

## REGULATORY OVERVIEW

The relevant PRC laws and regulations applicable to the business of the Group are set out below.

### LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

The establishment and management of companies in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (**the Company Law**) which was enacted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) (**the Standing Committee of NPC**) on 29 December 1993 and was implemented on 1 July 1994. The Standing Committee of NPC amended the Company Law on 25 December 1999, 28 August 2004 and 27 October 2005 respectively. The Company Law provides the establishment, corporate structure and corporate management of companies. The Company Law also applies to foreign-invested enterprises. Where laws and regulations relating to foreign-invested enterprises otherwise stipulate, such stipulations shall apply.

Sino-foreign equity joint ventures are also governed by The Law on Sino-Foreign Equity Joint Ventures of the PRC (中華人民共和國中外合資經營企業法) (**the JV Law**) and its implementation rules. The JV Law was adapted at the Second Meeting of the Fifth National People's Congress (第五屆全國人民代表大會第二次會議) on July 1 1979 and revised on 4 April 1990 and 15 March 2001 respectively. Wholly foreign-owned enterprises are also governed by The Law on Foreign-funded Enterprises of the PRC (中華人民共和國外資企業法) (**the Foreign-Funded Enterprise Law**) and its implementation rules. The Foreign-funded Enterprises Law was adopted at the 4th Meeting of the Sixth National People's Congress (第六屆全國人民代表大會第四次會議) on April 12 1986 and was amended by the Standing Committee of NPC on 31 October 2000. The establishment procedures, approval procedures, registered capital and corporate structures of sino-foreign equity joint ventures and wholly foreign-owned enterprises are regulated in the abovementioned laws and regulations. As Fujian Sijia is a sino-foreign equity joint venture and Xiamen Grandsoo is a wholly foreign-owned enterprise, their operation shall abide by these laws and regulations.

Foreign investors shall also abide by Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (**the Catalogue**). The Catalogue was promulgated on 28 June 1995 and was revised in 1997, 2002, and 2004. The currently effective Catalogue was promulgated by the Ministry of Commerce of the PRC (中華人民共和國商務部) and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on 31 October 2007. The Catalogue classifies industries into three categories: encouraged, restricted and prohibited. Except otherwise stipulated by other laws and regulations, foreign investors are permitted to invest in industries not in the restricted or prohibited categories. Part of industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese shareholder as the controlling shareholder. Foreign investors shall not invest in industries in prohibited category. Foreign investment projects with a total investment amount of US\$100 million or more in the Encouraged or Permitted categories, or US\$50 million or more in the Restricted category, are subject to approval by NDRC while other foreign investment projects are only subject to approval by provincial governmental authorities.

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In accordance with the currently effective Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) and the confirmation issued by Fujian Development and Reform Commission on 28 July 2008, the Company belongs to the industry which foreign investment is encouraged. The Company confirms that the application of the Company's products is not restricted in any industry.

The Ministry of Commerce or the relevant local authorities are responsible for approving the relevant joint venture contracts, articles of association of the foreign invested enterprises and other substantial changes to the foreign invested enterprises, such as changes in capital, equity transfer and consolidation. The Group have obtained all the necessary government approvals for the Group's PRC subsidiaries.

The Group confirms and the local government authorities supervising foreign investment certify that since the establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to foreign investment without any penalties due to violation of the relevant laws and regulations relating to foreign investment.

### LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is the Regulation of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例) (**the Foreign Exchange Rules**). The Foreign Exchange Rules was enacted by the State Council of the PRC (中華人民共和國國務院) (**the State Council**) on 29 January 1996 and implemented on 1 April 1996. On 14 January 1997 and 1 August 2008 the State Council amended the Foreign Exchange Rules. According to the currently effective Foreign Exchange Rules, international payment in foreign exchange and transfer of foreign exchange under current items shall not be restricted. The foreign exchange income of a domestic institution or individual may be transferred back into the PRC or deposited overseas, the specific conditions and term requirements of which shall be determined by the foreign exchange administrative department of the State Council in light of the balance of payments and the foreign exchange administrative requirements. An overseas institution or individual that makes direct investments in the PRC shall handle the registration formalities at a foreign exchange administrative organ upon the approval of the competent department. A domestic institution or individual that makes direct investment or issues or trades negotiable securities or derivative products overseas shall handle the registration formalities at the foreign exchange administrative department of the State Council. If the relevant state provisions require the approval or registration of the competent department, such approval or registration shall be obtained before handling the registration formalities. As the capital injection from foreign shareholders into Fujian Sijia and Xiamen Grandsoo involves foreign exchange and the Group is engaged in importing and exporting, laws and regulations relating to foreign exchange apply to the Group's operation.

Pursuant to Notice on Relevant Issues about Foreign Exchange Administration for Domestic Individuals to Engage in Financing and in Return 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) enacted by State Administration of Foreign Exchange (**the SAFE**) on 21

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October 2005 and became effective on 1 November 2005, the PRC individual engaging in stock right financing (including convertible bond financing) abroad with the enterprise assets or interests inside the PRC via overseas special purpose companies shall apply to register with the local branch of foreign exchange administration for foreign exchange registration of overseas investments. Upon accomplishment of overseas financing, the domestic individual may, according to the plan on use of funds as stated in the business plans or the prospectus, transfer the funds which ought to be arranged for use inside the PRC into the PRC. A domestic individual may, after accomplishing the procedures for foreign exchange registration of overseas investments or for modification thereof in accordance with the legal provisions, pay the profits, dividends, liquidation expenses, stock right assignment expenses, capital decrease expenses, etc. to the special purpose company. Where a special purpose company meets with a major capital modification 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 a foreign party, etc., and is not involved in return investment, the domestic individual shall, within 30 days as of the major modification, apply to the foreign exchange administration for filing modification or foreign exchange registration of the overseas investments. On 29 May 2007 the SAFE issued Notice of Printing and Distributing the Operating Rules for the Notice on Relevant Issues about Foreign Exchange Administration for Domestic Individuals to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (關於印發《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》操作規程的通知). Since Mr. Lin, being the ultimate controlling shareholder of the Company, Hong Kong Sijia and Xiamen Grandsoo and a PRC individual, is planning the Listing with the enterprise assets or interests inside the PRC via overseas special purpose company, he shall obtain the Domestic Residents Personal Offshore Investment Foreign Exchange Registration Certificate in accordance with the above Notice.

The Group confirms and the local government authorities supervising foreign exchange certify that since the establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to foreign exchange without any penalties due to violation of the relevant laws and regulations relating to foreign exchange.

### REGULATIONS ON DIVIDEND DISTRIBUTION

The principal regulations governing distribution of dividends paid by PRC wholly foreign-owned enterprise include (i) PRC Company Law (《中華人民共和國公司法》); (ii) Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》); and (iii) Wholly Foreign-Owned Enterprise Law Implementing Rules (《中華人民共和國外資企業法實施細則》). Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

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These regulations are covered by laws and regulations relating to foreign investment. As the Group confirms and the local government authorities supervising foreign investment certify that since the establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to foreign investment without any penalties due to violation of the relevant laws and regulations relating to foreign investment, the Group also complies with regulations on dividend distribution.

### LAWS AND REGULATIONS RELATING TO TAXATION

Both Fujian Sijia and Xiamen Grandsoo are foreign-invested companies incorporated in the PRC. and shall pay tax in accordance with PRC laws and relating to taxation.

#### Income Tax

Prior to 1 January 2008, Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and its implementation rules applied to foreign-invested enterprises. According to the said law, any enterprise with foreign investment of a production nature scheduled to operate for a period of not less than ten years shall, from the year beginning to make profit, be exempted from income tax in the first and second years and allowed a fifty percent reduction in the third to fifth years.

Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (**the New Tax Law**) and its implementation rules, which became effective on 1 January 2008, tax payers are divided into resident enterprise and non-resident enterprise. A resident enterprise refers to an enterprise that is established inside the PRC, or which is established under the law of a foreign country (region) but whose actual institution of management is inside the PRC. A resident enterprise shall pay the enterprise income tax on its incomes derived from both inside and outside the PRC at the rate of 25%. A non-resident enterprise refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not inside the PRC but which has offices or establishments inside the PRC; or which does not have any offices or establishments inside the PRC but has incomes sourced in the PRC. A non-resident enterprise having offices or establishments inside the PRC shall pay enterprise income tax on its incomes derived from the PRC as well as on incomes derived from outside the PRC but which has real connection with the said offices or establishments at the rate of 25%. A non-resident enterprise having no office or establishment inside the PRC, or whose income have no actual connection to its institution or establishment inside the PRC shall pay enterprise income tax on the incomes derived from the PRC at the rate of 10%.

For the enterprises that were established prior to the promulgation of the New Tax Law and enjoyed lower tax rates according to the provisions of the previous tax laws and regulations, their income tax rates shall, according to the provisions of the State Council, be gradually transferred to the tax rate provided in the New Tax Law within five years after the New Tax Law is promulgated. The enterprises that have enjoyed the preferential treatment of tax exemption for a fixed term may, according to the provisions of the State Council, continue to enjoy such treatment after the promulgation of the New Tax Law

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until the fix term expires. However, for those that have failed to enjoy the preferential treatment due to failure to make profits, the term of preferential treatment may be counted as of the year when the New Tax Law is promulgated.

Pursuant to the New Tax Law of the PRC and its implementation rules, the High and New Technology Enterprises that require key state support certificated by the administrative departments of all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in state plan, in coordination with finance and taxation departments at the same level as the administrative departments are subject to the applicable enterprise income tax rate with a reduction of 15%.

Pursuant to the Agreement between the Mainland and the Hong Kong Special Administration Region for 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) signed by the PRC and Hong Kong Special Administration Region on 21 August 2006, 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.

### VAT

On 13 December 1993 the State Council promulgated Interim Regulation of the PRC on Value Added Tax (中華人民共和國增值稅暫行條例) (**the VAT Interim Regulation**). On 5 November 2008 the State Council amended the VAT Interim Regulation which became effective on 1 January 2009. Pursuant to the VAT Interim Regulation and its implementation rules, entities and individuals engaged in the sale of goods, supply of processing, repair and replacement services, and import of goods in the PRC are taxpayers of value added tax and shall pay value added tax at the rate of 17% unless otherwise stipulated.

The Group confirms and the local government authorities supervising taxation certify that since the establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to taxation and have fully paid due taxation without any penalties due to violation of the relevant laws and regulations relating to taxation.

### LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY

On 22 February 1993 the Standing Committee of NPC enacted Product Quality Law of the PRC, which was revised on 8 July 2000 by the Standing Committee of NPC. The said law stipulates that producers shall be responsible for compensating for damages to the person or property except the defective products themselves due to the defects of products. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.



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On 31 October 1993 the Standing Committee of NPC enacted Law of the PRC on Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法), which became effective on 1 January 1994. The rights and interests of consumers in purchasing and using commodities or receiving services for daily consumption shall be under the protection of the said law. Business operators shall guarantee that commodities and services supplied conform to the requirements of personal and property safety. Where damages occur, business operators shall make compensations. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

All the products produced and sold in PRC shall abide by these laws and regulations.

The Group confirmed, and the local government authorities supervising product quality had certified that, since their establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to product quality without any penalties due to violation of the relevant laws and regulations relating to product quality.

### LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The principal laws and regulations governing environmental protection in the PRC are Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law of the PRC on the Prevention and Control of the Air Pollution (中華人民共和國大氣污染防治法), the Law on Prevention of Water Pollution of the PRC (中華人民共和國水污染防治法), Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), Law of the PRC on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法) and the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護條例). The discharge of any pollutant shall abide by the abovementioned laws and regulations. Construction projects shall conduct assessment of environmental impact, obtain approval on such assessment and be examined and considered up to the environmental protection standard. Prior to the construction of new facilities or expansion or transformation of existing facilities that may cause a significant impact on the environment, a report on the environmental impact of the construction project shall be submitted to the relevant environmental protection authority. The newly constructed production facilities cannot operate until the relevant department is satisfied that such facilities are in compliance with all relevant environmental protection standards. Environmental protection facilities shall be designed, constructed and put into use simultaneously with the main project construction.

Pursuant to the requirements of the “Environmental Protection Law”(《中華人民共和國環境保護法》), any production facilities that could possibly cause pollution or other public hazards shall adopt measures on environmental protection and shall establish a system on environmental protection and administration. Effective measures shall be adopted to prevent and control the pollution and harm caused to the environment by the emission of exhaust air, sewage, waste residues, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation. Enterprises that discharge pollutants shall register with the relevant environmental protection authority. The State

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Environmental Protection Administration shall formulate national standards on emission of pollutants in accordance with the national standards on environmental quality, and the State economic and technological conditions. Governments at the provincial level and of the autonomous regions and municipalities may formulate their respective local standards on the discharge of pollutants for items not specified in the national standards. The local governments may formulate local standards which are more stringent than the national ones. Pursuant to the requirements under the amended “Law on Prevention of Water Pollution of the PRC”, which became effective on 1 June 2008 (《中華人民共和國水污染防治法》), “Law on Prevention of Air Pollution of the PRC” (《中華人民共和國大氣污染防治法》), which became effective on 1 September 2000 and “Administrative Regulations on Levy and Utilization of Sewage Charge” (《排污費徵收使用管理條例》), which became effective on 1 July 2003, enterprises which discharge water or air pollutants shall pay discharge fees pursuant to the types and volume of pollutants discharged. The discharge fees are calculated by the local environmental protection authority which shall review and verify the types and volume of pollutants discharged. Once the discharge fees have been calculated, a notice on payment of discharge fees shall be issued to the relevant enterprises.

In accordance with the “Law on Prevention of Environmental Pollution Caused by Solid Waste of the PRC” (《中華人民共和國固體廢物污染環境防治法》), which became effective on 1 April 1996, entities and individuals collecting, storing, transporting, utilising, or disposing of solid waste shall take precautions against the spread, loss, and leakage of such solid waste or adopt such other measures for preventing such solid waste from polluting the environment.

Government authorities may impose different penalties against persons or enterprises in violation of environmental protection laws and regulations. The penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production and imposition of administrative actions against relevant responsible individuals. Any entity whose construction projects fail to satisfy the requirements of pollution prevention may be ordered to suspend its production or operation and be subject to a fine. The responsible person of the entity may be subject to criminal liabilities for serious breaches resulting in significant damage to private or public property or personal death or injury.

Fujian Sijia and Xiamen Grandsoo’s production facilities are located in PRC. The construction thereof shall abide by the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護條例). The production may also generate certain pollutants and the discharge of the pollutants shall abide by these laws and regulations as well.

The Group confirmed, and the local government authorities supervising environmental protection certified that, since their establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to environmental protection without any penalties due to violation of the relevant laws and regulations relating to environmental protection.

### LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

On 5 July 1994 the Standing Committee of NPC promulgated The Labor Law of the PRC (中華人民共和國勞動法), which became effective on 1 January 1995. On 29 June 2007 the Standing Committee of NPC promulgated Labor Contract Law of the PRC (中華人民共和國勞動合同法), which became effective on 1 January 2008. Pursuant to the said law, a written labor contract shall be concluded within one month from the date when the employee commences working. Otherwise the employer shall pay twice of the monthly wage. Labor contract is divided into two types, namely labor contract with fixed term and labor contract without fixed term. Where the employee has already worked for the employer for 10 full years consecutively or the labor contract is to be renewed after two fixed-term labor contracts have been concluded consecutively, a labor contract without fixed term shall be concluded.

The PRC Law for Promotion of Employment (中華人民共和國就業促進法), promulgated by NPC Standing Committee on 30 August 2007 and effective as of 1 January 2008, provides that no employee can be discriminated in employment by reason of ethical group, race, gender, or religious belief. The employer should neither refuse, nor request higher conditions for, the employment of any woman, merely because of such gender; and no provision limiting any woman employee in marriage and child-bearing is allowed in the labor contract. The employer should not refuse the employment of any body just because of such person being an infection pathogen carrier, unless otherwise stated by laws and regulations. Additionally, enterprises should allocate the employee education fund intended for occupational training and further education of employees, violation of which may result in punishment imposed by the labor administration.

Pursuant to the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 by the State Council, the Interim Measures Concerning the Maternity Insurance of Enterprise Employees (企業職工生育保險試行辦法) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labor, the Regulation Concerning the Administration of Housing Fund (住房公積金管理條例) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by the State Council, the Regulation on Occupational Injury Insurance (工傷保險條例) promulgated on 27 April 2003 by the State Council and implemented on 1 January 2004, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational insurance fund, maternity insurance fund and housing fund for the employees.

Fujian Sijia and Xiamen Grandsoo shall enter into the labor contracts with its employees and make the relevant contribution to social welfare in accordance with these laws and regulations. The Group confirmed, and the local government authorities supervising labor and social welfare certified that, since their establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to labor and social welfare without any penalties due to violation of the relevant laws and regulations relating to labor and social welfare.



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### LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

On 29 June 2002 the Standing Committee of NPC promulgated Production Safety Law of the PRC (中華人民共和國安全生產法), which became effective on 1 November 2002. The production and business operation entities shall observe the said law and other relevant laws, regulations concerning the production safety, strengthen the administration of production safety, establish and perfect the system of responsibility for production safety, perfect the conditions for safe production, and ensure the safety in production. The major person-in-charge of the production and business operation of the entities shall take charge of the overall work of the production safety of the entity concerned.

Fujian Sijia and Xiamen Grandsoo shall ensure the production safety in accordance with these laws and regulations. The Group confirmed, and the local government authorities supervising production safety certified that, since their establishment, Fujian Sijia and Xiamen Grandsoo have complied with the relevant laws and regulations relating to production safety without any penalties due to violation of the relevant laws and regulations relating to production safety.

Other than the temporary buildings on Fuzhou Land as disclosed under the paragraph headed “Property Interests-Fuzhou Land” (pages 184 and 185) under the “Business” section of the Prospectus, Fujian Sijia and Xiamen Grandsoo have complied with all the relevant laws and regulations of the PRC.

The Directors confirms that the export products of the Group were manufactured in accordance with the specifications provided by overseas customers and the quality of the products have complied with different quality control standards as required by overseas customers which the Directors understand have already taken into account the requirements of overseas regulations relevant to the overseas customers generally, the overseas customers are responsible for ensuring compliance with overseas regulations and quality control standards. The Directors were not aware of any responsibility and risks in relation to the compliance of these standards for sales to overseas customers which should be borne by the Group and will materially affect the Group. The Group has not received any complaint from overseas customers in respect of failure of the export products’ failure to comply with the provided specifications or standards up to the Latest Practicable Date. To the best knowledge of the Directors, save as disclosed above, the Group has complied with all the relevant laws and regulations of overseas market during the Track Record Period and up to the Latest Practicable Date.