprise incorporated outside of the PRC may be deemed to be a "non-resident enterprise" or "resident enterprise" according to their definitions thereunder. If that enterprise is deemed to be a "non-resident enterprise" without an office or premises in the PRC, a withholding tax at the rate of 10% may be applicable to any dividends it receives, unless it is entitled to reduction or exemption of such tax, for example, pursuant to relevant tax treaties (such as the tax treaties between the PRC and Hong Kong, under which, dividends paid by a foreign-invested enterprise in China to its shareholder(s) in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds a 25% or more interest in the PRC enterprise). On the other hand, if that enterprise has "de facto management bodies" located within the PRC territory, it is considered as a "resident enterprise" under the PRC EIT Law, then: (i) its global income will normally be subject to the enterprise income tax at the rate of 25% for China-sourced and overseas-sourced income; and (ii) any dividends it pays to its overseas enterprise shareholders and any gains realised by such overseas enterprise shareholders from the transfer of the shares of that enterprise may be regarded as China-sourced income, and as a result, become subject to a withholding tax at the rate up to 10%.

Pursuant to the PRC Value-Added Tax Provisional Regulations (中華人民共和國增值稅暫行條例) which was promulgated on 13 December 1993 and effected on 1 January 1994, and its implementation rules which was promulgated and came into effect on 25 December 1993, the entities and individuals engaged in the sale of goods, provision of processing, repair and replacement services, and the importation of goods within the PRC shall be subject to a VAT at the standard rate of 17% unless otherwise provided. The agricultural products which include the forest products are entitled to a preferential VAT of 13%, and primary agricultural products which include the forest products produced and sold by the agricultural producers engaged in the agricultural productions shall be exempt from the VAT.

Labour

According to the PRC Labour Contract Law promulgated by the SCNPC on 29 June 2007 and effective as of 1 January 2008, labour relationships between the employer and the labourers must be set forth in labour contracts. According to the Labour Law of the PRC ((中華人民共和國勞動法), hereinafter referred to as "Labour Law") promulgated by the SCNPC on 5 July 1994 and effective as of 1 January 1995, labour relationships between the employer and the labourers must be set forth in labour contracts. The employer cannot require the

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labourers to work in excess of certain hour limits and shall provide wages which are no lower than local standards on minimum wages to the labourers. The employer shall establish and perfect its system for labour safety and sanitation, and educate labourers in labour safety and sanitation. Labour safety and sanitation facilities shall meet State-determined standards. The employer shall provide labourers with labour safety and sanitation conditions meeting State stipulations and with necessary articles of protection, and carry out regular health examination for labourers engaged in work with occupational hazards. The State provides special protection to female workers and juvenile workers.

Pursuant to the Regulation on Occupational Injury Insurance (《工傷保險條例》) effective as of 1 January 2004, entities in the PRC shall pay the occupational injury insurance fees for their employees, and their employees do not pay the occupational injury insurance fees.

Pursuant to the Interim Measures concerning the Maternity Insurance (《企業職工生育保險試行辦法》) effective as of 1 January 1995, entities in the PRC shall pay the maternity insurance fees at the rate of not more than 1% of the gross wages for their employees and their employees are not required to pay the maternity insurance fees.

Pursuant to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》) effective as of 22 January 1999 and 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 of 19 March 1999, entities in the PRC shall register for social insurance with the competent authorities and make contributions to the basic pension insurance, basic medical insurance and unemployment insurance for their employees.

Pursuant to the Regulation on the Administration of Housing Fund (《住房公積金管理條例》) effective as of 3 April 1999 and amended on 24 March 2002, entities in the PRC shall conduct the registration of housing fund with the competent authorities, open the relevant account with the designated banks and pay the housing fund at the rate of not less than 5% of the monthly wage an employee earned in the preceding year for their employees.